MacKay Shields UK LLP Pillar 3 Disclosure and Policy

Introduction

Regulatory Context

The Pillar 3 disclosure of MacKay Shields UK LLP ("the Firm") is set out below as required by the FCA's "Prudential Sourcebook for Banks, Building Societies and Investment Firms" (BIPRU) specifically BIPRU 11.3.3 R. This is a requirement which stems from the Capital Requirements Directive ("CRD") which represents the European Union's application of the Basel Capital Accord. The regulatory aim of the disclosures is to improve market discipline.

Frequency

The Firm will be making Pillar 3 disclosures annually. The disclosures will be as at the Accounting Reference Date ("ARD").

Media and Location

The Pillar 3 disclosure is retained within the hosted disclosure section of the Duff & Phelps website which is located here: https://www.duffandphelps.co.uk/services/compliance-and-regulatory-consulting/compliance-consulting/index.

All disclosures are as at the Firm's Accounting Reference Date which is 31 December 2017.

Verification

The information contained in this document has not been audited by the Firm's external auditors, as this is not a requirement, and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Firm.

Materiality

The Firm regards information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If the Firm deems a certain disclosure to be immaterial, it may be omitted from this Statement.

Confidentiality

The Firm regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm's investments therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality in respect of that information. In the event that any such information is omitted, we shall disclose this and explain the grounds why it has not been disclosed.

Summary

The CRD requirements have three pillars. Pillar 1 deals with minimum capital requirements; Pillar 2 deals with Internal Capital Adequacy Assessment Process ("ICAAP") undertaken by a firm and the Supervisory Review and Evaluation Process through which the Firm and Regulator satisfy themselves on the adequacy of capital held by the Firm in relation to the risks it faces and; Pillar 3 which deals with public disclosure of risk management policies, capital resources and capital requirements.

The regulatory aim of the disclosure is to improve market discipline.

The Firm is a Full Scope AIFM and provides distribution services for Plainview Funds plc ("the Fund") while also undertaking MiFID activities which result in the Firm being a Collective Portfolio Management Investment (CPMI) firm. The Firm holds no client money. The Firm's greatest risks have been identified as business and operational risk. The Firm is required to disclose its risk management objectives and policies for each separate category of risk which include the strategies and processes to manage those risks; the structure and organisation of the relevant risk management function or other appropriate arrangement; the scope and nature of risk reporting and measurement systems; and the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

The Firm has assessed business and operational risks in its ICAAP and set out appropriate actions to manage them.

A number of key operations are outsourced by our clients, typically the Funds we have agreements with, to third party providers such as administrators, reducing our exposure to operational risk. In addition, the portfolio management of our clients' portfolios is delegated to our parent, MacKay Shields LLC, which is a registered investment adviser regulated by the US Securities and Exchange Commission. The Firm has an operational risk framework (described below) in place to mitigate operational risk. The Firm's main exposure to credit risk is the risk that fees cannot be collected and, therefore, credit risk is considered low. The Firm holds all cash and fee balances with banks assigned high credit ratings.

The Firm's operating and reporting currency is GBP. The Firm's exposure to market risk is mainly a result of the management fees being received in US dollars for the fund management services provided to investors in Plainview Funds plc along with the corresponding sub-advisory fee paid to MacKay Shields LLC. Management fees for institutional managed separate accounts are mainly calculated and received in GBP. The Firm's expenditure base is incurred largely in GBP. The Firm maintains a USD bank account in order to receive payments and meet its USD obligations. The Firm does incur foreign exchange exposures; however, it manages them via conversion back to the base currency of the Firm. The Firm is exposed to risk of variation in the value of non-GBP denominated assets and liabilities due to exchange rate fluctuations. The firm holds capital as part of its Pillar 1 requirement in proportion to its net non-GBP exposure to protect against this risk

In addition the assets under management of the Firm are subject to market risk, including changes in bond prices, interest rates and foreign exchange rates. A decrease in the market value of assets under management has proportional impact on management fees earned by the Firm and its financial performance. Market risk is monitored by the Management Committee.

Background to the Firm

Background

The Firm is incorporated in the UK and is authorised and regulated by the FCA as a Full Scope AIFM. In addition the Firm undertakes MiFID activities which give it the categorisation of "CPMI Firm".

The ICAAP covers the MacKay Shields UK LLP entity and this Firm is a Solo regulated entity.

The Firm has opted for the default approach deducting Material Holdings under (GENPRU 2

Annex 4)].

BIPRU 11.5.1

Disclosure: Risk Management Objectives and Policies

Risk Management Objective
The Firm has a risk management objective to develop systems and controls to mitigate risk to within its risk appetite.

Governance Framework
The Management Committee has oversight of the risk management process, as well as forming its own opinion on the effectiveness of the process. The Management Committee will hold regular meetings. In addition, the Management Committee decides the Firm's risk appetite or tolerance for risk and oversees the implementation of an effective, ongoing process to identify risks, to measure its potential impact and oversees the active management of such risks. The Firm's Risk Committee is accountable to the Management Committee for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Firm.

Risk Framework

The Firm's Risk Framework consist of the following key elements:

- The Firm has a conservative approach to risk;
- The Firm has identified material risks and records them in the Risk Register;
- The Firm identifies material risks to the business and applies scenario analyses and stress tests in order to assist in risk management and capital planning;
- The Firm has in place an internal control framework to govern its processes and procedures and to mitigate risks.

BIPRU 11.5.4

Disclosure: Compliance with BIPRU 3, BIPRU 4, BIPRU 6, BIPRU 7, BIPRU 10 and the Overall Pillar 2 Rule

BIPRU 3
For its Pillar 1 regulatory capital calculation of Credit Risk, under the credit risk capital component the Firm has adopted the Standardised approach (BIPRU 3.4) and the Simplified method of calculating risk weights (BIPRU 3.5).

Please note: As per GENPRU 2.1.46R, the Credit Risk Capital Requirement is only required to be calculated in respect of our designated investment business. This does not include our activities as an AIFM.

Credit Risk calculation

Credit Risk Capital Requirement	Rule	Capital Component
Credit risk capital component	BIPRU 3.2	£169,015
Counterparty risk capital component	BIPRU 13 & 14	£0
Concentration risk capital component	BIPRU 10	£0
Total		**£169,015**

	Rule	Exposure	Risk Weight	Risk weighted exposure amount
National Government Bodies	BIPRU 3.4.2	£0	100%	£0
Banks etc. long-term	BIPRU 3.4.36	£0	50%	£0
Banks etc. short-term	BIPRU 3.4.39	£3,154,837	20%	£630,967
Exposure to Corporates/Debtors	BIPRU 3.4.52	£383,063	100%	£383,063
Past due item	BIPRU 3.4.96	£0	100%	£0
Fixed assets	BIPRU 3.4.127	£77,497	100%	£77,497
Investment management fees receivable	BIPRU 3.4.128	£1,021,162	100%	£1,021,162
Total		**£4,636,560**		**£2,112,689**
Credit Risk Capital Component	8% of risk weighted exposure			**£169,015**

BIPRU 4 (Advanced Credit Risk Approach)
The Firm does not adopt the Internal Ratings Based approach and hence this is not applicable.

BIPRU 7 (Market Risk)
The only potential exposures the Firm has are Non-Trading Book exposures (BIPRU 7.4, 7.5).

Overall Pillar 2 Rule
The Firm has adopted the "Pillar 1 plus" approach to the calculation of its ICAAP Capital Resources Requirement as outlined in the Committee of European Banking Supervisors Paper, 25 January 2006.

The ICAAP assessment is reviewed by the Management Committee and amended where necessary, on an annual basis or when a material change to the business occurs. The Management Committee of the Firm reviews and endorses the risk management objective periodically or when a material change to the business occurs and annually when reviewing and signing off the ICAAP document.

During the ICAAP process the Firm reviewed Operational Risk (including regulation, conduct and regulatory change, investment mandate breaches, dealing errors, fund error pricing, IT system failure and publication of inaccurate data) and concluded on an amount to be allocated as incremental Pillar 2 requirements. This has been omitted from this report on the grounds of materiality as the Pillar 2 capital requirement associated to the cost of orderly wind down remains higher. Losses from operational risks of small significance are expected to occur and are accepted as part of the normal course of business. Those of material significance are rare.

BIPRU 11.5.8

Disclosure: Credit Risk and Dilution Risk

The Firm is primarily exposed to Credit Risk from the risk of non-collection of advisory and investment management fees, i.e. a defaulting debtor and the exposure to banks where revenue is deposited.

It holds all cash and fee balances with banks assigned high credit ratings, in demand deposit bank accounts which are readily available. Consequently the risk of past due or impaired exposures is minimal. A financial asset is past due when a counterparty has failed to make payment when contractually due.

BIPRU 11.5.12

Disclosure: Market Risk

The Firm has Non Trading Book potential exposure only (BIPRU 7.4 & 7.5).

Market Risk calculation

	Rule	Position	Risk Weight	PRR
Interest rate position risk requirement	BIPRU 7.2	£0	8%	£0
Equity position risk requirement	BIPRU 7.3	£0	8%	£0
Commodity position risk requirement	BIPRU 7.4	£0	8%	£0
Foreign currency position risk requirement	BIPRU 7.5	£894,047	8%	£71,524
Option position risk requirement	BIPRU 7.6	£0	8%	£0
Collective investment undertaking position risk requirement	BIPRU 7.7	£0	32%	£0
Total		**£894,047**		**£71,524**

BIPRU 11.5.2

Disclosure: Scope of application of directive requirements

The Firm is subject to the disclosures under the *Banking Consolidation Directive*.

However, it is not a member of a UK Consolidation Group and consequently, does not report on a consolidated basis for accounting and prudential purposes.

BIPRU 11.5.3

Disclosure: Capital Resources

The Firm has opted for the default approach deducting Material Holdings under (GENPRU 2 Annex 4). Tier 1 Capital comprises of LLP Members' Capital and Audited losses as displayed below.

Eligible LLP members' capital	£ 9,616,141
Profit and loss account and other reserves (taking into account material interim net losses)	£(7,329,208)
Total Capital	**£ 2,286,933**

The above capital represents core Tier 1 capital as per GENPRU 2.2 and common equity tier 1 capital as per IPRU INV Chapter 11.

BIPRU 11.5.5

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by BIPRU 11.5.4R (3).

BIPRU 11.5.6

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by BIPRU 11.5.4R (3).

BIPRU 11.5.7

This disclosure is not required as the Firm does not have a Trading Book.

BIPRU 11.5.9

This disclosure is not required as the Firm does not make Value Adjustments and Provisions for Impaired exposures that need to be disclosed under BIPRU 11.5.8R (9).

BIPRU 11.5.10

Disclosure: Firms calculating Risk Weighted Exposure Amounts in accordance with the Standardised Approach

This disclosure is not required as the Firm uses the Simplified method of calculating Risk Weights (BIPRU 3.5).

BIPRU 11.5.11

Disclosure: Firms calculating Risk Weighted Exposure amounts using the IRB Approach

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by BIPRU 11.5.4R (3).

BIPRU 11.5.13

Disclosure: Use of VaR model for calculation of Market Risk Capital Requirement

This disclosure is not required as the Firm does not use a VaR model for calculation of Market Risk Capital Requirement.

BIPRU 11.5.15

Disclosure: Non-Trading Book Exposures in Equities

This disclosure is not required as the Firm does not have a Non-Trading Book Exposure to Equities.

BIPRU 11.5.16

Disclosures: Exposures to Interest Rate Risk in the Non-Trading Book

Although the Firm has substantial cash balances on its Balance Sheet, there is currently no significant exposure to Interest Rate fluctuations. The Firm does not rely on borrowings to meet operational expenditure and does not make loans to clients.

BIPRU 11.5.17 Disclosures: Securitisation
This disclosure is not required as the Firm does not Securitise its assets.

BIPRU 11.5.18 **Disclosure:** Remuneration

The Firm's Remuneration Committee is responsible for the Firm's remuneration policy and reviews it at least annually. The Firm's Remuneration Committee work in consultation with the compensation committee of the Firm's ultimate parent company, New York Life Insurance Company to set individual remuneration packages of all employees and directors, including Code Staff.

All variable remuneration is adjusted in line with capital and liquidity requirements.

Remuneration Code Staff Remuneration by Business Area (BIPRU 11.5.18(6))

Business Area	Total Remuneration
Portfolio Management	£0
Non-Portfolio Management	£546,000

Aggregate Quantitative Remuneration by Senior Management and other Remuneration Code Staff (BIPRU 11.5.18(7))

Type of Remuneration Code Staff	Total Remuneration
Senior Management (SIF)	£546,000
Other Remuneration Code Staff	£0
Totals	**£546,000**