WyeTree Asset Management Limited ('WyeTree')

Pillar 3 Disclosure

V3: March 2017

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Pillar 3 Disclosure - WyeTree Asset Management Limited

1. Introduction

The Capital Requirements Directives of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital that must be maintained by credit institutions and investment firms. In the United Kingdom, and with respect to WyeTree Asset Management Limited ("WyeTree" **or** the "Firm"), certain requirements, as described below, have been implemented by the Financial Conduct Authority ('FCA') in its regulations through the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

The FCA framework consists of three 'Pillars':

- Pillar 1 sets out the minimum capital amount that meets the Firm's credit, market and operational risk;
- Pillar 2 requires the Firm to assess whether its Pillar 1 capital is adequate to meet its risks and is subject to annual review by the FCA; and;
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position.

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

We have made no omissions on the grounds that it is immaterial, proprietary or confidential.

2. Scope and application of the requirements

The Firm is authorised and regulated by the Financial Conduct Authority (the "FCA"). The Firm is a London-based discretionary asset investment manager to professional clients and unregulated collective investment schemes. The Firm is a full scope Alternative Investment Fund Manager ("AIFM") and categorised as a collective portfolio management investment firm by the FCA for capital purposes. The Firm's Pillar 3 disclosure fulfils the Firm's obligation to disclose to market participants' key pieces of information on a firm's capital, risk exposures and risk assessment processes. The Firm is categorised as a limited license firm by the FCA for capital purposes and as such has no trading book exposure.

Our Firm is an investment manager and is limited to providing services to Professional and Eligible Counterparty clients. We provide services to funds and managed account clients. All are categorised as Professional Clients (the 'Clients').

The Firm calculates its regulatory capital as a solo firm for prudential purposes.

3. Risk management

WyeTree's Board of Directors ('the Directors') are responsible for the corporate governance of the Firm and determine its business strategy and risk appetite. They are also responsible for establishing and maintaining the Firm's governance arrangements along with designing and implementing a risk management framework that recognises the risks that the business faces.

The Directors also determine how the risks our Firm faces may be mitigated and assesses the arrangements to manage those risks on an ongoing basis. The Directors meet to discuss issues on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, business planning and risk management. The Directors manage the Firm's business and identify risks through a framework of policy and procedures taking account of relevant laws, standards, principles and rules (including FCA principles and rules) with the aim of operating a defined and transparent risk management framework. These policies and procedures are updated as required.

The Directors have identified that business, operational, market, financial and credit risks are the main areas of risk to which the Firm is exposed.

Annually, the Directors formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness. Where the Directors identify material risks they consider the financial impact of these risks as part of our business planning and capital management and conclude whether the amount of regulatory capital is adequate.

4. Risk management process

WyeTree's risk management process operates on three levels as follows:

- The Directors address and mitigate all corporate level risks that threaten the achievement of our strategic objectives.

- The Directors review the Firm's Individual Capital Adequacy Assessment Process ("ICAAP") that identifies and seeks to mitigate the business, operational, credit and market risks. The Firm's ICAAP is formally reviewed annually, but will be amended should there be any material changes to the Firm's business or risk profile.

- The Operations team reviews, identifies and monitors the investment risk limits pursuant to each portfolio as per the offering documentation.

5. Credit Risk

Credit risk is the risk that a party will default on a financial agreement. The Firm is exposed to credit risk as follows:

- Investment management fees due to the Firm for services provided.
- UK authorised banks in relation to deposits held with them.

These risks are mitigated by:

- Performing due diligence checks at the outset of entering into any material contracts when deemed necessary.
- Periodic monitoring of the credit rating of the credit institution with whom WyeTree banks.
- Contractual arrangements in relation to the payment of management fees and monitoring of payments against agreed payment arrangements.

6. Market Risk

WyeTree's market risk exposure relates to exchange rates on fund management fees due. Our funds and managed account clients whose assets we manage that are denominated in US$ and EUR give WyeTree an exchange rate exposure between the date of recognition of management fee income into WyeTree's accounts and the receipt and conversion into GBP of those monies.

The risk is mitigated by keeping the size of our debtor balance under review and monitoring exchange rate movements where necessary.

7. Business and Operational Risks

Operational risk is defined by the FCA as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. We have identified relevant risks and related mitigation and controls as part of our ICAAP.

We have policies and procedures and ongoing operational and related compliance monitoring to help us identify weakness and potential failures which are to be reported to the Board of Directors.

8. Regulatory capital

The Firm is a UK Limited Company and its capital arrangements are established in its Articles of Association.

Our Firm has a simple operational infrastructure. Its market risk is limited to foreign exchange risk on its accounts receivable in foreign currency. Credit risk is derived from investment management and performance fees receivable and cash at bank. The Firm follows the standardised approach to market risk and the simplified standard approach to credit risk. The Firm is subject to the Fixed Overhead Requirement ('FOR') and is not required to calculate an operational risk capital.

Pillar 1 capital is the higher of:

- the Firm's base capital requirement of €125,000, or;
- the sum of its market and credit risk requirements (which combined provide the Firm's risk capital calculation), or;
- The Firm's FOR.

In addition, the Firm, on account of its classification as a full-scope AIFM, is subject to an "own funds" requirement as follows:

The higher of:

- the funds under management requirement; and
- the own funds based on fixed overheads requirement;

Plus whichever is applicable of:

- the professional negligence capital requirement; or
- the PII capital requirement.

Pillar 2 capital is calculated by the Firm as representing any additional capital to be maintained against any risks not adequately covered under the requirement in Pillar 1 as part of its ICAAP. When making this calculation, the Firm also takes into account the own funds requirement detailed above, in particular where the own funds exceeds Pillar 1 capital.

It is the Firm's experience that its Pillar 1 capital requirement normally consists of the FOR, although market and credit risks are reviewed monthly. The Firm applies a standardised approach to credit risk, applying 8% to the Firm risk weighted exposure amounts, consisting mainly of investment management and performance fees due but not paid, and bank balances.

As at the date of this disclosure the Firm's regulatory capital position is:

PILLAR 1	GBP (£)
Minimum capital requirement ("GENPRU" regime)	**452,000**
Minimum capital requirement ("CPMI" regime)	**475,000**
PILLAR 2	**GBP (£)**
Minimum Capital	475,000
Additional capital: Operational Risk	0
Additional capital: Business Risk	208,000[1]
Additional capital: Credit Risk	0
Additional capital: Market Risk	0
Total additional capital required for Pillar 2	208,000
Total Capital required	**683,000**
Current Capital	**994,000**
Surplus	**311,000**

The Firm's ICAAP assesses the adequacy of its internal capital to support current and future activities. This process includes an assessment of the specific risks to the Firm, the internal controls in place to mitigate those risks and an assessment of whether additional capital mitigates those risks. The Firm also considers a wind down scenario to assess the capital required to cease regulated activities.

Concerning Pillar 1, it is the Firm's experience that the Fixed Overhead Requirement establishes its capital requirements. The Firm believes that credit risk and market risk are immaterial hence the minimum capital requirements for these risks are not considered to be material. The Firm believes that additional capital is required to meet its Pillar 2 obligations with regards to the business risks associated with the wind down costs of the Firm. As at 28th February 2017, WyeTree's surplus to its £683,000 capital requirement was £311,000.

We consider this amount to be sufficient regulatory capital to support the business and have not identified any other areas which give rise to a requirement to hold additional risk based capital.

The Firm's ICAAP is formally reviewed by the Members annually, but will be revised should there be any material changes to the Firm's business or risk profile.

9. Remuneration code disclosure

Given the nature and small size of our business, remuneration for all employees is set by the members of the Firm. The Firm formally reviews the performance of all employees and based thereon determines each employees overall level of remuneration and the split of that between base salary, bonus, etc. in compliance with the FCA Rules on remuneration.

[1] This relates to the costs in respect of the need to close the firm.

The Remuneration Code applies to 'Remuneration Code Staff' ('Code Staff'). This includes senior management, risk takers, staff engaged in controlled functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on the Firm's risk profile. The aggregate level of remuneration earned by the code staff is £505,000 (for the year ended 2016).

There is also a requirement for a remuneration statement to form part of the annual report of any Alternative Investment Fund ("AIF") to which the Firm acts as AIFM and which is either domiciled in the European Economic Area ("EEA") or marketed in the EEA.

The Firm is subject to the AIFMD Remuneration Code ("the Code"), has applied proportionality and, pursuant to this application and where relevant, has disapplied various provisions of the Code.

10. Stewardship Disclosure

The Firm supports the principles enshrined in the Financial Reporting Council's Stewardship Code which sets out good practice for investor engagement. The FCA requires all authorised asset managers to publicly disclose either a statement of compliance with the Stewardship Code or where they do not commit, their alternative investment strategy.

The Financial Conduct Authority and the Financial Reporting Council have acknowledged that certain aspects of the Stewardship Code are not directly relevant to all managers. The Firm is a fund manager which specializes in managing a diversified portfolio of structured finance and other instruments including those that derive their risk and return directly or indirectly from residential real estate and/or residential mortgages. Consequently, compliance with the Stewardship Code is not relevant to the Firm because:

- it does not manage or advise on UK listed assets for investors
- there is no interaction with the management of companies with respect to assets managed or advised by the Firm
- it determines its approach to stewardship on a case by case basis, taking into account the actions that will lead to the most favourable outcome for the value of assets managed or advised by the Firm

The Firm's Board of directors will continue to review the Code's applicability.