

Arlington Group Asset Management Limited (“Arlington” or the “Firm”)

Pillar 3 Disclosure and Policy, 31st December 2019

The following information is provided pursuant to the Pillar 3 disclosure rules as laid out by the Financial Conduct Authority (“FCA”) in section 11 of its Prudential sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”).

Background The FCA framework prudential regulation consists of three “pillars”:

- **Pillar 1** sets out the minimum capital requirements;
- **Pillar 2** is an assessment of whether additional capital is needed over and above that determined under Pillar 1; and
- **Pillar 3** requires the Firm to publish its objectives and policies in relation to risk management, and information on its risk exposures and capital resources as well as disclosures with respect to FCA’s “Remuneration Code”.

The rules provide that disclosures are only required where the information would be considered material to a user relying on that information to make economic decisions. Arlington Group Asset Management Limited (“Arlington” or the “Firm”) is a “IFPRU Limited Licence Firm” and does not have permission to deal with retail clients or to hold client money. The Firm has the permission to:

- Dealing in investments as agent
- Managing Investments
- Advising on investments
- Arranging deals in investments
- Managing an unauthorised AIF

As a consequence, the main risks facing the Firm relate to its operations and its business environment. The Firm also has exposure to credit and market risk, all of which are considered as part of the ICAAP process.

The disclosures below are the required Pillar 3 disclosures and apply solely to the Firm.

Although the Firm believes the risk management framework outlined herein is appropriate for the size and complexity of the Firm and that the Firm’s capital is adequate to meet the risks assessed, it cannot guarantee that this will actually be the case in the event any particular risk arises. There will always be some unlikely risks with unusually high impact which may require additional capital should they arise.

Risk management

The Firm operates a risk management framework that sets out the responsibilities and escalation procedures for the identification, monitoring, and management of operational and business risks. Capital planning takes these identified risks into account.

Specific personnel are assigned responsibility for the risks across the Firm. The Firm's Directors have each been assigned specific responsibilities under the Senior Managers and Certification Regime. They are assisted by the SMF16 of the Firm and a specialised compliance consultancy firm for identifying material risks to the Firm and putting appropriate mitigating controls in place.

Risks and mitigating controls are periodically reassessed, taking into account the Firm's risk appetite. Where risks are identified which fall outside of the Firm's risk tolerance levels, or where the need for remedial action is identified in respect of identified weaknesses in the Firm's mitigating controls, then actions are taken to improve the control framework.

The Board meets periodically to review the quality of the control framework and to satisfy itself that appropriate controls are in place and that mitigating actions are moving forward.

The specific types of risks faced by the Firm are;

- Operational risk,
- Business risk,
- Credit risk, and
- Market risk.

Operational risk

The firm may be exposed to operational risks in its overall IT infrastructure where there is the potential of a failure in systems. AGAM's principal systems are provided by third parties with solid back-up facilities that integrate with the firm's Business Continuity Provisions.

Business risk

Business risk arises from external sources such as changes to the economic environment or one-off economic shocks, and also from internal sources such as poor decisions or suboptimal allocation of capital resulting in poor performance and damage to the Firm's reputation. Various different scenarios are modelled in order to assess the impact of adverse economic conditions on our financial position. This enables the Firm to monitor its business risk and to assist in its capital planning.

Credit risk

Credit Risk is the Risk of loss if a Corporate Client fails to settle its obligations with AGAM. The firm's exposure to counterparty risk takes numerous factors into account. AGAM's only other Credit Risk is its exposure to credit institutions where the company's cash is held.

Market risk

AGAM currently has exposure to several investments in non-GBP denominated currencies. AGAM also holds a small number of foreign currency cash balances. Given the investment exposure, Market Risk is significant when compared to total NAV.

Capital adequacy

As at 31 December 2019, the Firm's regulatory capital resources of £3,760k are made up as follows:

Tier 1	£ 232,000
Share capital	£ 3,760,000
Total regulatory capital	£ 3,760,000

The Firm's Pillar 1 capital resources requirement is calculated in accordance with the General Prudential Sourcebook ("GENPRU") as the higher of the Fixed Overheads Requirement ("FOR"), the sum of market and credit risk requirements, or the base capital requirement of €50,000. The Firm's credit risk is calculated as per the "Standardised Approach (BIPRU 3.4)" and market risk in line with BIRU 7.5. As at 31 December 2019 the Firm's Pillar 1 requirement was £ 232,000.

The Firm takes a prudent approach to the management of its capital base and monitors its expenditure on a monthly basis in order to take account of any material fluctuations which may cause its Fixed Overheads Requirement to be reassessed. The Firm ensures that at all times it has sufficient capital to meet its Fixed Overheads Requirement and formally verifies this on a monthly basis.

Under Pillar 2 of the FCA's capital requirements, the Firm has undertaken an assessment of the adequacy of capital based upon all the risks to which the business is exposed ("ICAAP"). As at 31 December 2019, this analysis concluded that the Firm did not require capital against the identified key risks. This meant the Firm had to have an internal regulatory capital of £232,000, which was equal to the Pillar requirement. It has therefore been concluded that the Firm's resources are sufficient to support its operations over the coming year, and no additional capital injections are necessary.

Remuneration Code

Remuneration is determined and reviewed annually by the Board of Directors. For the purposes of the "Remuneration Code" the Firm is classified within the proportionality Level 3 and as such this disclosure is made in line with the requirements for a Level 3 firm.

Staff outside senior management will be classified as code staff if their variable remuneration becomes greater than their fixed remuneration.

The Board is confident that variable remuneration is linked to the interests of the firm and does not encourage any risk taking.