ASTELLON
CAPITAL PARTNERS

Astellon Capital Partners LLP

PILLAR 3, STEWARDSHIP CODE AND REMUNERATION DISCLOSURE

Overview

The Capital Requirements Directive (‘CRD’) and Alternative Investment Fund Management Directive (‘AIFMD’) of the European Union establish a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain.

In the United Kingdom, the CRD and AIFMD have been implemented by the Financial Conduct Authority (‘FCA’) in its regulations through the General Prudential Sourcebook (‘GENPRU’), the Prudential Sourcebook for Banks, Building Societies and Investment Firms (‘BIPRU’), The Interim Prudential Sourcebook for Investment Business (“IPRU (INV)”).

The CRD consists of three ‘Pillars’:

- Pillar 1 sets out the minimum capital amount that meets the firm’s credit, market and operational risk capital requirement;
- Pillar 2 requires the firm to assess whether its capital reserves, processes, strategies and systems are adequate to meet pillar 1 requirements and further determine whether it should apply additional capital, processes, strategies or systems to cover any other risks that it may be exposed to; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position to encourage market discipline.

The AIFMD adds further capital requirements based on the Alternative Investment Fund (‘AIF’) assets under management and professional liability risks.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet our Pillar 3 obligations.

The Pillar 3 disclosure document has been prepared by Astellon Capital Partners LLP (‘The Firm’) in accordance with the requirements of BIPRU 11 and is verified by the Managing Member and Management Committee of the Firm. Unless otherwise stated, all figures are as at the 31st March 2015 financial year-end.

Pillar 3 disclosures will be issued on an annual basis after the year end and published as soon as practical, shortly after when the audited annual accounts are finalised.

We are permitted to omit required disclosures if we believe that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions about the firm.

In addition, we may omit required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties.

Scope and application of the requirements

The Firm is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. The Firm is categorised as a Collective Portfolio Management Investment Firm (‘CPMI’) Firm’ by the FCA for capital purposes.

It is an investment management firm and as such has no trading book exposures.

Although part of a group, the Firm is managed on a “stand-alone” basis for liquidity purposes and we do not foresee any impediments to the prompt transfer of capital between group entities should the need arise. There are no differences in the basis of consolidation for accounting and prudential purposes. The only other material member of the Astellon group is the service company to the Firm, which incurs and wholly recharges operational costs to the Firm.

Risk management

The Firm has established 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 is overseen by a Risk Committee which comprises Bernd Ondruch (Founding Partner/CIO) and Ray Atkinson (CFO/COO), with the committee taking overall responsibility for this process and the fundamental risk appetite of the firm. The Risk Committee has responsibility for the implementation and enforcement of the Firm’s risk principles.

The Management Committee of the Firm meets on a regular basis and discusses current projections for profitability, cash flow, regulatory capital management, business planning and risk management. Senior Management consider the Firm’s risks though a framework of policy and procedures having regard to the relevant laws, standards, principles and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required.

The Management Committee has identified that business, operational, market and credit are the main areas of risk to which the Firm is exposed. Annually this team formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness.

A formal update on operational matters is provided to the Management Committee on a monthly basis. Management accounts demonstrate continued adequacy of the firm's regulatory capital are reviewed on a regular basis.

Appropriate action is taken where risks are identified which fall outside of the Firm's tolerance levels or where the need for remedial action is required in respect of identified weaknesses in the Firm's mitigating controls.

Specific risks applicable to the Firm come under the headings of business, operational, credit and market risks.

Business risk

The Firm's revenue is reliant on the continuing performance of the existing funds under management and its ability to obtain new mandates. As such, the risk posed to the Firm relates to adverse market conditions resulting in a decline in revenue and ultimately the risk of redemptions from the funds managed by the Firm. This risk is mitigated by significant levels of capital and reserves within the group and the maintenance of a good long term track record by the Firm.

Operational risk

The Firm 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.

The Firm has identified a number of key operational risks to manage. These relate to loss of key staff, failure of outsourced service providers, BCP/DR risk, failure to adhere to investment mandate guidelines, market abuse and regulatory rule breach risk. Appropriate polices are in place to mitigate against these risks, which includes taking out adequate professional indemnity insurance.

Credit risk

The number of credit exposures relating to the Firm's investment management clients is limited. Management fees are drawn monthly from the funds managed and performance fees are drawn annually where applicable. The Firm considers that there is little risk of default by its clients. All bank accounts are held with large regulated international credit institutions.

Given the nature of the Firm's exposures, no specific policy for hedging and mitigating credit risk is in place. The Firm uses the simplified standardised approach detailed in BIPRU 3.5.5 of the FCA Handbook when calculating risk weighted exposures of 1.6% (Cash in Bank) and 8% in respect of its other assets.

Market risk

The Firm takes no market risk other than foreign exchange risk in respect of its accounts receivable and cash balances held in currencies other than GBP.

Professional liability risk

The Firm has a legal responsibility for risks in relation to investors, products & business practices including, but not limited to; loss of documents evidencing title of assets of the AIF; misrepresentations and misleading statements made to the AIF or its investors; acts, errors or omissions; failure by the senior management to establish, implement and maintain appropriate procedures to prevent dishonest, fraudulent or malicious acts; improper valuation of assets and calculation of unit/share prices; and risks in relation to business disruption, system failures, process management. The Firm is aware of, and monitors, a wide range of risks within its business operations and towards its investors. The Firm has in place appropriate internal operational risk policies and procedures to monitor and detect these risks. These procedures and risks are documented, demonstrating how the Firm aims to mitigate these risks. This is reviewed annually.

The Firm's holds additional own funds of £20k, equating to 0.02% of the total AIF assets under management over Euro 250m.

Regulatory capital

The Firm is a Limited Liability Partnership and its capital arrangements are established in its constitutional documents. Its capital is summarised as follows:

The main features of the Firm's capital resources for regulatory purposes are as follows:

	1st September 2015 £000
Tier 1 capital*	700
Tier 2 capital	
Tier 3 capital**	
Deductions from Tiers 1 and 2	(522)
Surplus of capital resources	**178**
*No hybrid tier one capital is held	

Our Firm is small with a simple operational infrastructure. Its market risk is limited to foreign exchange risk on its accounts receivable in foreign currency, and credit risk from management and performance fees receivable from the funds under its management plus cash at bank. The Firm follows the standardised approach to market risk and the simplified standard approach to credit risk.

As discussed above the firm is a Full Scope, CPMI Firm and as such its capital requirements are the higher of:

- €125,000 + 0.02% of AIF AUM; and
- The sum of the market & credit risk requirements; or
- The fixed overheads requirement (‘FOR’) which is essentially 25% of the firm’s operating expenses less certain variable costs.

0.02% is taken on the absolute value of all assets of all funds managed by the firm, including assets acquired through the use of leverage, whereby derivative instruments shall be valued at their market value, including funds where it the firm has delegated the management function but excluding funds that it is managing as a delegate. The FOR is calculated, in accordance with FCA rules, based on the firm’s previous years audited expenditure. The firm has adopted the simplified standardised approach to credit and market risk and the above figures have been produced on that basis. The firm is not subject to an operational risk requirement.

It is the Firm’s experience that the Fixed Overhead Requirement establishes its capital requirements.

Capital requirement

The Firm’s Pillar 1 capital requirement has been determined by reference to the Firm’s Fixed Overheads Requirement (‘FOR’) and calculated in accordance with GENPRU 2.1.53/base €125k plus 0.02% of AIF AUM. The requirement is based on the FOR since this exceeds the total of the credit and market risk capital requirements it faces and also exceeds its base capital requirement of €50,000.

The FOR is based on annual expenses net of variable costs deducted, which include discretionary bonuses paid to staff, activity based research and travel costs plus sundry other variable expenditure. The Firm 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 CFO/COO and Head of Finance and reported to senior management on a monthly basis.

UK Financial Reporting Council’s Stewardship Code

FCA COBS Rule 2.2.3R requires FCA authorised firms to disclose whether they conform to the requirements of the UK Financial Reporting Council’s Stewardship Code (the ‘Code’). Adherence to the Code is voluntary. The Firm pursues a European event driven investment strategy specialising in the German speaking markets. Therefore, while the Firm supports the principles of the Code, it does not consider it appropriate to conform to the Code at this time.

Remuneration code disclosure

The Firm is authorised and regulated by the Financial Conduct Authority as a Limited Licence Firm and so it is subject to FCA Rules on remuneration. These are contained in the FCA's Remuneration Code located in the SYSC Sourcebook of the FCA’s Handbook. The Remuneration Code (“the RemCode”) covers an individual’s total remuneration, fixed and variable. The Firm incentivises staff through a combination of the two.

The Firm's business is to provide investment management services to a) the Astellon Fund SICAV-SIF (the "Fund") plus managed accounts whose aim is to track closely the performance of the Fund and b) to the Astellon UCITS Fund which follows a similar strategy within a UCITS framework.

Our policy is designed to ensure that we comply with the RemCode and our compensation arrangements:

1. are consistent with and promotes sound and effective risk management;
2. do not encourage excessive risk taking;
3. include measures to avoid conflicts of interest; and
4. are in line with the Firm's business strategy, objectives, values and long-term interests.

Proportionality

Enshrined in the European remuneration provisions is the principle of proportionality. The FCA have sought to apply proportionality in the first instance by categorising firms into three levels. The Firm falls within the FCA's proportionality level three and as such this disclosure is made in line with the requirements for a level three.

Our policy

ACP’s reviews the performance of all staff in regular performance reviews. Individual’s performance, a wider contribution to the firm’s development as well the overall performance of the firm are taken into consideration when awarding annual discretionary bonuses. Staff receive an annual salary and a base level element to their bonus. When compensation to senior staff exceeds an annual threshold of US $500,000, the excess element is retained by the Investment Manager to the Fund subject the following “lock in” rules:

1. It will vest over a three year period, during which period the locked in amount will be subject to the returns of the Astellon Fund
2. If an employee leaves during this period, the “non vested” part may be lost
3. Following the successful completion of the vesting period, the proceeds (having been subject to the returns of the Fund) will be taken as remuneration by the staff in question.

The purpose of these arrangements are to further align staff interests with those of our investors and consider this as industry best practice.

Code staff

We have identified Code staff, as required by the Remuneration Code, with significant influence. We consider that we have one business area, investment management. Within this area we have two Code staff. For the year ended 31st March 2015 the total remuneration of these staff was £500,000. None of this amount was comprised variable remuneration.

Astellon Capital Partners LLP

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