CAPITAL REQUIREMENTS DIRECTIVE

PILLAR 3 DISCLOSURE STATEMENT

This Statement is for the financial year ended 31 December 2018.

SUMMARY:	This document represents Hottinger Investment Management Limited's (HIM) Pillar 3 Disclosure Statement (the Statement).
OWNERS:	The Compliance Oversight Officer (CO); and the Board of Directors (the Board).
Effective date:	May 2019.
Status:	Live.
Approved by:	HIM's Board May 2019.

MODIFICATION HISTORY

VERSION	DATE APPROVED	REVIEWED BY	CHANGES
v.09.2016.1	26 September 2016	Compliance Oversight Officer	Review & New version, which replaces v.03.2016.01
v.05.2017.1	23 May 2017	Compliance Oversight Officer	Annual Review
v.05.2018.1	24 May 2018	Compliance Oversight Officer	Annual Review
v.05.2019.1	15 May 2019	Compliance Oversight Officer	Annual Review

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PRINCIPLES and RULES

PRINCIPLES/RULES	REQUIREMENTS
Principle 2	A firm must conduct its business with due skill, care and diligence.

PRINCIPLES/RULES	REQUIREMENTS
Principle 3	A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.
Principle 4	A firm must maintain adequate financial resources.
GENPRU 2.1	Calculation of capital requirements.
GENPRU 2.2	Capital resources.
BIPRU 2	Capital.
BIPRU 11	Disclosure (Pillar 3).
SYSC 19C	BIPRU Remuneration Code.

RELATED INTERNAL DOCUMENTS and POLICIES

- Internal Capital Adequacy Assessment Process (ICAAP);
- Risk Management and Matrix;
- Liquidity Risk Management (LRM) Policy and Statement;
- Remuneration Policy; and
- Remuneration Code Staff.

1. INTRODUCTION and BACKGROUND

The European Union's (EU) Capital Requirements Directive (CRD), as amended from time to time, has established a regulatory capital framework across the EU governing the amount and nature of capital that credit institutions and investment firms must maintain. In the United Kingdom (UK), the CRD has been implemented by the Financial Conduct Authority (FCA) through rules and guidance set out in the General Prudential Sourcebook (GENPRU) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU).

The framework established by the CRD for the management of regulatory capital consists of three pillars. The three pillars are set out in the revised Basel Accord, which has been written into EU Law through the CRD, and further developed in the Pillar 2 guidance issued by the European Banking Authority (EBA) (formerly the Committee of European Banking Supervisors (CEBS)).

Collectively Pillars 1, 2 and 3 form an overall framework for prudential supervision of banks, credit institutions and investment firms.

- Pillar 1 specifies the minimum regulatory capital requirements for the three major components of risk that firms face: credit, market and operational risk.

- Pillar 2 requires firms to assess the amount of internal capital they consider adequate to cover all of the risks to which they are, or likely to be, exposed and the need to hold additional capital against the risks not covered by Pillar 1; and
- Pillar 3 requires firms to disclose their policies for managing risk and their capital resources.

The purpose of this Statement is to meet the BIPRU requirements as regards Pillar 3. This Statement is produced on an annual basis, shortly after HIM's accounts have been audited and the completion of our Internal Capital Adequacy Assessment Process (ICAAP).

The Pillar 3 disclosure must be done in accordance with a formal disclosure policy which sets out our policies for assessing the appropriateness of our disclosures, including their verification and frequency. The FCA's Rules provide that we may omit one or more of the required disclosures if we believe that the information is immaterial. Where we have considered a disclosure to be immaterial, we have stated this in the relevant section.

We are also permitted to omit one or more of the required disclosures where we believe that the information is regarded as proprietary or confidential, 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 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.

1.1. INFORMATION COVERED UNDER THIS DISCLOSURE

In this document we disclose information, unless it is has been determined as immaterial or of a proprietary or confidential nature, on:

- Our risk management objectives and policies;
- The scope of application of directive requirements;
- Our capital resources;
- Our compliance with the rules in BIPRU and on Pillar 2 requirements; and
- Our remuneration.

1.2. SCOPE AND BASIS OF THE DISCLOSURE

This Statement is made in respect of Hottinger Investment Management Limited (HIM) only. HIM is authorised and regulated by the Financial Conduct Authority (FCA) to provide discretionary investment management services. This disclosure does not include any statement for any other member of the Hottinger Group of companies. We are not required by the FCA to report our financial returns on a consolidated basis.

The FCA has authorised HIM with the following Part 4A Permission:

- Advising on investments (except on Pension Transfers and Pension Opt Outs);
- Agreeing to carry on a regulated activity;

- Arranging (bringing about) deals in investment;
- Dealing in investments as agent;
- Making arrangements with a view to transactions in investments;
- Managing investments; and
- Arranging safeguarding and administration of assets.

HIM is a BIPRU Limited Licence Firm and, we do not have permission to hold Client Money and/or Client Assets, do not operate a Trading Book, and therefore we are outside of the scope of CRD IV. HIM benefits from the FCA's Capital Requirements Regulation (CRR) derogation, which permits us to continue to comply with the CRD III requirements and as such, the following disclosures are in accordance with the requirements of BIPRU 11, which requires that a firm subject to the provisions of the Directive must disclose the relevant information required under this rule unless the information is believed to be immaterial, proprietary or confidential.

2. RISK MANAGEMENT

2.1. OVERVIEW

The FCA's Principle 3 requires that we take reasonable care to organise and control our affairs responsibly and effectively, with adequate risk management systems. To do this we have established and operate a Risk Matrix. This Risk Matrix sets out the standards and requirements for risk management, control and assurance at HIM. The Risk Matrix aims to ensure that we manage and control our risks. It also informs and is directed by the business strategy in which risk management considerations are integral. Due to our size and proportionality, we have not established an independent audit function. However, independent assurance of the effectiveness and appropriateness of our Risk Matrix is provided by our Board. The Risk Matrix is reviewed by our CO and approved by the Risk and Compliance Committee following delegation by our Board. The oversight and monitoring of the implementation and operation of the Risk Matrix is the responsibility of our Chief Executive Officer (CEO).

We define risk tolerance as the type and level of risk that we, as a discretionary investment manager, are willing to accept in pursuit of our business objectives. A number of risk tolerance levels have been established by our Board and our CEO in order to monitor the key risks that we face and as outlined in our Risk Matrix.

Although we believe that our risk management arrangements outlined herein are appropriate for the size and complexity of our business and that the capital resources we hold is adequate to meet the risks that we face, we cannot guarantee that this will actually be the case in the event any particular risk arises. There will always be some unlikely risks with unusually high impact which may require additional capital.

Our risk management policy reflects the FCA requirement that we must manage a number of different categories of risk. These include: credit, market, business, operational, liquidity, insurance and group risk. In respect of this disclosure it is the first five of these risks that are relevant and further information is provided on these risks below.

2.2. CREDIT RISK

As a Limited Licence BIPRU Investment Firm, we neither hold Client Money nor Client Assets nor do we lend money, and we are, therefore, not exposed to Credit Risk in its traditional sense. Our direct exposure to Credit Risk is the risk that our investment management fees cannot be collected and our exposure to banks where our revenue is deposited. All bank accounts are held with large international credit and regulated institutions.

We regularly monitor amounts due from our clients and we have appropriate credit control procedures in place. Our credit control process is operated by our CEO together with our independent accountants and any outstanding balances are reported to senior management on a monthly basis via our management accounts. All management accounts are subject to an annual audit. Given the nature of our exposures, it has not been deemed necessary to implement a specific policy for hedging and mitigating credit risk and to apportion additional capital.

Our Board has set our Credit Risk appetite as LOW. Credit Risk, for the purpose of Pillar 2, is assumed to be that calculated at Pillar 1. Consequently we have a limited number of credit exposures in respect of which we use a risk weighted exposure of 8% of the total balance due in accordance with the provisions applied under the simplified standardised approach detailed in BIPRU 3.5 of the FCA Handbook. Consequently, credit risk is not considered to be material for the purposes of this disclosure.

2.3. MARKET RISK

As a Limited Licence BIPRU Investment Firm, we do not have a Trading Book, do not hold Client Money and/or Client Assets; and, are therefore not directly exposed to Market Risk. Our only potential direct exposures are Non-Trading Book Exposures that relate specifically to Foreign Exchange Risk in respect of our accounts receivable and cash balances held in currencies other than in GBP.

Therefore, we do not have any material exposure to either Foreign Exchange Risk or Position Risk, which together make up Market Risk. Disclosures in relation to our Market Risk have been considered immaterial under BIPRU 11.3.of the FCA Handbook, as our capital requirement under GENPRU 2.1 of the FCA Handbook is our FOR rather than the sum of our Credit Risk Capital Requirement (CRCR) and our Market Risk Capital Requirement (MRCR).

We have not adopted a specific strategy in order to mitigate the risk of currency fluctuations arising from receipt of our investment management fees in currencies other than GBP. Any exposures are monitored on a regular basis and reported to our senior management via our monthly management accounts.

We calculate our Foreign Exchange Risk as set out in BIPRU 7.5 of the FCA Handbook. We apply an 8% risk factor to any foreign exchange exposure. All our reserves and cash balances are held in GBP.

Our Board has set our Market Risk appetite as LOW and, for the purposes of Pillar 2, is assumed to be that calculated at Pillar 1. Foreign Exchange Risk, and therefore Market Risk, is not considered to be material for the purposes of this disclosure.

2.4. BUSINESS RISK

Business Risk might arise from external sources such as changes to the economic environment or one-off economic shocks, and also from internal sources such as poor investment decisions or allocation of capital resulting in poor performance and damage to our reputation.

We conduct a formal assessment of any Business Risk to which we may be exposed on an annual basis, though given the size and nature of our business, no separate Risk Management function is considered necessary in respect of our own balance sheet. Matters arising from the review are considered and mitigating or remedial action is taken where appropriate.

Our Pillar 2 assessment principally takes the form of a fall in assets under management following a market downturn that leads to lower investment management fees. Different economic scenarios are modelled as part of the Pillar 2 assessment to establish the impact of economic and market downturns on our financial position.

Our senior management are responsible for monitoring the impact of any market downturn on our business. Controls implemented include the continuing monitoring of our budgets and expenses and fund managers performance to determine any market risk. All figures are reviewed monthly by the senior management with monthly management accounts prepared by our Finance & Operations Department.

2.5. OPERATIONAL RISK

Operational Risk can be defined as the risk of losses arising from inadequate or failed internal processes, people and systems, administrative errors, fraud and/or theft or from external events, including Legal Risk. Most of our risk management efforts are focused on Operational Risk.

Our policy is to operate a robust and effective risk management process, embedded within the governance and management structures of our business. Our risk management framework defines what Operational Risk means to us and this is approved by our Board. The main initiative is the establishment of a 'Risk Matrix' which includes analysis of the key risk areas identified by our senior management. These areas cover specific risk items within the following areas: Financial; Strategy; Customer Service; Third Party Outsourcing; Operational; and Legal and Regulatory.

We seek to identify the impact and probability of each risk item and rank it as High, Medium or Low. We also identify and implement measures to mitigate the risk and monitor any residual risk on an ongoing basis.

We conduct a formal assessment of our Operational Risk to which we are exposed on an annual basis. Whilst no separate risk management function is considered necessary in respect of the Operational Risks which we face, given our size and the nature of the risks faced, risk management remains a key function of our business in respect of the investment portfolios we manage. Matters arising from our review are considered and mitigating or remedial action is taken where appropriate.

We have professional indemnity insurance in place to mitigate against the risk of costs being incurred. We are reliant on our ability to attract and retain key investment management personnel. Appropriate arrangements are in place to mitigate this, including thorough vetting procedures and an appropriate remuneration structure. We have alternative arrangements in place should a disaster recovery event occur. These arrangements are tested from time to time in order to ensure that they would be effective should they be required to be invoked.

We seek to minimize any Operational Risk that we might face through our internal systems and controls arrangements. We consider risks which may impact us directly or indirectly. The most significant operational risks facing us would most likely be a catastrophic systems failure and we have in place Business Continuity and Disaster Recovery arrangements that are monitored and overseen by our CEO. Any Operational Risk identified is addressed by our senior management promptly and will either be resolved as a priority or our Board will allocate Pillar 2 capital to cover the potential impact of the risk.

2.6. LIQUIDITY RISK

As a Non-ILAS firm, we are subject to only a limited number of the FCA's liquidity requirements as set out in BIPRU 12 of the FCA Handbook. However, we are required, at all times, to maintain liquidity resources which are adequate, both as to amount and quality, and to ensure that there is no significant risk that our liabilities cannot be met as they fall due.

To meet our overall liquidity requirements we ensure that we hold sufficient assets which are marketable, or otherwise realisable; that we are able to generate funds from those assets in a timely manner; that we maintain a prudent funding profile in which our assets are of appropriate maturities, taking account of the expected timing of our liabilities; and that we are able to generate unsecured funding of appropriate tenor in a timely manner.

Monthly management accounts are prepared that detail our reserves, income and expenditure and these are compared to our rolling twelve month cash flow forecasts. The nature and level of our liquidity risk is regularly reviewed by our senior management such that adjustments would be made to our model for, by example, persistent late fee payers

In accordance with the FCA's requirements, our Board has established a risk tolerance level against which our actual liquidity position is compared. Our Board considers that the FOR, which represents the equivalent to a quarter of our fixed relevant annual costs, is the minimum level of liquidity that we seek to retain at all times. This has been deemed appropriate for our business model as we do not deal for our own account, maintain neither a Trading Book nor hold Client Money and/or Client Assets.

The maintenance of this level of liquidity would ensure that we would either be in a position to implement our contingency funding plans or seek an orderly wind-down of our business.

Our liquidity position is determined solely from the reserves that we hold and the fee income received on an ongoing basis from our respective business lines.

Current fee income is based on our investment management fees. All reserves and surplus income are held as cash with large international credit and regulated institutions.

3. CAPITAL REQUIREMENTS AND RESOURCES

As a BIPRU Limited Licence Firm, our Pillar 1 capital resources requirement is calculated in accordance with the GENPRU as the higher of our Fixed Overheads Requirement (FOR), or the sum of our Market Risk (MR) and Credit Risk (CR) requirements, or our Base Capital Requirement (BCR) of €50,000.

3.1. FIXED OVERHEAD REQUIREMENT (FOR)

It is the opinion and decision of our Board, that it is our FOR that is the higher capital resource requirement and therefore, our Market Risk and Credit Risk capital requirements are deemed immaterial. Our Pillar 1 capital resources requirement is determined by our FOR, calculated in accordance with GENPRU 2.1.53, since this is the largest of the variable factors to be considered. We monitor our expenditure on a monthly basis and we take into account any material fluctuations in order to determine whether our FOR remains appropriate to the size and nature of our business or whether any adjustment needs to be made intra-year. This position is monitored by our CEO together with our third party accountants, and reported to our senior management on a monthly basis.

We calculate our FOR after first deducting variable costs from our fixed relevant audited annual expenditure. Variable costs deducted when calculating our current FOR relate to discretionary bonuses paid to staff, non-recurring staff related, legal and tax advisory costs as well as exchange rate losses.

As at 31 December 2018	£000
CORE TIER 1 CAPITAL ***No innovative tier one capital is held***	**1254***
Comprising: *Permanent share capital*	*1980*
Profit and loss account and other reserves *(taking into account material unaudited interim net losses)*	*(726)*
Share premium account	*0*
Deductions from Tier 1 Capital – Intangible assets	0
TIER 2 CAPITAL	**0**
Deductions from Tier 2 Capital	0
TIER 3 CAPITAL	**0**
TOTAL CAPITAL/OWN FUNDS	**1254**
Base capital resource requirement	45
Credit risk capital requirement (under the standardised approach)	68
Fixed overhead requirement	500
OWN FUNDS SURPLUS	**754**

4. COMPLIANCE WITH RULES IN BIPRU AND PILLAR 2 REQUIREMENTS

Our overall approach to assessing the adequacy of our internal capital and to meet our Pillar 2 obligations is set out in our ICAAP. The purpose of our ICAAP is to inform our senior management and our Board of the ongoing assessment of the risks faced by our business, how we mitigate those risks and, having considered those mitigating factors, and how much current and future capital is required to meet those risks.

The ICAAP process involves separate consideration of risks to our capital combined with:

- ***Scenario analysis and stress testing.***

These financial scenarios are determined by our Risk Management arrangements that are used to help assess whether we are appropriately capitalised to withstand a range of adverse circumstances and events.

- ***Wind down analysis.***

The objective of the wind down analysis is to demonstrate that we have sufficient capital resources to be able to wind-down our regulated activities in an orderly manner.

The level of capital required to cover risks is a function of impact and probability. We assess impact by modelling the changes in our income and expenses caused by various potential risks over a twelve month time horizon. Probability is assessed subjectively.

Our ICAAP is updated at least annually or more frequently if material internal or external factors make it prudent to do so. Our ICAAP and the reporting on the risks contained within it, is considered and owned by our CO and overseen by our CEO. It is formally approved on an annual basis by our Management Committee, the Board.

Our ICAAP analysis has not indicated a need to hold financial resources in excess of our Pillar 1 capital requirements. Our ICAAP confirms that we have appropriate financial resources to meet our business requirements over the coming twelve month period and we have assessed that that no additional capital is currently necessary to meet our business requirements over the coming twelve month period.

However, we apply a prudent internal policy to the management of our capital and hold capital resources materially in excess of our regulatory requirement. We monitor our expenditure and revenues on a monthly basis in order to take account of any material fluctuations which may cause our FOR to be reassessed. We ensure that at all times we have sufficient capital to meet our FOR and we verify this on a monthly basis. No fixed methodology is used to calculate the excess to be held over our regulatory requirements and is determined by our CEO and CO on a continuing basis. This ensures that we maintain flexibility to make decisions on our capital resources appropriate to the prevailing circumstances in the financial services industry and the risks faced by our business.

5. REMUNERATION CODE POLICY STATEMENT

Under SYSC 19C of the FCA Handbook, HIM is required to provide information on its remuneration arrangements. As a firm that is subject to the CRD III and therefore still subject to the FCA's BIPRU and GENPRU requirements, the FCA's BIPRU remuneration principles proportionality rule requires HIM, when establishing and applying the total remuneration policies for BIPRU Remuneration Code staff, to comply in a way and to the extent that is appropriate to its size, internal organisation and the nature, the scope and the complexity of its activities.

The purpose of our Remuneration Code Policy Statement is to ensure that we have risk focused remuneration policies, which are consistent with, and promote effective risk management and do not expose and/or encourage our business to excessive risk taking. As part of our continuing governance, we have in place remuneration arrangements designed to avoid conflicts of interest; are in line with our business strategy and objectives, our values and long term interests; and do not adversely impact our ability to meet the obligations that we may owe from a client, legal, regulatory and/or other financial perspective.

Due to the nature, scale and complexity of our business and the nature and range of the investment services and activities undertaken in the course of that business, we have deemed it, on proportionality grounds, not to be appropriate to establish and maintain an independent Remuneration Committee. However, for HIM, this function is undertaken by the Firm's Chief Executive Officer (CEO), Tim Sharp and the CEO of the Hottinger Group, Mark Robertson acting as an equivalent Remuneration Committee. In accordance with SYSC19C.2.2.(3), we have deemed it appropriate for our business not to have a separate risk management function.

Our Board reviews our remuneration policy and the remuneration of our Code Staff on an annual basis. Our Board analyses our profits for the calendar period and determines whether to allocate a set amount of the profits for the year to:

i) Meet basic remuneration requirements;
ii) Meet an incremental increase in basic remuneration; and
iii) Meet any variable remuneration requirements.

Basic remuneration and any incremental increases are established after consideration of applicable industry levels. Variable remuneration levels are established on an individual basis dependent on that individual's contribution to the overall growth of our business and are not just determined on the individual contribution to profitability as outlined above. Total variable remuneration is either generally considerably contracted when our performance is subdued or is not established for a period of negative performance. We do not use a pre-set formulaic matrix to determine either basic remuneration and or variable remuneration.

Our equivalent Remuneration Committee determines the levels of variable remuneration to be awarded based on the individual's specific contribution to our business during the period in question. We do not have any Executive Incentive Schemes in place.

All members of our staff, including Remuneration Code Staff, receive a basic salary; pension benefits; sickness benefits and deaths in service benefits; and, where appropriate, a discretionary bonus; or they receive a fixed percentage of their salary, which they may use for pension, sickness and death cover.

Once the basic and variable remuneration levels have been established, our Board reviews the proposals for any risks and or conflicts and as part of our continuing risk management arrangements before authorising the new remuneration package for each Code Staff. An individual's contribution to the overall business is a key factor in the determination of their specific remuneration.

Each individual's contribution (where applicable) to our profitability; the composition and the contribution of staff eligible to receive a bonus; current market practices and forces; achievement of objectives; business development in terms of clients, revenue, infrastructure and control; and the overall effective functioning of HIM; and our budgeted expenditure and plans for the future are the main criteria in determining an individual's remuneration. It is not based solely on the level of revenue generated by each individual.

We do not use the services of any external consultants to either determine or assist in the determination of our remuneration policy.

We have included the following categories of members of our staff as Remuneration Code Staff: we have deemed that all Significant Influence Functions (SIFs), senior managers and investment managers/ portfolio account managers should be included as Remuneration Code Staff. We have identified three Remuneration Code Staff in total for the period in question.

The long-term interests of our shareholders are represented by our Board and the long-term interests of our investment/portfolio managers are strongly aligned to the overall success of HIM and our investment management business and are not dependent on the amount of revenue generated by a specific member of our staff.

All Remuneration Code Staff report directly to our CEO, who reports directly to our Board. The base remuneration is deemed appropriate to ensure that our Remuneration Code Staff are not overly dependent on any portion of remuneration which is related to the overall performance of our business. Our Board reviews the remuneration arrangements on an annual basis, and do not recognise and/or consider any future earnings streams. Our Board determines any base and/or variable remuneration for any member of our staff based firstly, on the overall profitability of our business; and secondly, on the contribution of the member of staff to our business. We typically only pay variable remuneration from current profits. However in certain circumstances, for example where we were loss making, we may look to make small variable remuneration payments out of earnings retained from prior years.

We do not provide members of our staff with shares as part their remuneration package. Where senior management do hold an equity interest in our business this does not form part of their remuneration arrangements and is held on an individual basis.

We do not buy out deferred variable remuneration for new joiners to our business and during the period in question, we have not offered any specific retention awards to any Remuneration Code Staff. Our Board and senior management recognise the application of the FCA's Remuneration Code and understand their obligations in this regard. Our Board would not approve any remuneration scheme that facilitates the avoidance of the FCA's Remuneration Code.

The breakdown of our remuneration for the financial year ended 31 December 2018:

Breakdown of remuneration of staff in respect of whom disclosure is required by business area	
Business Area	**Total remuneration**
Investment Management	£618,183

Aggregate quantitative information on remuneration broken down by senior management and members of staff whose actions have a material impact on the risk profile of the firm		
Senior management	**Other members of staff** ***(material impact)***	**Totals**
£301,096	£317,087	£618,183