CHELVERTON ASSET MANAGEMENT LIMITED
PILLAR 3 DISCLOSURE
March 2019

Introduction

Chelverton Asset Management (“CAM”) is required by the Financial Conduct Authority ("FCA") to disclose information relating to the capital it holds and each material category of risk it faces in order to assist users of its accounts and to encourage market discipline.

These disclosures aim to provide information on the risk exposures faced by the company and the risk assessment process it has in place to monitor these. Known as "Pillar 3" disclosures, they are required to be made under Chapter 11 of the FCA's Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") and are seen as complimentary to the company’s minimum capital requirement calculation ("Pillar 1") and the internal review of its capital adequacy ("Pillar 2").

According to the FCA’s BIPRU sourcebook, at the time of the ICAAP, dated 31st March 2019, CAM was a €50k limited license firm. The disclosure has been prepared on that basis.
CAM will make Pillar 3 disclosures on an annual basis on its website. In the annual accounts CAM will refer readers to the precise location that these disclosures can be found.

CONFIRMATION

The information contained within this document has not been audited by CAM’s external auditors and does not constitute any form of financial statement. It must not be relied upon in making a judgement on CAM with regard investment decisions.

Risk Management

CAM has a risk management process in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. The risk management process for CAM is overseen by the Managing Director and is reviewed by the Board of Directors. The Managing Director takes overall responsibility for this process.

The business is small and focused, and operates with the daily input and oversight of the staff; therefore no risk management functions are outsourced. Management Accounts demonstrating continued adequacy of the company’s regulatory capital are produced monthly.

Appropriate action is taken where risks are identified which fall outside of the company’s risk tolerance levels or where the need for remedial action is required in respect of identified weaknesses in the company’s mitigating controls. Specific risks applicable to the company come under the following headings of business, operational, credit and market risks.

Business Risk

The company’s revenue is reliant on the fees generated from its existing investment mandates. These will be primarily determined by the investment performance of the funds and the continuing support of the investors within the funds. The investment portfolios are monitored daily by the Portfolio Managers and any action required is taken to maintain the performance in line with the funds’ objectives.

CAM is actively exploring other activities and investment vehicles to create income from diversified and uncorrelated sources.

Operational Risk

The company places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities in this respect.

CAM has identified a number of key operational risks to manage. These relate to:

- loss of key men,
- systems failure,
- failure to follow investment guidelines or restrictions,
- breach of regulatory rules,
- failure of a third party provider; and
- Counter party failure.

Appropriate polices are in place to mitigate against these risks. Employees' careers are closely tied to the business and there is adequate coverage should one leave the company.

CAM has a detailed Disaster Recovery Plan. These arrangements are tested on a regular basis in order to ensure that they would be effective should they be required to be invoked.

There is strong external oversight of regulatory requirements to assure that any breaches are identified quickly and resolved.

Third party relationships and procedures are well documented and should provide seamless transition to a new provider in case of a failure. The operational requirements of running a limited number of funds will reduce the potential for error, and the use of external fund accounting and reporting systems from the Fund's Administrator will allow for internal processes to be simplified.

Credit Risk

The company itself is exposed to credit risk in respect of investment advisory fees billed and cash held on deposit. Management fees from investment activities are paid monthly by the Administrators. The company considers that there is little risk of default by its clients.

The company's bank accounts are held with a large bank which is largely government owned and therefore at little risk of default. Given the nature of the company's exposures, no additional policies for hedging and mitigating credit risk are in place.

CAM uses the simplified standardised approach detailed in BIPRU 3.5.5 of the FCA Handbook when calculating risk weighted exposures in respect of its debtors. All bank balances are subject to a risk weightings in accordance with BIPRU 3.4 of the FCA Handbook.

Market Risk

The company has a low tolerance to risk and an investment approach which looks for long-term investments, and this approach is understood by the investors in the funds. Volatility in markets will affect the management fees received by the company, but also provide opportunities to build positions in stocks which the Managers find attractive on the various investment criteria applied within the funds.

Capital Adequacy

CAPITAL RESOURCES

As at 31st March 2019, the company held regulatory capital resources of £5,015k. This comprised solely of core Tier 1 capital.

CAPITAL REQUIREMENT

The Pillar 1 capital requirement is defined as the higher of the following:

- Base Capital Requirement (€50,000); or

- Fixed Overhead Requirement; or
- The sum of Market and Credit Risk Requirements.

As at 31st March 2019, this requirement was £664k. This has been determined by reference to the firm's Fixed Overheads Requirement ("FOR") and calculated in accordance with the FCA's General Prudential Sourcebook ("GENPRU") at GENPRU 2.1.53. The requirement is based on the FOR, since at all times this exceeds the total of the credit and market risk capital requirements it faces. The FOR is based on annual expenses net of variable costs.

The company monitors its expenditure on a monthly basis and takes into account any material fluctuations in order to determine whether the FOR remains appropriate to the size and nature of the business, or whether any adjustment needs to be made intra-year. This is monitored by the Managing Director and reported to the Board on a regular basis.

SATISFACTION OF CAPITAL REQUIREMENTS

The company's ICAAP (Pillar 2) process has identified that capital is required to be held over and above the Pillar 1 requirement as a result of stress testing and scenario analysis performed. Based on its ICAAP assessment, the directors of the business consider that an appropriate level of capital to support current and future business requirements, when consideration of stress events and various key risk scenarios are taken into account, is £1030k.

The cost of an orderly wind-down of the business is calculated to be less than the FOR. The capital resources detailed above are considered adequate to continue to finance the company over the next year. No further capital injections beyond those noted above are considered necessary. However, additional resources are available to fund the business if this is felt appropriate or necessary.

REMUNERATION POLICY

The Board of Chelverton determines the Remuneration Policy. The Board sets and agrees the Remuneration Policy of CAM and the policy is reviewed on an annual basis.

Any performance related remuneration is subject to the profits of CAM and is agreed by the Board. The Board may consider, amongst other things, the short and long term financial position of CAM along with other appropriate risk assessments have been considered before reaching a decision.

The following aggregate data has been provided for the year to March 2018 in accordance with the proportionality and commercial sensitivity provisions of the SYSC requirements:

Employee Information	2019
	£
Wages and salaries	1,356,617
Social security costs	280,622
Costs of defined benefit scheme	26,688
Bonus	836,000
Total	**2,499,927**