

# FORTELUS CAPITAL MANAGEMENT FIRM

## Pillar 3 Disclosure and Policy

### Introduction

#### Regulatory Context

The Pillar 3 disclosure of Fortelus Capital Management LLP (“the Firm”) is set out below as required by the FSA’s “Prudential Sourcebook for Banks, Building Societies and Investment Firms” (BIPRU) specifically [BIPRU 11.3.3 R](#). This follows the introduction of 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 disclosure will be published on our website.

#### Verification

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 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 requirements have three pillars. Pillar 1 deals with minimum capital requirements; Pillar 2 deals with the 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 as to 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 an Investment Management Firm. It acts solely as agent, so the main protection to our customers is provided through client money 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 those hedges and mitigants.

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

A number of key operations are outsourced by our clients to third party providers such as administrators, thereby 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 low. The Firm holds all cash with banks assigned high credit ratings.

Market Risk exposure has been assessed by the Firm and is limited to the Firm's exposure to any cash amounts held by the Firm in a foreign currency. All foreign currency is converted into GBP on a regular basis.

## **Background to the Firm**

### **Background**

The Firm is incorporated in the UK and is authorised and regulated by the FSA as an Investment Management Firm. The Firm's activities give it the BIPRU categorisation of a "Limited Licence" and a "BIPRU €50K" firm.

The following entities are covered by the ICAAP:

- Fortelus Capital Management LLP

The Firm is a solo regulated entity.

The Firm is a BIPRU Investment 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 the LLP is the Governing Body of the Firm and has the daily management and oversight responsibility. It meets periodically.

The Board 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 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 their potential impact and to ensure that such risks are actively managed. Senior Management is accountable to the Board for designing, implementing and monitoring the process of risk management and incorporating 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 periodically by the Board;
- The Firm has undertaken scenario analysis and stress tests on the most significant risks identified. This informs the Firm how risks are likely to behave and what, if any, impact there is likely to be to our balance sheet;
- The Firm has in place an internal control framework to govern its processes and procedures and to mitigate any 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](#)).

#### Credit Risk calculation

Credit Risk Capital Requirement	Rule	Capital Component
Credit risk capital component	BIPRU 3.2	£77,871
Counterparty risk capital component	BIPRU 13 & 14	£0
Concentration risk capital component	BIPRU 10	£0
<b>Total</b>		<b>£77,871</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	£413,700	20%	£82,740
Exposure to Corporates/Debtors	BIPRU 3.4.52	£540,647	100%	£540,647
Past due item	BIPRU 3.4.96	£0	100%	£0
Fixed assets	BIPRU 3.4.127	£0	100%	£0
Accrued Investment management fees	BIPRU 3.4.128	£350,000	100%	£350,000
<b>Total</b>		<b>£1,304,347</b>		<b>£973,387</b>
<b>Credit Risk Capital Component</b>	8% of risk weighted exposure			<b>£77,871</b>

### BIPRU 4

The Firm does not adopt the Internal Ratings Based approach and hence this is not applicable.

### BIPRU 6

The Firm, being a Limited Licence Firm is not subject to the Pillar 1 Operational Risk

Requirement and, therefore, this is not applicable.

#### **BIPRU 7**

The Firm has Non-Trading Book potential exposure only ([BIPRU 7.4](#), [7.5](#)).

#### **BIPRU 10**

The Firm closely monitors and assesses its Non-Trading Book limits in line with ([BIPRU 10.5.2 R](#) to [BIPRU 10.5.10 R](#)). When the Firm has a single exposure exceeding 25% of its capital resources, it is recorded in the Breaches Register and monitored until such time as is rectified upon receipt of fees. Also, the Firm monitors its position to ensure the sum of its exposures of more than 10% do not exceed 800% of its Regulatory Capital Resources.

#### **Overall Pillar 2 Rule**

The Firm has adopted the “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 no less frequently than annually by the Board and amended where necessary, or when a material change to the business occurs. Senior management presents the ICAAP document to the Board of the Firm which reviews and endorses the risk management objective 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 advisory fees. It holds all cash 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**

	<b>Rule</b>	<b>Position</b>	<b>Risk Weight</b>	<b>PRR</b>
Interest rate positional risk requirement	BIPRU 7.2	£0	8%	£0
Equity positional risk requirement	BIPRU 7.3	£0	8%	£0
Commodity positional risk requirement	BIPRU 7.4	£0	8%	£0
Foreign currency positional risk requirement	BIPRU 7.5	£974	8%	£75
Option positional risk requirement	BIPRU 7.6	£0	8%	£0
Collective investment undertaking positional risk requirement	BIPRU 7.7	£0	32%	£0
<b>Total</b>		<b>£974</b>		<b>£75</b>

#### **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.

<b>BIPRU 11.5.3</b>	
<b>Disclosure:</b> Capital Resources	
<p>The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under (<a href="#">GENPRU 2 Annex 4</a>). Tier 1 Capital comprises of FIRM Members' Capital Audited Reserves.</p>	
Tier 1 Capital	£1,000,212
Deductions	£0
Tier 2 Capital	£0
Deductions	£0
Capital Resources	£0
Tier 3 Capital	£0
Deductions	£0
<b>Total Capital</b>	<b>£1,000,212</b>
<b>BIPRU 11.5.5</b>	
<p>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 <a href="#">BIPRU 11.5.4R (3)</a>.</p>	
<b>BIPRU 11.5.6</b>	
<p>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 <a href="#">BIPRU 11.5.4R (3)</a>.</p>	
<b>BIPRU 11.5.7</b>	
<p>This disclosure is not required as the Firm does not have a Trading Book.</p>	
<b>BIPRU 11.5.9</b>	
<p>This disclosure is not required as the Firm does not make Value Adjustments and Provisions for Impaired exposures that need to be disclosed under <a href="#">BIPRU 11.5.8R (9)</a>.</p>	
<b>BIPRU 11.5.10</b>	
<b>Disclosure:</b> Firms calculating Risk Weighted Exposure Amounts in accordance with the Standardised Approach	
<p>This disclosure is not required as the Firm uses the simplified method of calculating Risk Weights (<a href="#">BIPRU 3.5</a>).</p>	
<b>BIPRU 11.5.11</b>	
<b>Disclosure:</b> Firms calculating Risk Weighted Exposure amounts using the IRB Approach	
<p>This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit and therefore is not affected by <a href="#">BIPRU 11.5.4R (3)</a>.</p>	
<b>BIPRU 11.5.13</b>	
<b>Disclosure:</b> Use of VaR model for calculation of Market Risk Capital Requirement	
<p>This disclosure is not required as the Firm does not use a VaR model for calculation of Market Risk Capital Requirement.</p>	
<b>BIPRU 11.5.14</b>	

**Disclosure: Operational Risk**

The Firm's Fixed Overhead Requirement (FOR) is disclosed as a proxy for the Pillar I Operational Risk Capital calculation. The Firm's Pillar I Capital Resources Requirement is the FOR which is the higher of FOR and the sum of Market Risk and Credit Risk Requirement.

Fixed Overhead Requirement	GENPRU 2.1.53	<u>£646,660</u>
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**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 Disclosures: Remuneration**

The Firm has adopted a remuneration policy that complies with the requirements of chapter 19A of the FSA's Senior Management Arrangements, Systems and Controls Sourcebook ("SYSC"), as interpreted in accordance with the FSA's guidance publication entitled "General Guidance on Proportionality: The Remuneration Code (SYSC 19A) & Pillar 3 Disclosures on Remuneration (BIPRU 11)" and subsequent items of guidance issued by the FSA, including its document entitled "Frequently Asked Questions on the Remuneration Code".

As a BIPRU limited license firm, the Firm falls within proportionality tier 4. The Firm has concluded, on the basis of its size and the nature, scale and complexity of its legal structure and business that it does not need to appoint a remuneration committee. Instead, the management committee sets, and oversees compliance with, the Firm's remuneration policy including reviewing the terms of the policy at least annually.

As at the accounting reference date, the Firm currently sets the variable remuneration of its staff in a manner which takes into account staff and firm performance, by reference to individual employee performance; performance of the individual's business unit or department and the overall results of the Firm. As permitted for firms falling within proportionality tier 4, the Firm takes into account the specific nature of its own activities in conducting any ex-ante risk adjustments to awards of variable remuneration and, given the nature of its business, has disapplied the requirement under the Remuneration Code to make ex-post risk adjustments.

The Firm only has one "business area", namely its investment management business. All of the Firm's Code Staff fall into the "senior management" category of Code Staff (rather than the "risk taker" category) for the purposes of the Remuneration Code. The Firm will disclose the aggregate "remuneration" (as defined in the FSA Rules) awarded to the Firm's Code Staff during the financial year ending on the accounting reference date in the first quarter of 2012 after such amounts are determined and finalised.