Cavendish Asset Management Limited
Pillar 3 disclosures
31 December 2017

CAVENDISH
ASSET MANAGEMENT

Contents

1 Scope of Pillar 3 application

1.1 Regulatory background

Cavendish Asset Management Limited ("CAM" or "the Firm") is authorised and regulated by the Financial Conduct Authority and as such is subject to minimum regulatory capital requirements. CAM's main activity is the provision of investment management services to group companies, group connected parties and an authorised open ended investment company.

CAM's business planning and capital management are reviewed at the meetings of the Board of Directors.

The requirement for certain regulated firms to make disclosures to the market to assist market transparency arose from the third of the three supervisory pillars set out in the revised Basel Capital Requirement Directive framework (CRD IV). The CRD IV framework is split between the Capital Requirements Directive (Directive 2013/36/EU) and the Capital Requirements Regulation ("CRR" - Regulation (EU) No 575/2013).

Collectively the three pillars form an overall framework for the prudential supervision of banks, credit institutions and investments firms. The framework aims to govern how much capital firms must hold to protect their members, depositors and shareholders. In the UK, this is being implemented by the regulator, the Financial Conduct Authority ('FCA'). The three pillars are:

- Pillar 1 - Minimum capital requirements that investment firms are required to meet for Credit, Market and Operational risk;
- Pillar 2 - Rules for the Supervisory Review Process, including the Internal Capital Adequacy Assessment Process ('ICAAP');
- Pillar 3 - Rules for the disclosure of risk and capital management, including capital adequacy.

This Pillar 3 disclosure was prepared in line with the requirements laid out in Part 8, Articles 431–451 of the CRR. CAM is only required to disclose information which is material and not proprietary or confidential in accordance with Article 432.

1.2 Disclosure basis and prudential requirements

Type of firm

CAM is an IFPRU 125k Limited License Investment Firm with permission to hold and control client money and assets. CAM is not a significant IFPRU firm.

Non-Consolidation basis

CAM is a wholly owned subsidiary of Lewis Trust Group, a UK retail group. Its accounting and prudential reporting is done on an individual, rather than consolidated, basis, as it does not form part of a UK consolidation group.

The Pillar 3 disclosures is therefore relevant to CAM on an individual company basis.

This Pillar 3 disclosure reflects CAM's financial position as at 31 December 2017.

Frequency

The company intends to publish Pillar 3 disclosure at least annually in accordance with FCA requirements.

Verification

This Pillar 3 Disclosure has been subject to internal review by CAM's senior management, and includes information from the audited financial statements as at 31 December 2017 as well as the latest management accounts, ICAAP and remuneration details. This Pillar 3 Disclosures 2017 has not been audited by the firm's external auditors.

Location

This Pillar 3 Disclosure 2017 is available on CAM's website: http://www.cavendisham.co/uk

2 Governance and Risk Management Framework

The Firm is governed by its Directors who determine the business model and strategy as well as the Firm's risk appetite. They are also responsible for establishing and maintaining the Firm's governance arrangements along with designing and implementing an effective risk management framework to identify, monitor and mitigate all of the risks that the business faces.

The Directors in conjunction with the Compliance Office determine how these risks may be assessed and mitigated and on an on-going basis the arrangements required to manage those risks. The Directors meet periodically and discuss current projections for profitability, cash flow, regulatory capital management, and business planning and risk management.

The Directors manage the Firm's risks though a risk management framework supported by policies and processes implemented according to the relevant laws, standards and rules. These policies and processes are updated regularly as required.
CAM's Board adopt a low risk approach to the management of the business and capital retention. The low risk appetite is supported by the context of the company's underlying business which predominantly consists of the provision of long only discretionary investment management in liquid mainstream equity, gilts and bonds. Business strategy changes are adopted in a slow and considered manner consistent with this low risk appetite.

The CEO is also the Chief Investment Officer ('CIO') and is involved in the investment management of client portfolios. The Head of Operations and Finance is responsible for operational risk management.

At least annually the Directors formally review the Firm's risk controls and other risk mitigation arrangements and assess their effectiveness. Where the Directors identify material risks, they consider the financial impact that those risks may have on the Firm and conclude whether the allocation of any additional resources over the Pillar 1 regulatory capital is required.

CAM's governance arrangements establish that the members of the Board shall only hold a limited number of directorships as is acceptable according to the CRR and IFPRU rules on governance. Board members and senior management are selected on the basis of a recruitment policy based on their actual knowledge, skills and expertise, with sufficient diversity of backgrounds. The Firm's size and nature of the business do not require a risk committee, whereas all management information on risk is made available to the Board.

Risk identified through the operation of the risk management framework are assessed as part of the Firm's ICAAP and Pillar 2 processes.

3 Capital adequacy and business strategy

The capital of CAM is solely classified as Common Equity Tier 1 capital. CAM is not required to and does not hold Tier 2 and 3 capital. The Common Equity Tier 1 capital comprises of called up ordinary share capital and the audited profit and loss reserves. There are no other items or deductions.
A summary of the total regulatory capital resources based on the audited financial statements as at 31 December 2016 are shown below:

Paid up share capital	£200,000
Profit and loss account	£3,288,395
Total capital	£3,488,395

The leverage ratio as calculated according to Article 429 and disclosed according to Article 451 CRR is 100%.

The Pillar 1 capital requirement for an IFPRU 125k Limited Licence Investment Firm is set out in Article 95 (2) of the CRR. CAM's Pillar 1 capital resources requirement is the highest of:

a) €125,000;
b) The Fixed Overheads Requirement (FOR); and
c) The sum of its Credit Risk Requirement ('CRR') and Market Risk Requirement ('MRR').

Credit risk	£129,824
Market risk	£6,972
FOR	£1,129,580

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its obligation under a contract and refers to non-trading debtors only.

The Company has used the simplified method of the standardised approach to calculate credit risk. The credit risk capital component of a firm is 8% of the total of its risk weighted exposure amounts for non-trading book exposures. The Group has elected to use the "simplified method" of calculating risk weights as it only has incidental credit exposures. The credit risk capital component under pillar 1 is calculated as £129,824.

All exposures to "Corporates" have been assessed as having a 100% risk weighting attached to them.

Market Risk

Market risk is the risk of loss arising from adverse movements in the level or volatility of market prices of securities held by the Company.

CAM does not deal as principal but holds cash in a variety of foreign currencies. As a consequence we have allocated £6,972 to the 'Market Risk' requirement to cover currency movements under Pillar 1.

FOR

CAM is not required to provide for operational risk within its Pillar 1 capital. However, the Fixed Overhead Requirement is the equivalent operational risk requirement for limited licence firms. The Fixed Overhead Requirement amounts to one quarter of the annual relevant fixed expenditure, less a number of permitted items specified in GENPRU 2.

Pillar 1 requirement

CAM is subject to the FOR of £1,129,580 and therefore maintains a capital surplus of £2.3m over and above its Pillar 1 requirement.

Pillar 2

The ICAAP further considers stress and reverse stress testing and ensures the processes, strategies and systems required by the overall Pillar 2 rule are both comprehensive and proportionate to the nature, scale and complexity of CAM's activities.

The Company has considered credit risk as an explicit Pillar 1 charge and does not believe that there is any additional credit risk or counterparty risk elements that need to have additional Pillar 2 capital charges.

CAM does however take into consideration that if the three largest clients were to be lost, this may result in a significant reduction in revenues. The Company has therefore provided additional capital of £500,000 to accommodate any short term loss of revenues due to operational risk, and also an additional £580,000 against market risk under pillar 2.

Operational risk is the potential for financial and reputation loss arising from failures in internal controls, people, operational processes or the systems that support them, or due to external events. It includes errors, omissions, disasters and deliberate acts such as fraud.

The regulated environment in which the firm operates, impose extensive reporting requirements and continuing self-assessment and appraisal. The firm seeks continually to improve its operating efficiencies and standards.

Loss of key staff

CAM is not reliant on any one individual for generating revenues or for running business and however it is aware that if it were to lose one of its key fund managers, additional costs would be incurred sourcing a replacement. The company has estimated such costs at £60,000.

Outsourcing

CAM outsources its fund administration and custody activities.

CAM's compliance function has oversight of outsourced providers which identifies and manages risk. Contracts are in place to ensure that any regulatory breaches are rectified by the third party, however, CAM has some liabilities under the contract and therefore £50,000 of capital has been provided.

Group risk

60% of CAM's revenues are derived from group connected parties. However, in the event that group entities were unable to maintain this level of support, the Company's activities could be scaled down to service the remaining 40% of external customers.

Stress testing

CAM's revenues are derived from its reputation and therefore poor market performance may result in implications for the retention of existing clients. The company has considered that in a worst case scenario, poor market performance may result in a reduction in profits of approximately £270,000.

The Company has also considered the potential loss of revenues as a result of fall in the value of assets under management as a result of a market down-turn. A worst case scenario market correction of 10% would reduce revenues that are linked to funds under management by approximately £575,000.

ICAAP requirement

The resulting total ICAAP requirement is £2,722,288 and therefore CAM holds surplus capital of £766,107.

4 Remuneration Code

As an IFPRU €125K Limited License Firm, CAM qualifies as a 'Proportionality level three' under the FCA's Remuneration Code in SYSC 19A of the FCA Handbook and the remuneration proportionality guidance, and is required to disclose certain qualitative and quantitative remuneration information.

Decision making process used for determining the remuneration policy

Given the nature and small size of our business, the remuneration policy for all staff is set by the two executive Directors, who determine the overall level of remuneration and the split of that between base salary, bonus and any benefits in kind. Each Executive Director will take the lead (but in conjunction with the other) in setting remuneration for the business function that reports directly into them. The CEO will therefore take the lead for the Front Office (comprising the Fund Managers and Investment Analysts) and the Finance Director will lead the process for Operations, Sales and Marketing and Compliance functions.

When the executive Directors consider it appropriate, they will benchmark current staff remuneration packages by obtaining general information about remuneration in financial services from employments consultants and other public sources of information. Directors will also consult with the non-executive Directors on the structure of incentive or bonus packages as part of their decision making process. Remuneration policy is then determined and agreed by the executive Directors.

Links between pay and performance

The company has in place a performance scheme that pays a fully discretionary bonus where company profitability and individual staff performance are met for all permanent staff with the exception of sales staff. The sales staff bonuses are contractual bonuses paid at an agreed rate when these staffs meet their individual sales targets. Bonus is paid in cash.

The bonus arrangement defers on a sliding scale proportions of bonus awards over a 5 year period. All other permanent staff bonus are assessed and based on performance over the previous year, except for sales staff, where the assessment period is quarterly.

Executive Directors are employed by other companies within LTG Group and do not receive any remuneration from CAM.

Aggregate quantitative information on remuneration by business area

The number of remuneration code staff is detailed in the table below:

Code Staff	N.
Executive Director	2
Fund Manager	8
Head of Operations and Finance	1
Compliance Officer and MLRO	1

Aggregate remuneration for remuneration code staff whose professional activities have a material impact on CAM's risk profile is as follows, as broken down between senior management and other staff, considering that CAM operates a single business area:

Staff	Aggregate Remuneration y/e 31 Dec. 2017
Executive Directors	nil
Front Office/ Operations/ Compliance/ Marketing and Sales	£1,212,720