

# SouthernSun Asset Management (UK) Limited

## Pillar 3 Disclosure and Policy

June 2019

### Introduction

#### Regulatory Context

The Pillar 3 disclosure of SouthernSun Asset Management (UK) Limited (“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 not formally subject to CRD but remain subject to the UK’s implementation Regulations of CRD prior to CRDIV. 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”).

#### 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.

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

The Firm is a MiFID Investment Manager. 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.

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 the parent entity does not cover the fees. The Firm holds all cash and balances with banks assigned 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 and all foreign currency assets are converted into USD where possible on a regular basis.

## **Background to the Firm**

### **Background**

The Firm is incorporated in the UK and is authorised and regulated by the FCA as a MiFID Investment Manager. The Firm's activities give it the BIPRU categorisation of a 'BIPRU Firm'.

The following entities are covered by the ICAAP:

- SouthernSun Asset Management (UK) Limited

The Firm is a Solo regulated entity with a Non-EEA parent.

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 of Directors is the Governing Body of the Firm and has the daily management and oversight responsibility. It meets annually and is composed of:

- Michael W. Cook; and
- William P. Halliday II

The Board of Directors is responsible for the entire process of risk management, as well as forming its own opinion on the effectiveness of the process. In addition, the Board of Directors decides the Firm's risk appetite or tolerance for risk and ensures that the Firm has implemented an effective, ongoing process to identify risks, to measure its potential impact and then to ensure that such risks are actively managed. Senior Management is accountable to the Board of Directors 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**

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

- The Firm has a conservative approach to risk;
- The Firm has identified its risks and recorded them in a 'Risk Register';
- The 'Risk Register' is reviewed as and when required by the Board of Directors or when new risks are identified;
- The Firm has undertaken scenario Analysis and Stress Tests on the most significant risks identified. This informs the Firm of the impact risks will have on the balance sheet;
- The Firm has in place an internal control framework to govern its processes and procedures and to mitigate any risks;
- The Firm has adopted a three-point scoring matrix for determining the level of risk within its business (High, Medium and Low). Any risk rated High is deemed to be unacceptable to the Firm and must be addressed as a priority to ensure that it is able to receive a lower rating. Other risks are deemed acceptable to the business.
- The Firm has grouped the risk categories in the overall Pillar 2 rule (GENPRU 1.2.30R) into six groups that are relevant to its type of firm i.e. Credit, Market, Operational, Business, Liquidity, and Other Risk. In the case of Other Risk, Insurance Risk, Interest Rate Risk and Pension Obligation Risk have been grouped together. The greatest risks are considered to be Business Risks (including reputation) and Operational Risk.
- For Business Risk, the Firm has identified several scenarios which may have a detrimental impact on the business and subjected them to analysis and a stress test. The results inform the Firm on its capital planning forecasts and proposed management actions to ensure that the Firm holds, at all times, adequate Regulatory Capital. The existing financial planning process has been integrated into the ICAAP to develop forward looking financial forecasts.
- For Operational Risk, the Firm has assessed if Pillar 2 capital is required taking into account its mitigation.

### **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](#)).

## Credit Risk calculation

Credit Risk Capital Requirement	Rule	Capital Component
Credit risk capital component	BIPRU 3.2	\$ 29,967
Counterparty risk capital component	BIPRU 13 & 14	\$0
Concentration risk capital component	BIPRU 10	\$0
<b>Total</b>		<b>\$ 29,967</b>

	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	\$ 144,038	20%	\$ 28,807
Exposure to Corporates/Debtors	BIPRU 3.4.52	\$ 345,792	100%	\$ 345,792
Past due item	BIPRU 3.4.96	\$0	100%	\$0
Fixed assets	BIPRU 3.4.127	\$0	100%	\$0
Fees	BIPRU 3.4.128	\$0	100%	\$0
<b>Total</b>		<b>\$ 489,830</b>		<b>\$ 374,599</b>
<b>Credit Risk Capital Component</b>	8% of risk weighted exposure			<b>\$29,967</b>

### 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" "Structured" 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 of Directors and amended where necessary, on an annual basis or when a material change to the business occurs. The Board of Directors of the Firm reviews and endorses the risk management objective each year 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 failure of counterparties. 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](#)).

### 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	\$5,899	8%	\$472
Option position risk requirement	BIPRU 7.6	\$0	8%	\$0
Collective investment undertaking position risk requirement	BIPRU 7.7	\$0	32%	\$0
<b>Total</b>		<b>\$5,899</b>		<b>\$472</b>

### 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 I Capital comprises of Share Capital and Audited Reserves.

Tier 1 Capital	\$441,698
Deductions	\$0
Tier 2 Capital	\$0
Deductions	\$0
Capital Resources	\$0
Tier 3 Capital	\$0
Deductions	\$0
<b>Total Capital</b>	<b>\$441,698</b>

### 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 Firm is a Remuneration Code Proportionality Level 3 Firm and has applied the rules appropriate to its Proportionality Level. 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))**

<b>Business Area</b>	<b>Total Remuneration</b>
Investment Management	\$380,062

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

<b>Type of Remuneration Code Staff</b>	<b>Total Remuneration</b>
Senior Management (SIF) and Other Remuneration Code Staff	\$300,000 (fixed) \$80,062 (variable)
<b>Totals</b>	<b>\$380,062</b>