Orchard Global Asset Management LLP Pillar 3 Disclosures

31 December 2018

Introduction

Regulatory Context

The Pillar 3 disclosures of Orchard Global Asset Management 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 UK's CRDIII implementing Regulations which represented the European Union's application of the Basel Capital Accord. The Firm is no longer formally subject to CRD but remain subject to the UK's implementation Regulations of CRD III. The regulatory aim of the disclosures is to improve market discipline.

Frequency

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

Media and Location

The disclosure will be published on a website hosted by the Firm's compliance consultants, Duff & Phelps.

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 the event that any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

Functional currency change

The Firm's management has considered a number of economic facts and circumstances and concluded on a change in functional currency from GBP to USD, which took effect from 31 December 2018. The Pillar 3 disclosures are prepared in USD to align with the functional currency change.

Summary

The CRD, to which the Firm remains subject as a consequence of the UK CRDIII implementing Regulations, 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 Firm is a Full Scope UK AIFM of EEA/non-EEA AIFs and also undertakes additional activities which result in the Firm being a BIPRU firm. It acts solely as agent, so the main protection to our customers is provided through client money and asset arrangements. 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 AIFs to which we are an AIFM, to third party providers such as administrators reducing our exposure to operational risk. 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 management and performance fees cannot be collected and, therefore, credit risk is considered low. The Firm holds all cash and performance fee balances with banks assigned with high credit ratings.

Market Risk exposure has been assessed by the Firm and is limited to the Firm's exposure to foreign currency exchange rate risk and hence to any assets held on the Firm's Balance Sheet denominated in a foreign currency. The Firm's Reporting Currency is USD.

Background to the Firm

Background

The Firm is incorporated in the UK and is authorised and regulated by the FCA as an AIFM of EEA/non-EEA AIFs. In addition the Firm undertakes MiFID activities which give it the categorisation of a 'BIPRU Firm'.

The Firm is a Solo regulated entity.

The Firm is a BIPRU Firm without an Investment Firm Consolidation Waiver 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 Board is the Governing Body of the Firm and has the daily management and oversight responsibility. It meets at least semi-annually or on an as needed basis and is composed of:

- Andrew Weber, Partner
- Paul Horvath, Partner
- John Young, Partner
- Orchard Global Services Limited, Corporate Partner

The Board of the Firm has management and oversight responsibility.

Risk Framework

Risk within the Firm is managed by use of the following:

BIPRU 11.5.4

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

BIPRU 3 (Credit Risk)
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	BIPRU 3.2	$965,191
Counterparty risk	BIPRU 13 & 14	$0
Concentration risk	BIPRU 10	$0
Total		**$965,191**

	Rule	**Exposure**	**Risk Weight**	**Risk weighted exposure amount**
National Government Bodies	BIPRU 3.4.2	$0	0%	$0
Banks etc long-term	BIPRU 3.4.36	$0	50%	$0
Banks etc short-term	BIPRU 3.4.39	$2,969,913	20%	$593,983
Exposure to Corporates/Debtors	BIPRU 3.4.52	$9,789,359	100%	$9,789,359
Past due item	BIPRU 3.4.96	$0	100%	$0
Fixed assets	BIPRU 3.4.127	$535,872	100%	$535,872
Accrued Investment management fees	BIPRU 3.4.128	$1,145,668	100%	$1,145,668
Total		**$14,440,812**		**$12,064,882**

Credit Risk Capital Component	8% of risk weighted exposure	**$965,191**

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 Firm has Non-Trading Book potential exposure only (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 Board and amended where necessary, on an annual basis or when a material change to the business occurs. The Executive Committee presents the ICAAP document to the Governing Body of the Firm which reviews and endorses the risk management objective each quarter or when a material change to the business occurs at the same time as reviewing and signing off the ICAAP document.

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 management fees. It holds all cash and performance fee balances with Banks assigned high credit ratings. Consequently, risk of past due or impaired exposures is minimal. A financial asset is past due when a counterparty has failed to make a payment when contractually due. Impairment is defined as a reduction in the recoverable amount of a fixed asset or goodwill below its carrying amount.

BIPRU 11.5.12

Disclosure: Market Risk

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

Please note: As per GENPRU 2.1.46R, the Market 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.

Market Risk calculation

	Rule	**Position**	**Risk Weight**	**PRR**
Interest rate position	BIPRU 7.2	$0	8%	$0
Equity position	BIPRU 7.3	$0	8%	$0
Commodity position	BIPRU 7.4	$0	8%	$0
Foreign currency position	BIPRU 7.5	$230,796	8%	$18,464
Option position	BIPRU 7.6	$0	8%	$0
Collective investment undertaking position	BIPRU 7.7	$0	32%	$0
Total		**$230,796**		**$18,464**

BIPRU 11.5.2

Disclosure: Scope of application of directive requirements

The Firm is subject to the disclosures under the UK CRDIII Implementing Regulations.

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 is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under (GENPRU 2 Annex 4). Tier 1 Capital comprises of LLP Members' Capital.

As a Collective Portfolio Management Investment Firm, the Firm is subject to the capital requirements set out in IPRU(INV) Chapter 11 and also BIPRU/GENPRU. The Firm has the following capital resources: -

Tier 1 Capital/Initial Capital	$5,248,607
Deductions	$0
Tier 2 Capital	$0
Deductions	$0
Total Tier 1 & 2/Own Funds	**$5,248,607**
Tier 3 Capital	£0
Total Capital (GENPRU)	**$5,248,607**

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 and therefore is not affected by BIPRU 11.5.4R (3).

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.

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 Governing Body is responsible for the Firm's remuneration policy.

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

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

As a Full Scope AIFM the Firm is required to comply with the AIFM Remuneration Code in SYSC 19C. The obligations under the code are proportionate to the size, nature, scope and complexity of a firm. The Firm has therefore applied the principles of the AIFM Remuneration Code in a proportionate manner in line with these factors and in accordance with the FCA's published Guidance on this topic in FG14/2.

The Firm's remuneration arrangements represent a combination of salary and bonuses that are designed to align the interest of the Firm and its employees with those of its clients and other stakeholders to ensure the Firm's continued long-term profitability. Non-salary remuneration plans are completely variable, based on the Firm's performance and individual performance. The Firm does not pay any compensation tied to business development.

The Firm does not currently use a pre-set formulaic matrix to determine either basic remuneration or variable remuneration. The determination of remuneration is a fully discretionary process informed by various performance metrics including individual performance measured against standard Firm competencies and qualitative annual goal attainment, industry peer group remuneration levels and affordability. The Firm ensures that the variable remuneration bonus pool is a conservative percentage of the Firm's net income. This means that staff remuneration is dependent upon the Firm's profitability and it allows the Firm to manage its capital prudently.

The Firm is an asset management business. All of the Firm's relevant staff in respect of whom it is required to make a Pillar 3 remuneration disclosure are in FCA's "senior management" and "risk-takers" category. The total "remuneration" (as defined in the FCA Rules) awarded to the firm's code staff during the year to 31 December 2018 was $9.0mm, with 19 individuals falling into this category.

DISCLAIMER

The information contained in this document has not been audited by the Firm's external auditors and does not constitute any form of financial statement and should not be relied upon in making any judgement on the Firm. The risks identified in this disclosure may not include all of the risks the Firm faces. Reliance should not be placed on these disclosures as to the effectiveness or otherwise of the Firm's internal control environment.