SVM Asset Management Limited

Pillar 3 disclosures as at 31 December 2019

1 Summary

- At 31 December 2019, the Firm held regulatory capital resources that exceed its current requirements.
- The responsibility for the overall management of risk lies with the Board of directors.
- Appropriate processes are put in place to control risks and these are monitored by the Compliance and Risk functions.

2 Overview

The Capital Requirements Directive IV ('CRD IV') of the European Union created a revised regulatory capital framework across Europe governing how much capital financial services firms must retain. The rules are set out in the CRD IV under three pillars:

- Pillar 1 sets out the minimum capital resource requirement firms are required to maintain to meet credit, market and operational risks.
- Pillar 2 requires firms to assess firm-specific risks not covered by Pillar 1 and, where necessary, maintain additional capital.
- Pillar 3 requires firms to disclose information regarding their risk assessment process and capital resources with the aim to encourage market discipline by allowing market participants to assess key information on risk exposure and the risk assessment process.

This document is designed to meet Pillar 3 disclosure obligations.

Future Pillar 3 disclosures will be made on an annual basis. The Pillar 3 disclosures have been reviewed and approved by the Firm's Board. The disclosures are not subject to audit except to the extent they are taken from the audited financial statements. The Pillar 3 disclosure report is published on the SVM Asset Management ('SVM') website (www.svmonline.co.uk).

3 Scope and Application

The Internal Capital Adequacy Assessment Process ('ICAAP') covers SVM Asset Management and its wholly owned subsidiary SVM Ireland Limited ('SVM Ireland'), (together 'SVM' or 'Firm').

SVM is a small asset management firm with a goal to increase its clients' wealth. SVM is a specialist focussing its expertise on managing UK, European and Global assets on behalf of retail and institutional clients.

SVM Asset Management is authorised and regulated by the Financial Conduct Authority and since CRD IV came into force, has been an IFPRU 125k limited licence Firm. SVM Ireland is regulated by the Bank of Ireland and is the Alternative Investment Manager for SVM Highlander Fund.

4 Risk management and governance

Statement of Risk Appetite

SVM's business plan relies on organic growth within its existing funds and target markets, rather than being dependent on acquisitive expansion. It is aware of the risk of specialising in equities and equity based investments, and of the reputational risk of losing key members of staff. SVM has significant retained earnings and always maintains a higher level of capital than is required for regulatory purposes. It therefore considers itself to have a low overall appetite for risk in respect of most of the risks that it faces. The Firm is willing to accept somewhat higher levels of risk in relation to certain business risks relating to the development of the Firm and its products, in particular given that the Firm has surplus capital resources.

Risk Governance

The responsibility for the overall management of risk lies with the Board of directors. The Board comprises 5 Directors, two of whom are majority owners of the Firm. The Directors have significant experience and comprise the managing director, two investment directors and two independent Non-Executive directors, the latter being appointed during 2019. The Board is responsible for determining risk strategy, setting the Company's risk appetite and ensuring that risk is monitored and controlled effectively. The risk and compliance function monitor risks within the organisation and has direct reporting lines to the Board of directors.

Risk identification and monitoring

Risk is inherent in the company's business and activities. The ability to identify, manage and monitor each type of risk is critical to the Firms performance and future success. The key risks faced by the organisation are identified by the Board and then assessed for the likelihood of occurrence and severity of impact. Appropriate controls are put in place to manage the risks given the nature, scale and complexity of the Firm's activities. These are monitored by the risk and compliance function as part of the Firm's risk management framework and are reported on to the Board. The risk management framework is reviewed at least annually.

5 Material Risks

The Firm considers that it has the exposures noted below to the various categories of risk.

5.1 The risks identified below are considered to be more material to the Firm in relation to capital resources.

Credit risk (including counterparty risk)

Credit risk includes the potential loss if a debtor to the Firm fails to meet its obligation as it falls due. The only significant debtors that normally arise in the course of the Firm's operations are from clients for management fees as they fall due; the Firm feels that the likelihood of default and the financial impact on the Firm are both minimal. The Finance function regularly reviews and follows up outstanding debtors.

Counterparty risk is a type of credit risk and is defined as the risk that a counterparty to a financial contract will default on its obligation under the terms of the contract. SVM places money on deposit with UK banks and is thereby exposed to counterparty risk. However money is only deposited on agreed terms with approved banks and the likelihood of a loss occurring is considered low.

The risk and compliance function perform regular reviews of counterparty credit ratings with the results reported to the Board on a quarterly basis. The Board is responsible for making changes to rating requirements or the allocation of the Firm's assets. In addition credit risk in respect of client investment activities is monitored by the risk and compliance function and in particular credit ratings for brokers and other counterparties which are reported on regularly to the Board.

Market Risk (including foreign currency risk)

Market risk arises to the extent that a decline in the value of assets adversely impacts on the profitability and capital resources of the Firm. The Firm acts as agent rather than principal in respect of the management of client mandates. In order to manage this risk, the Firm retains a capital buffer to enable it to weather a prolonged, severe downturn in the markets in which it invests. Mitigation of these market risks is also obtained through diversification of investment strategies, product types and sales channels.

The Firm holds investments and bank accounts as part of its own funds to which market risk and foreign currency risk (for investments and bank accounts denominated in currencies other than Sterling) arises in regard to non-trading book exposures. These include, but are not limited to, investments in funds managed by the Firm. The Board monitors the performance and foreign currency exposures of these investments and bank accounts at regular Board meetings.

Stress and scenario testing is performed to identify the impact of market risk on the Firm's capital requirements.

Operational Risk

Operational risk is defined as the risk of financial or reputational loss resulting from failures in internal and external systems and processes, human error or from external events. Major sources of operational risk include: IT security, fraud, conflicts of interest, outsourcing operations and system and process errors. The Firm has a low tolerance to operational risk.

- The robustness of IT systems and the security of data are of critical importance to the Firm. The Firm has appointed a third party to perform penetration testing to evaluate system security on an annual basis. Equipment is upgraded regularly and backed by service contracts to ensure continuity of service. There is a business continuity plan in place to protect against the identified types of IT failures; this can be invoked on a staged basis or in full in the event of a total loss of systems.
- The Firm’s cash could be at risk; no other significant assets are likely to be misappropriated. The Firm only employs suitably qualified staff and performs checks on new staff by means of references and professional qualifications. Segregation of duties applies to dealing and settlement functions. Oversight is in place in respect of client assets held at third party outsource providers. External auditors perform an annual audit of the Firms financial affairs and of the client assets held by third party outsource providers.
- Conflicts of interest arise across many operational areas. SVM recognises the potential for conflicts of interest to arise and has adopted a conflicts policy and Conflicts Committee to oversee the implementation of the policy. A conflicts risk matrix is maintained which includes controls and responsibilities for identified conflict areas.
- SVM has outsourced certain processes to third parties and so, to an extent, its reputation depends upon the performance of these third parties. This risk is managed by regular service review meetings, an issues log to record and track the progress of issues, review of control reports produced by the third parties and regular monitoring. Monitoring of custodians, pricing agents and fund accountants is predominantly conducted by Fund Administration. Monitoring of transfer agents is predominantly carried out by Risk & Compliance. Together, the combination of oversight and controls enables the Firm to be satisfied that these third parties have sufficiently robust systems of internal control.
- Investment mandates are clearly agreed with clients before any fund management is undertaken, and the fund managers and administrative staff are made fully aware of relevant investment restrictions. Portfolios are reviewed daily by the risk and compliance functions to ensure adherence to mandates and any applicable regulatory restrictions.
- Errors in processing trades or exercising third party and counterparty oversight can lead to client losses. To avoid errors wherever possible SVM has established a strong control environment structured around good practice, training, oversight and employing professional staff. SVM operates complete segregation of duties between the dealing and fund administration activities and has in place a structured process of reconciliation between

internal and external administration. SVM conducts regular reviews of third party activities along with an annual due diligence exercise.

- Reputational risk is an important component of operational risk and adverse impacts could have a negative impact on the Firm's reputation which could adversely affect revenues. In order to mitigate this risk, the Firm has appointed a public relations agency to manage all public communications. The possibility of staff leaving could affect reputation.

Business risk

Business risk is the risk that the Firm is unable to achieve its business plan and strategy due to changes in internal or external factors. The Board regularly reviews and assesses at Board meetings the achievement of the Firm against its business strategy.

- Impacts of fluctuating business and economic cycles are covered under the stress testing scenarios. The broader risk of the Firm's business model or strategy proving inappropriate due to macro-economic, industry, regulatory or other factors is addressed through Board meetings at which consideration of these factors with a view to appropriate management action being taken if necessary.
- The most important aspect of SVM's business model is its investment performance; without achieving good performance the Firm will not succeed. SVM recruits high-calibre fund managers and provides them with the resources that they need to achieve this performance within an environment that is conducive to doing so.
- The inability to attract and retain qualified staff is a significant risk for the Firm, SVM's remuneration policy ensures that all members of staff are effectively rewarded and incentivised to perform to the best of their ability for the company and its clients. Incentive schemes are in place for key personnel.
- There is the need to review and adapt SVM's business plan and strategy in line with current and potential client expectations.

5.2 The risks identified below are not considered to be as material to the Firm in relation to capital resources.

Interest rate risk, including interest rate risk in the non- trading book

SVM does not have any borrowings; the only exposure to interest rates is through the money that it has on deposit. The risk from interest rate fluctuations is that should they fall, SVM will earn less interest income. A change in interest rates of 200 basis points (both directions) is not considered likely to have a material impact on capital adequacy.

Concentration risk

SVM invests mainly in equities and portfolios have diversity spread through number and nature of holdings, with global funds having a broader geographic spread. Adverse consequences of concentration risk are covered by considerations under the various stress tests. SVM's client base is mainly retail, (there are a few institutional investors) and therefore is less exposed to problems should one client suddenly withdraw its investment. Asset exposures are considered under credit and market risks

Residual risks

These are not considered to be relevant to SVM.

Securitisation risks

These are not considered to be relevant to SVM as it is not involved with securitisation transactions.

Risk of Excessive Leverage

The Firm does not have leverage but instead has excess surplus cash at bank. Scenario stress testing does not give rise to a leveraged position.

Pension Obligation Risks

These risks are considered limited for SVM as it only operates a Group SIPP and contractual or other liabilities are based on defined contributions as a percentage of salary.

Group Risk

Group risk is considered low in the context of capital adequacy due to the strongly capitalised balance sheet. As the ICAAP is prepared on a consolidated group basis, Group risk is not considered applicable.

Insurance

In respect of the mitigation of the impact of risks the Firm maintains insurance cover.

5.3 Liquidity Risk Assessment

SVM's policy is to retain a large cash balance on short-term deposit; in addition to this it does not have any large creditors. Accordingly, SVM's appetite for liquidity risk is low and there is not considered to be a material liquidity risk; however this risk is monitored on a monthly basis by the Finance function and reported to the Board at least quarterly.

6 Capital Adequacy and ICAAP

SVM's overall approach to assessing the adequacy of its internal capital is documented in the Internal Capital Adequacy Assessment Process ('ICAAP'). The ICAAP process includes an assessment of all material risks faced by SVM and the controls in place to identify, manage and mitigate these risks. The risks identified are stress-tested against various scenarios to determine the level of capital that needs to be held. Where the

Board considers that the Pillar 1 calculations do not adequately reflect the risk, additional capital is added on in Pillar 2.

Whilst the ICAAP is formally reviewed by the Board once a year, the Board and senior management review risks and the required capital more frequently and will particularly do so when there is a business change impacting risks and capital.

7 Own Funds

Capital Requirement

Pillar 1

As the Firm is an IFPRU 125k Limited Licence Firm it must maintain at all times capital resources equal to or in excess of the base requirement (Euro 125,000). The Pillar 1 capital requirement for an IFPRU 125k Firm is the higher of the credit risk requirement and the market risk requirement, or the fixed overheads requirement (i.e. one quarter of the Firm's relevant fixed expenditure). The Firm must maintain at all times capital resources equal to or in excess of the Pillar 1 requirement.

At 31 December 2019, the credit and market risk requirement (being higher than the fixed overheads requirement) was £1.90m for Total Capital.

Pillar 2

To meet its Pillar 2 requirements the Firm undertakes the ICAAP process to assess the level of capital it considers sufficient to hold in the context of the risks of the Firm. Stress and scenario analysis is performed, projecting financial results over a period of 3-5 years with varying assumptions, including market levels, investment performance, client retentions and other material risk events. The Firm also performs an analysis to consider the amount of capital required to undertake an orderly wind-down of all its regulated activities.

The total capital amount provided under Pillar 2 is £5.342m which includes stress test amounts for business risk of £0.9m and operational risk of £0.541m.

FCA Internal Capital Guidance

The FCA notified the Firm of the Internal Capital Guidance ('ICG') by letter dated 30 January 2017. The ICG indicates the minimum amount of capital resources that the FCA considers that SVM Asset Management should hold in order to meet the requirement of adequate capital resources. The ICG has been set at 53.95% of the total risk weighted exposure amount (TREA) or 674% of Pillar 1 of SVM Asset Management (solo basis).

As at 31 December 2019, the TREA of SVM Asset Management (solo basis) is £15.1m and the ICG is therefore £8.1m. This exceeds the capital requirement calculated under Pillar 2 and accordingly the ICG is the minimum amount of regulatory capital required to be held by SVM Asset Management.

Capital resources

The Firm's capital resources comprise wholly Tier 1 capital represented by Share Capital, Other Reserves and Audited Reserves. The Total Capital of the Firm at 31 December 2019 was £15.3m, there were no encumbered assets.

Tier 1 capital resources at 31 December 2019 comprised:

	Consolidated	Solo
Item	£'000	£'000
Share capital	24	24
Other reserves	304	304
Audited reserves	14,986	9,867
Total	15,314	10,195

The Firm therefore had surplus capital in respect of Pillar 1 of 56.4% and of Pillar 2 of 41.9% compared to the Total Risk Weighted Exposure amount of £23.7m.

The Total Capital of SVM Asset Management (solo basis) of £10.2m exceeded the FCA ICG capital requirement of £8.1m by £2.1m, equivalent to a surplus ratio for FCA ICG of 13.7%.

The FCA ICG of £8.1m for SVM Asset Management (solo basis) combined with the Pillar 1 of SVM Ireland Limited of £0.7m gives a consolidated capital requirement of £8.8m. The Total Capital of the Firm (consolidated basis) of £15.3m exceeded the Firm's consolidated capital requirement of £8.8m by £6.5m, equivalent to a surplus ratio (consolidated basis) of 27.3%.

Accordingly, at 31 December 2019, the Board is satisfied that the Firm held regulatory capital resources that exceed its current requirements.

8 Remuneration Policy

SVM Remuneration Policy is disclosed separately on SVM's website (www.svmonline.co.uk).

SVM's Remuneration Policy

It is SVM's policy to ensure that all members of staff are effectively rewarded and incentivised to perform to the best of their ability for both the company and its clients. The policy balances individual and team incentives to avoid the risk of conflicts between clients, and between clients and the company. The combination of fixed salary and variable remuneration components promotes long term orientation and effective risk management.

All remuneration decisions are approved by the Board and are recorded in the employee's confidential personnel file. The Board reviews this policy annually.

Code Staff Remuneration

In the year ended 31 December 2019, Code Staff (comprising three Directors and four senior members of staff) received total remuneration of £1.1m.