

## **Regulatory Disclosures**

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# **Clearbell Fund Management Limited**

## **FCA Pillar 3 Disclosure**

July 2017

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## 1) Introduction

The Capital Requirements Directive (“the Directive”) of the European Union establishes 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 Directive has 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. This involves the preparation of an Internal Capital Adequacy Assessment Process (“ICAAP”) on at least an annual basis which is potentially 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 Pillar 3 disclosure. This document is designed to meet our Pillar 3 obligations and the disclosures are provided below.

We are permitted to omit required disclosures on three grounds:

- i) 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; or
- ii) we believe that the information is regarded as proprietary. In our view, proprietary information is that which, if it were shared, would undermine our competitive position; and
- iii) we believe that the information is regarded as confidential. 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

Clearbell Fund Management Limited (“the Firm”) is authorised and regulated by the Financial Conduct Authority and as such is subject to minimum regulatory capital requirements. The Firm is categorised as a BIPRU limited licence firm by the FCA for capital purposes. It is an investment management firm and as such has no trading book exposures.

The Firm provides authorised advice and discretionary investment management services as appropriate to Mountgrange Real Estate Opportunity Fund LP, Clearbell Property Partners II LP and a number of related entities (together, the “Funds”).

The ultimate and immediate parent undertaking is Clearbell Capital LLP, a Limited Liability Partnership, which is incorporated in the United Kingdom and registered in England and Wales. Copies of the Clearbell Capital LLP financial statements are available from Companies House, Crown Way, Cardiff CF14 3UZ.

The Firm is not part of a consolidation group for prudential purposes and so is not required to prepare consolidated reporting for prudential purposes. All reporting is based on Clearbell Fund Management Limited.

### **3) Risk management framework**

The Firm is governed by its directors (“Principals”) who 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 are Partners of Clearbell Capital LLP. The Firm has set up and implemented 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. This documents the objectives and principles of risk management, the risk management process and implementation strategy. Through this process the main risks impacting the Firm are assessed and mitigation arrangements considered.

The Investment Committee also acts as an oversight function to monitor, assess and review investment management activity of the Funds. The Investment Committee comprises the directors.

The Principals determine how the risks our Firm faces may be mitigated, and assess on an ongoing basis the arrangements to manage those risks. The Principals meet both formally and informally on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, and business planning and risk management. The Principals manage the Firm’s risks through a framework of policy and procedures having regard to 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 Principals have identified that business, operational and market risks are the main areas of risk to which the Firm is exposed. On at least an annual basis the Principals formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness. Where the Principals 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.

Completion of the ICAAP is undertaken at least annually. This identifies and seeks to mitigate the risks that the Firm is exposed to. The ICAAP discusses a number of risks including group, operational, business, market and liquidity risk. None of these risks are deemed to be material and so no further disclosure is made in this report. Based on the ICAAP, the Principals do not feel that additional capital is required above the Tier 1 capital in relation to the risks identified.

#### 4) Regulatory capital requirements

The Firm is a Limited Company and its capital arrangements are established in its Articles of Association. The Firm's capital position at the last two financial year ends is summarised as follows:

|                             | <b>31/03/17</b> | <b>31/03/16</b> |
|-----------------------------|-----------------|-----------------|
|                             | £               | £               |
| <b>Capital and reserves</b> |                 |                 |
| Called up share capital     | 93,000          | 93,000          |
| Profit and loss reserve     | 481,114         | 442,727         |
| <b>Shareholders' funds</b>  | <b>574,114</b>  | <b>535,727</b>  |

As noted above the firm is a limited licence firm and as such its capital requirements are the greater of:

- Its base capital requirement of €50,000; or
- The sum of its market risk and credit risk requirements; or
- Its Fixed Overheads Requirement ("FOR").

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 fees receivable from the funds under its management. Under the FCA guidelines, the Firm follows the standardised approach to market risk and the simplified standard approach to credit risk. The Firm's Pillar 1 capital requirement has been determined by reference to the Firm's 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 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. 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.

The Firm's capital adequacy is monitored on a monthly basis by the directors.

The Firm is not required to calculate an operational risk capital requirement (as it is a BIPRU limited licence firm) though it considers this as part of its process to identify the level of risk based capital required.

The main features of the Firm's capital resources for regulatory purposes at 31 March 2017 are as follows:

| <b>Capital item</b>                                | <b>£</b> |
|--|----------|
| Tier 1 capital less innovative tier 1 capital      | 574,114  |
| Total tier 2, innovative tier 1 and tier 3 capital | 0        |
| Deductions from tier 1 and tier 2 capital          | 0        |
| Total capital resources, net of deductions         | 574,114  |

We have identified limited credit risk capital requirement and no market risk capital requirement (as defined in GENPRU 2.1.51 and 2.1.52) and so these are considered to be less than the FOR. Therefore, it is the Firm's experience that the FOR establishes its capital requirements and hence credit and market risks are considered not to be material.

At 31 March 2017, the FOR was £405,469. The capital resources as per the audited accounts at this date were £574,114. Hence, there are currently surplus capital resources.

## Remuneration code disclosure

Clearbell Fund Management Limited ("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 funds managed by the Firm (the "Funds").

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 has sought to apply proportionality in the first instance by categorising firms into 3 levels. The Firm falls within FCA proportionality Level 3 and as such this disclosure is made in line with the requirements for a Level 3 Firm.

## Application of the requirements

We are required to disclose certain information on at least an annual basis regarding our Remuneration policy and practices for those staff whose professional activities have a material impact on the risk profile of the firm. Our disclosure is made in accordance with our size, internal organisation and the nature, scope and complexity of our activities.

1. Summary of information on the decision-making process used for determining the firm's remuneration policy including use of external benchmarking where relevant.
  - The Firm's policy has been agreed by the Senior Management in line with the RemCode principles laid down by the FCA.
  - Due to the size, nature and complexity of the Firm, we are not required to appoint an independent remuneration committee.
  - The Firm's policy will be reviewed as part of annual process and procedures, or following a significant change to the business requiring an update to its internal capital adequacy assessment.

- The Firm’s ability to pay bonus is based on the performance of Firm overall; and
  - The calculation of the payment of carried interest derived from the Fund’s returns will be certified by the Fund’s Auditors.
2. Summary of how the firm links between pay and performance.
- Individuals are rewarded based on their contribution to the overall strategy and performance of the business.
  - Other factors such as performance, reliability, effectiveness of controls, business development and contribution to the business are taken into account when assessing the performance of the senior staff responsible for the infrastructure of the firm.
3. Aggregate quantitative information on remuneration, for staff whose actions have a material impact on the risk profile of the firm.

| <b>Code Staff</b>      | <b>Aggregate compensation expense for prior fiscal year</b> |
|------------------------|---|
| Senior Management:     | Please refer to the accounts of Clearbell Capital LLP       |
| Others (if applicable) | Not applicable  |

We may omit required disclosures where we believe that the information could be regarded as prejudicial to the UK or other national transposition of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data. Please see Appendix 1 for further information.

We have made no omissions on the grounds of data protection.

The Firm’s detailed Remuneration disclosure can be found in a separate document held at the Firm’s registered office. The content of the Remuneration Policy statement is based on the performance year which runs from 1 October to 30 September and is therefore updated annually following the end of the performance year.

## **Appendix 1**

### **A note on Materiality**

A firm must regard information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions.

A firm must regard information as proprietary information if the sharing of that information with the public would undermine its competitive position.

Proprietary information may include information on products or systems which, if shared with competitors would render the firm's investment in them less valuable.

A firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the firm to confidentiality.

CEBS has stated that it is unlikely that the disclosure of information relating to remuneration would be confidential or proprietary for firms that have been allowed to aggregate the information due to proportionality. Where there is a limited number of Code Staff then the firm may consider such omissions.

See FCA Templates on Remuneration Code and FAQ for further consideration.

## **Clearbell Fund Management Limited UK Stewardship Code Disclosure Statement**

Under COBS 2.2.3R of the FCA Handbook, we are required to make a public disclosure in relation to the nature of our commitment to the above Code, which was published by the Financial Reporting Council ('FRC') in July 2010 and revised in October 2012.

The Code aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. It sets out good practice on engagement with investee companies and is to be applied by firms on a "comply or explain" basis.

The FRC recognises that not all parts of the Code will be relevant to all institutional investors and that smaller institutions may judge some of the principles and guidance to be disproportionate. It is of course legitimate for some asset managers not to engage with companies, depending on their investment strategy, and in such cases firms are required to explain why it is not appropriate to comply with a particular principle.

The seven principles of the Code are that institutional investors should:

- Publicly disclose their policy on how they will discharge their stewardship responsibilities;
- Have and publicly disclose a robust policy on managing conflicts of interest in relation to stewardship;
- Monitor their investee companies;
- Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value;
- Be willing to act collectively with other investors where appropriate;
- Have a clear policy on voting and disclosure of voting activity; and
- Report periodically on their stewardship and voting activities.

Clearbell Fund Management Limited does not currently comply with the Code for the following reasons:

- We do not currently invest in listed companies in the UK
- We determine our 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 our investments.

Should any of the above factors change, we will review our commitment to the Code at that time and make appropriate disclosure.

**For further details on any of the above information, please contact Sally Doyle-Linden ([sally@clearbell.com](mailto:sally@clearbell.com) or 020 7494 7636).**

**Clearbell Fund Management Limited  
Financial Services Board (South Africa)  
Complaints Policy Disclosures**

Clearbell Fund Management Limited has Category 1 authorisation as a registered Financial Services Provider (FSP) under the terms of the Financial Advisory and Intermediary Services Act (FAIS), South Africa, managed by the Financial Services Board.

Consistent with the requirements of these regulations, Clearbell Fund Management Ltd has adopted a Complaints Policy to handle any complaint which alleges failure on the part of Clearbell to comply with the provisions of the FAIS. A Complaints Register is also maintained setting out details of any complaints received, the steps taken to resolve the complaint, key dates in the resolution process and the key outcomes.

A copy of the Complaints Policy is available upon request from Clearbell Fund Management Ltd. Please contact Sally Doyle-Linden ([sally@clearbell.com](mailto:sally@clearbell.com) or 020 7494 7636).