**ENNISMORE FUND MANAGEMENT LIMITED**

**PILLAR 3 & REMUNERATION DISCLOSURE**

**PILLAR 3**

**Background**

The Capital Requirements Directive (“the Directive”) of the European Union implemented the Basel II Accord and established a standard regulatory capital framework for the financial services industry in the EU. This was supplemented by the implementation of the Alternative Investment Fund Managers Directive (“AIFMD”).

In the United Kingdom, the Directive was implemented through the creation of the Financial Conduct Authority (FCA) General Prudential Sourcebook (“GENPRU”) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”). AIFMD was implemented through the Investment Funds Sourcebook (“FUND”).

The FCA’s capital framework consists of three “pillars”:

- Pillar 1 sets out the minimum capital requirements that we are required to meet for credit, market and operational risk;

- Pillar 2 requires us to take a view whether additional capital should be held against capital risks not adequately covered by the Pillar 1 requirements;

- Pillar 3 requires us to publish certain details of our risks, capital, risk management process and remuneration arrangements.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This must be done in accordance with a formal disclosure policy. The disclosure of this document meets our obligation with respect to Pillar 3.

The rules provide that we may omit one or more of the required disclosures if we believe that the information is immaterial. Materiality is based on the criterion that the omission or misstatement of any information would be likely to change or influence the decision of the reader relying on that information. Where we have considered a disclosure to be immaterial we have stated this in the document.

In addition, we may also omit one or more of the required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties. Where we have omitted information for either of these two reasons we have stated this in the relevant section and the reasons for this.

**Scope and application of the requirements**

The disclosures in this document are made in respect of Ennismore Fund Management Limited (the "Firm") which is authorised and regulated by the FCA and has permission to provide discretionary investment management services to professional clients and eligible counterparties.

These disclosures are made as at 30 November 2017, the Firm's accounting reference date.

As at 30 November 2017 the Firm was authorised as a Full-scope UK Alternative Investment Fund Manager ("AIFM") and categorised by the FCA for regulatory capital purposes as a Collective Portfolio Management Investment firm ("CPMI") and a BIPRU firm.

The Firm is not a member of a group and is not required to prepare consolidated reporting for prudential purposes.

As a CPMI firm, the Firm is required to hold capital in excess of its capital requirements as both an AIFM and as a BIPRU firm.

As an AIFM, the Firm is required to hold liquid capital in excess of the higher of:
(i) the funds under management requirement determined as €125,000 plus 0.02% of the amount by which the Company's "funds under management" exceeds €250,000,000; and
(ii) the Fixed Overhead Requirement.
Plus: additional own funds equal to 0.01% of the value of the Alternative Investment Funds ("AIFs") managed by the firm to cover professional liability risks.

As a BIPRU firm the Firm's Pillar 1 capital requirements are the greater of:

- its base capital requirement of €50,000; or
- the sum of its market and credit risk requirements;
- its Fixed Overhead Requirement

The Firm anticipates that its capital requirement as a BIPRU firm will exceed that which it requires as an AIFM.

**Risk management**

The Directors and senior management of the Firm determine its business strategy and risk appetite along with designing and implementing a risk management framework that recognises the risks that the business faces. They also determine how those risks may be mitigated and assess on an on-going basis the arrangements to manage those risks. The Directors consider on a regular basis the profitability of the Firm, its regulatory capital requirements and risk management. The Directors manage the Firm's risks through a framework of policies and procedures having regard to relevant laws, standards, principles and rules (including FCA principles and rules) with the aim of operating a defined and transparent risk management framework. These policies and procedures are updated as required.

The Firm is small with an operational infrastructure appropriate to its size.

The Firm does not have a trading book. Its market risk is limited to foreign exchange risk on its accounts receivable and Euro denominated bank deposits.

Credit risk relates to management and performance fees due from the investment funds under the Firm's management, other receivables, bank deposits and investments in the funds under management. Historically, fees have been received promptly after the due date and the collection risk is considered minimal. Cash is held with an AA- rated bank. Amounts invested in the funds under the Firm's management are held primarily to cover potential payments of deferred remuneration to its staff. Changes in the market value (positive or negative) of the investments held to cover deferred remuneration will result in a corresponding change in the maximum amount of deferred remuneration which may become payable. The Firm is exposed to changes in the market value of investments held in excess of those held to cover deferred remuneration. As at 30 November 2017 the value of such investments was £668,066.

Although significant cash balances are held, the Firm is not materially exposed to fluctuations in interest rates.

**Capital**

The Firm is a Limited Liability Company. Its capital based on its audited financial statements as at 30 November 2017 is summarised as follows:

| | £'000 |
|---|---|
| Issued share capital | 33 |
| Share premium | 104 |
| Other reserves | 20,775 |
| | 20,911 |

The main features of the Firm's capital resources for regulatory purposes are as follows:

| **Capital item** | £'000 |
|---|---|
| Tier 1 capital less innovative tier 1 capital | 21,036 |
| Total tier 2, innovative tier 1 and tier 3 capital | - |
| Deductions from tier 1 and tier 2 capital | (125) |
| Total capital resources, net of deductions | 20,911 |

**Capital requirements**

Pillar 1 Requirement

As at 30 November 2017, the Firm's Pillar 1 capital requirement was determined based on its requirement as a BIPRU firm, being the greater of:

- its base capital requirement of €50,000; or
- the sum of its market and credit risk requirements;
- its Fixed Overhead Requirement

The Firm follows the standardised approach to market risk and the simplified standard approach to credit risk. The Firm is subject to The Fixed Overhead Requirement and is not required to calculate an operational risk charge.

As a consequence of investments held in the funds being managed by the Firm, the Firm anticipates that its Fixed Overhead Requirement will normally be exceeded by the sum of its market and credit risk components and consequently the latter will normally determine its Pillar 1 capital requirement. The Firm's Fixed Overhead requirement, based on the year ended 30 November 2017, is £664,000.

Credit Risk Requirement

As at 30 November 2017 the Firm's Credit Risk Capital Requirement determined using the Simplified, Standardised approach was calculated as follows.

| | **Exposure £'000** | **Risk weight** | **Risk weighted exposure £'000** |
|---|---|---|---|
| Investments in collective investment undertakings | 12,960 | 150% | 19,440 |
| Tangible fixed assets | 50 | 100% | 50 |
| Accrued items | 2,118 | 100% | 2,118 |
| National Government Bodies | 11 | 0% | - |
| Fees receivable | 1,054 | 100% | 1,054 |
| Bank deposits - short term | 18,565 | 20% | 3,713 |
| | 34,758 | | 26,375 |
| Less proportion applicable to business as an AIFM | | | -3,572 |
| **Credit risk requirement - 8% of risk weighted exposure** | | | **£1,824** |

Market Risk Requirement

As a limited licence firm, the Firm does not have a trading book. The Market Risk Requirement is limited to the Foreign Currency Position Risk Requirement on assets and liabilities denominated in currencies other than pounds sterling. As at 30 November 2017 this requirement amounted to £38,000.

Pillar 2 Requirement
In order to determine whether any additional capital is required under Pillar2, the Firm undertakes an Internal Capital Adequacy Assessment Process (ICAAP) which involves separate consideration of the risks to its core capital. Due to the Firm's low risk appetite and illiquid assets (principally deferred tax assets) on its balance sheet and other business risks, the Firm considered it appropriate to hold additional capital of £1,522,000 as at 30 November 2017 to meet Pillar 2 requirements.

The Firm has not omitted any disclosure on grounds of confidentiality.

## REMUNERATION DISCLOSURE

### Governance

As an AIFM, the Firm is subject to the FCA's rules on remuneration ("the AIFM Remuneration Code" or "the Code"). The AIFM Remuneration Code is set out in section 19B of the FCA's Senior Management Systems and Controls Sourcebook. The Remuneration Code is intended to ensure that firms establish, implement and maintain appropriate remuneration policies, procedures and practices that are consistent with, and promote, sound and effective risk management and do not encourage risk taking which is inconsistent with the risk profile of the funds being managed.

The Firm's business is to provide investment management services to the Ennismore Smaller Companies PLC and the Ennismore European Smaller Companies Hedge Fund.

The Firm has a Remuneration Policy which appropriately addresses potential conflicts of interest and is designed to ensure that the Firm's Approved Persons and other Code Staff are not rewarded for taking inappropriate levels of risk. Under the FCA's Guidance regarding the proportionate application of the Code the Firm is permitted to disapply many of the technical requirements of the Code and proportionately apply the Code's rules and principles in establishing the Firm's policy. Proportionate to the small size of the Firm, the Firm has decided that the Board of Directors will undertake the role that would otherwise be undertaken by a remuneration committee. The Board of Directors will be responsible for setting the Firm's policy on remuneration and will review that policy at least on an annual basis to ensure that it remains consistent with the Remuneration Code and the Firm's objectives.

The Firm is satisfied that the policies in place are appropriate to its size, internal organisation and the nature, scope and complexity of its activities.

### Code Staff

The Remuneration Code applies to "Code Staff". This includes senior management, risk takers, staff engaged in control functions and any employee receiving remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose activities have a material impact on the firm’s risk profile. In respect of the year ended 30 November 2017 the Firm had identified seven employees as code staff being two executive directors plus one other employee (“Senior Management”) and four other fund managers (“Other Code Staff”).

**Link between pay & performance**

Remuneration at the Firm is made up of fixed (“salary”) and variable (“bonus”) components.

Variable remuneration for fund managers is directly related to the investment returns that they generate for investors in the funds managed by the firm and consists of two components: a cash bonus payable following the end of each performance period (calendar year) and a potential deferred award receivable after a further three years. The initial value of the potential award is approximately twice the cash bonus. The amount of the potential award will be reduced, possibly to zero, (“clawback”) if the individual fund manager generates negative investment returns for investors in any of those subsequent three calendar years – the extent of clawback being directly related to the negative return attributable to the individual fund manager. The actual value of the amounts paid to fund managers after the deferral period has ended is also directly linked to the change in net asset value per share of the investment funds under the Firm’s management during the deferral period.

For Senior Management (other than in respect of performance as fund managers, where applicable) bonuses are determined having regard to both the performance of the individual and the profitability of the Firm with the intention of providing a competitive total compensation package having regard to the skills and responsibilities of the individuals concerned.

**Quantitative remuneration disclosure – in respect of the financial year ended 30 November 2017**

The Firm is required to disclose aggregate information on remuneration in respect of its Code Staff broken down by business area and by Senior Management and Other Code Staff. The relatively small size and lack of complexity of the Firm’s business is such that it only has one business area, fund management, and does not regard itself as operating or needing to operate, separate business areas. The following aggregate remuneration data should be read in that context.

| **Code Staff Category** | **Aggregate Remuneration (£’000)** |
|---|---|
| Senior Management | 647 |
| Other Code Staff | 5,995 |

Note: Aggregate Remuneration includes the value of potential deferred bonus awards subject to clawback at the time such potential amounts were first determined in respect of the performance period ending in the financial year.

Updated: 31 May 2018