



## **Pillar 3 Disclosures**

January 2017

## Document Version Control

September 2014	New document	CG
May 2015	ICAAP and general update	SB
January 2017	ICAAP and general update	NH

## Contents

1. Introduction .....	4
2. Business overview.....	4
3. Pillar 3 disclosures .....	4

## 1. Introduction

The following disclosures are provided pursuant to the Pillar 3 disclosures as laid out by the Financial Conduct Authority (“FCA”) in section 11 of the prudential sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”). The rules in BIPRU 11 were implemented by the FCA as part of the European Union’s Capital Requirements Directive (“CRD”). The CRD framework is structured around three pillars:

- Pillar 1 sets out the minimum capital requirements which firms must adhere to
- Pillar 2 requires firms to regularly assess the amount of internal capital they hold, via an Internal Capital Adequacy Assessment Process (“ICAAP”)
- Pillar 3 requires firms to publish their objectives and policies in relation to risk management and information on risk exposures and capital resources.

The disclosures within this document are the required Pillar 3 disclosures for Armajaro Asset Management LLP (“AAM”).

## 2. Business overview

AAM was incorporated as a limited liability partnership in England and Wales in July 2002. AAM currently specialises in the management of commodity hedge funds. Currently AAM manages the CC+ Fund (the “Fund”) which was launched in October 2007 and which specialises in soft commodities, particularly cocoa and coffee.

AAM is authorised and regulated in the UK by the FCA, and is registered in the United States with the U.S. Securities and Exchange Commission (the “SEC”) as an investment adviser in the United States under the Investment Advisers Act of 1940 and with the U.S. Commodity Futures and Trading Commission (“CFTC”) as a Commodity Pool Operator and a Commodity Trading Adviser. AAM is also an active member of the Alternative Investment Management Association and regularly participates in the organisation’s hedge fund industry consultation exercises.

The current members of AAM are: Armajaro Asset Management Holdings Limited (which acts as the managing member to the partnership); Armajaro Investments Limited and Anthony Ward.

## 3. Pillar 3 disclosures

The requirements of Pillar 3 are detailed within BIPRU 11.5 and 11.6. These disclosures include:

### Risk management objectives and policies

The AAM Board of directors has responsibility for the management and control of all aspects of the AAM business. Across the business, the Board has overseen the implementation of various operating structures that have been designed to create a strong control environment and help mitigate operational risk.

Operational risk is inherent in every activity of AAM as a financial services business. While the financial consequences of operational risk can be significant, the impact on our reputation of risk management and control failures can be even more damaging. They may lead to adverse publicity, legal challenges, regulatory censure or damage to our relationships with clients and counterparties and regulators.

Effective operational risk management and control is fundamental to the interests of the partnership, staff and clients. Regulators assess our approach to operational risks and they expect us to adopt high standards of risk management and control. Our insurers expect us to behave as a prudent uninsured party would behave.

Every function, whether a front end business unit or a control unit or a service unit, is, to some extent, both responsible for management and control of operational risks and reliant on other units to fulfil their

responsibilities; and every employee, whatever their role or rank, has some responsibility for operational risks.

Every member of staff at AAM, but in particular those involved in risk decisions, must therefore make AAM's reputation their overriding concern.

Specifically, key operational risks are monitored within the business as follows:

*Risk Committee*

The primary responsibility of the risk committee is the risk oversight for the Fund, specifically the monitoring of the Fund's risk (e.g. market risk, liquidity risk, credit risk etc.), investment strategy and operational control.

The risk committee is also responsible for reviewing the effectiveness of AAM's internal controls and risk management processes. Decisions made at risk committee meetings are by majority vote, with the chairman having a casting vote in the case of an equality of votes. The committee may engage advisers and/or third parties, as it determines necessary, to carry out its duties and other members of staff may attend from time to time at the request or with the permission of the chairman. The directors of the Fund have a standing right of attendance at risk committee meetings.

*Financial Management*

AAM prepares its annual budget on the assumption of only receiving management fees i.e. no performance fees. This allows the company to assess whether its anticipated overheads can be covered even when the Fund is not generating performance fees.

Management accounts are produced by the finance department on a monthly basis; these show the month-to-date and year-to-date P&L versus budget and versus prior year. The accounts also include a review of the Fund's performance and a detailed analysis of overheads. The management accounts are reviewed by the AAM Board of directors, as well as the directors of AHL as AAM's ultimate majority owner and controller.

AAM's annual statutory financial statements are externally audited; the auditor is independent from the auditor of the Fund.

*ICAAP*

The company's ICAAP is formally reviewed by the board on an annual basis. The ICAAP includes an assessment of the risks relevant to the company, the mitigating controls in place, the probability of the risks occurring and the potential impact of these risks. It includes a scenario based analysis of the adequacy of the company's capital base.

Capital Resources

The company's capital resources are shown below:

<b>Capital Resources</b>	<b>2016</b>	<b>2015</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Permanent members capital	5,760	5,777
Profit and loss account and other reserves	407	402
Core tier one capital	6,167	6,179
Tier Two Capital	-	-
Less deductions	-	-
Tier Three capital	-	-
<b>Total Capital</b>	<b>6,167</b>	<b>6,179</b>

Capital Requirement

The starting point of the analysis is the “**Pillar 1**” minimum capital requirement which is the *higher* of:

- A) The Fixed Overhead Requirement (FOR); and
- B) The sum of the *credit risk capital component* (CRCC) and *market risk capital component* (MRCC)

Due to the nature of AAM’s business, its balance sheet is typically small and hence the FOR exceeds the sum of CRCC and MRCC, as shown below.

**A) Fixed overhead requirement**

Fixed Overhead Requirement (FOR)	US\$'000	Risk weight	FOR US\$'000
Fixed Overheads per 2017 budget	3,694	25%	924

*\* Per GENPRU 2.1.56 "A firm must adjust its relevant fixed expenditure calculation so far as necessary if and to the extent that since the date covered by the most recent audited annual report and accounts... its level of fixed expenditure changes materially". The partnership believes the audited 2015 accounts include costs related to closed funds; hence the 2017 budget figures have been used.*

**B) Sum of the Credit risk capital component (CRCC) and Market risk capital component (MRCC)**

**Credit risk capital component (CRCC)**

The **CRCC** is split into 3 sub-requirements: credit risk, counterparty risk and concentration risk.

Credit risk capital component (CRCC)			US\$'000
<b>Credit risk requirement:</b>	Per BS	Risk weighting	CRCC (8%)
Cash	16,104	20%	258
All other debtors excl. cash	647	100%	52
<b>Credit risk requirement</b>			<u>309</u>
<b>Counterparty Risk component</b> <i>(no exposures outside of normal settlement conditions)</i>			<u>0</u>
Large Exposures Requirements ( <b>Concentration</b> ) <i>(nil because no trading book exposure)</i>			<u>0</u>
<b>Total Credit risk capital component requirement</b>			<u>309</u>

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 partnership has elected to use the “simplified method” of calculating risk weights as it only has incidental credit exposures. Since the partnership maintains most of its assets in the form of cash, the credit risk component is reduced.

The **counterparty risk** capital component relates to the risk that the counterparty to a transaction could default before settlement of the transaction’s cash flows. As AAM does not have a trading book, the potential counterparty risk capital component applies with respect to its non-trading book exposures. If there are any long settlement issues or in the unlikely event that there is a default of a relevant counterparty, then the relevant capital component to account for this exposure would be calculated.

The **concentration risk** capital component only relates to trading book exposures, and since AAM does not have any trading book exposures this element is nil.

**Market risk capital component (MRCC)**

AAM does not deal as principal; hence the only relevant part of the MRCC is the foreign exchange risk requirement, which arises as the partnership has some assets which are not in the reporting currency of USD. This requirement is typically immaterial because most fees are earned in USD and other currency balances are low.

Market risk capital component (MRCC)			US\$'000
<b>Position risk requirement</b> <i>(nil because AAM does not deal as principal)</i>			<u>0</u>
<b>Foreign exchange risk requirement:</b>			
	Per ledger	Risk weighting	MRCC (8%)
Non-USD cash (gross)	3,821	100%	<u>306</u>
<b>Total Market risk capital component requirement</b>			<u>306</u>

Under **Pillar 2**, the partnership is required to consider additional risks that are not included in the Pillar I calculation above. This is necessary to ensure that the partnership holds sufficient capital to reflect the specific operational risks facing its business.

This additional risk identification and setting of additional capital requirements has formed the backbone of the ICAAP methodology. It has been necessary to identify these risks, assess their potential impact and how the partnership mitigates the risks.

		USD'000
Pillar I Capital Requirement		924
Additional own funds requirements		27
		951
Additional Capital required for Pillar 2:		
Credit risk	<i>(Nil as calculated in Pillar I)</i>	-
Market risk	<i>(Nil as calculated in Pillar I)</i>	-
Business risk	<i>(Nil as only turnover affected)</i>	1,648
Operational risk		120
Total additional capital required for Pillar 2		1,768
<b>Total Pillar 2 Capital Requirement</b>		<b>2,719</b>

The biggest element of the additional charge is the cost of winding-down the business, over and above the fixed overhead requirement, as shown in the business risk additional capital charge above.

The table below shows the total **Pillar 1 + Pillar 2** requirement (including Additional Own Funds):

AAM minimum capital requirement	2016 US\$'000	2015 US\$'000
Pillar I requirement	924	3,775
Additional own funds requirement	27	96
Pillar II additional capital requirement	1,768	912
<b>Total Pillar II capital requirement</b>	<b>2,719</b>	<b>4,783</b>
Capital resources	6,167	6,180
<b>Capital surplus / (deficit)</b>	<b>3,448</b>	<b>1,397</b>

**Additional own funds**

As per AIFMD capital requirements, AAM is covering the professional liability risk amount through own funds, calculated as 0.01% of the funds under management. The current additional own funds requirement is **US\$27k**.

The company's policy is to maintain a significant surplus of capital resources above the Pillar 1 and Pillar 2 capital requirement level.



**Remuneration**

The purpose of the Remuneration Code is to ensure that firms establish, implement and maintain remuneration policies, procedures and practices that are consistent with, and promote, sound and effective risk management.

The Remuneration Code applies to 'Remuneration Code Staff' ('Code Staff'). This includes senior management, risk takers, staff engaged in control 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.

AAM has considered the contribution that can be made by a remuneration committee. In order to take a proportionate approach given the size and non-complex nature of both the activities undertaken and the organisation, AAM has decided that the AAM managing member, Armajaro Asset Management Holdings Limited (the "Managing Member"), will undertake the role which would otherwise be undertaken by a remuneration committee. This is in line with guidance provided by the FCA for level 3 firms under the Remuneration Code. The Managing Member will be responsible for setting AAM's policy on remuneration.

AAM's Remuneration Policy will be reviewed, at least, annually by the Managing Member to ensure that it remains consistent with the Remuneration Code Principles and AAM's objectives. The Managing Member will use all information available to it in order to carry out its responsibilities under the code, for example, information on risk and financial performance. In addition, the compliance team, as part of AAM's regulatory monitoring, will request confirmation from the Managing Member that this Policy has been implemented.

Link between pay and performance

Remuneration at AAM is made up of fixed and variable components

Fixed remuneration is set in line with the market at a level to retain, and when necessary attract, skilled staff.

Variable Remuneration is set for its employees in a manner which takes into account individual performance, performance of the individual's business unit and the overall results of the firm and, in the case of AIFM Remuneration Code Staff, the performance of any relevant AIFs

Where remuneration is performance-related, then in addition to the performance of the individual the Managing Member will also take into account the performance of the business unit concerned and the overall results of the firm. Performance assessment will not relate solely to financial criteria but will also include compliance with regulatory obligations and adherence to effective risk management.

Quantitative remuneration information

AAM is required to disclose aggregate information on remuneration in respect of its Code Staff, broken down by business area; and by senior management and other Code Staff. The relatively small size and lack of complexity of the firm's business is such that AAM only has the one business area (investment management ) and does not regard itself as operating, or needing to operate, separate 'business areas' and the following aggregate remuneration data should be read in that context.

2016 Aggregate Remuneration

<b>Senior Management \$</b>	<b>Others \$</b>
\$1,957,360	\$436,946