PILLAR 3 DISCLOSURE – FINANCIAL YEAR ENDING 31.12.19

Background

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 capital requirement;

Pillar 2 requires the firm to assess whether its its capital reserves, processes, strategies and systems are adequate to meet pillar 1 requirements and further determine whether it should apply additional capital , processes, strategies or systems to cover any other risks that it may be exposed to.

Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position to encourage market discipline.

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

The Pillar 3 disclosure document has been prepared by Gardena Capital Ltd ("The Firm") in accordance with the requirements of BIPRU 11 and is verified by the senior management. Unless otherwise stated, all figures are as at the financial year-end.

Pillar 3 disclosures will be issued on an annual basis after the year end and published with the annual accounts.

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 for the purpose of making economic decisions about the firm.

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.

Scope and application of the requirements

The Firm is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. The Firm is categorised as a 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 is not a member of a group and so is not required to prepare consolidated reporting for prudential purposes.

Risk management

The Firm has established 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. The Senior Management team takes overall responsibility for this process and the fundamental risk appetite of the firm. The team has responsibility for the implementation and enforcement of the Firm's risk principles.

Senior Management meet on a regular basis and discuss current projections for profitability, cash flow, business planning and risk management. Senior Management engage in the Firm's risks though a framework of policy and procedures having regard to the 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 Senior Management team has identified that business, operational, market and credit are the main areas of risk to which the Firm is exposed. Annually the Senior Management team formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness.

Management accounts demonstrate continued adequacy of the firm's regulatory capital and are reviewed on a regular basis.

Appropriate action is taken where risks are identified which fall outside of the Firm's tolerance levels or where the need for remedial action is required in respect of identified weaknesses in the firm's mitigating controls.

Business risks

Specific risks applicable to the Firm come under the headings of business, operational, credit and market risks.

Business risk

The Firm's revenue is reliant on the performance of the existing funds under management and its ability to launch new funds/obtain new mandates. As such, the risk posed to the firm relates to underperformance resulting in a decline in revenue and adverse market conditions hindering the launch of new funds and ultimately the risk of redemptions from the funds managed by the firm. This risk is mitigated by the significant levels of capital held by the firm which will continue to cover all the expenses of the business.

Operational risk

The Firm places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities in this respect.

The Firm has identified a number of key operational risks to manage. These relate to systems failure, failure of a third party provider, potential for serious regulatory breaches, and market abuse. Appropriate polices are in place to mitigate against these risks, which includes taking out adequate professional indemnity insurance, compliance training for employees and business continuity planning.

Credit risk

The Firm is exposed to credit risk in respect of its debtors, investment management and performance fees billed and cash held on deposit.

Management fees are drawn monthly or quarterly from the funds managed and performance fees are drawn quarterly or annually where applicable. The Firm considers that there is little risk of default by its clients. All bank accounts are held with large international credit institutions.

Given the nature of the Firm's exposures, no specific policy for hedging and mitigating credit risk is in place. The Firm uses the simplified standardised approach detailed in BIPRU 3.5.5 of the FCA Handbook when calculating risk weighted exposures of 1.6% (Cash in Bank) and 8% in respect of its other assets.

Market risk

The Firm takes no market risk other than foreign exchange risk in respect of its accounts receivable and cash balances held in currencies other than GBP.

Since the Firm takes no trading book positions on its balance sheet, the primary market risk relates to fluctuations in the value of its revenues due to movements in currency rates. The Firm maintains multi-currency bank accounts and uses currency contracts to hedge this risk.

The Firm calculates its foreign exchange risk by reference to the rules in BIPRU 7.5.1 of the FCA Handbook and applies an 8% risk factor to its foreign exchange exposure.

Liquidity risk

The Firm is required to maintain sufficient liquidity to ensure that there is no significant risk that its liabilities cannot be met as they fall due or to ensure that it can secure additional financial resources in the event of a stress scenario.

The Firm retains an amount it considers suitable for providing sufficient liquidity to meet the working capital requirements under normal business conditions. The firm has always had sufficient liquidity within the business to meet its obligations and there are no perceived threats to this given the cash deposits it holds. Additionally, it has historically been the case that all management fee debtors are settled promptly, thus ensuring further liquidity resources are available to the firm on a timely basis. The cash position of the firm is monitored by the Senior Management on a monthly basis.

The Firm maintains a liquidity risk policy which formalises this approach.

Regulatory capital

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

	31/12/19 €000
Tier 1 capital*	891
Tier 2 capital	-
Tier 3 capital**	-
Deductions from Tiers 1 and 2	47
Total capital resources	844

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 and performance fees receivable from the funds under its management. The Firm follows the standardised approach to market risk and the simplified standard approach to credit risk.

Limited License - The Firm is subject to the Fixed Overhead Requirement (FOR) and is not required to calculate an operational risk capital charge though it considers this as part of its process to identify the level of risk-based capital required.

As a limited licence firm, its capital requirements are the higher of:

- €50,000

- The sum of the market & credit risk requirements; or

- the FOR

The FOR is calculated, in accordance with FCA rules, based on the firm's previous years audited expenditure and amounts to £618k as at 31.12.2019. The firm has adopted the standardised approach to credit and market risk and the above figures have been produced on that basis. The firm is not subject to an operational risk requirement. The credit and market risk requirements amount to less than the FOR and therefore the overall Pillar 1 capital requirement for the Firm is £618k.

REMUNERATION CODE DISCLOSURE

Introduction

Gardena Capital Ltd (“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 delegated portfolio management services to alternative investment funds managed by the Firm (the "Funds").

Our policy is designed to ensure that we comply with the RemCode and our compensation arrangements:

- are consistent with and promotes sound and effective risk management;
- do not encourage excessive risk taking;
- include measures to avoid conflicts of interest; and
- 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 have sought to apply proportionality in the first instance by categorising firms into 3 tiers. The Firm falls within the FCA's third proportionality tier and as such this disclosure is made in line with the requirements for a Level three proportionality 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.

Summary of information on the decision-making process used for determining the Firm’s remuneration policy including use of external benchmarking consultants 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 derived after the Fund’s managed returns have been calculated by client appointed third party administrators.

Individuals are rewarded based on their contribution to the overall strategy of the business.

a. Investment Generation
b. Investment Trading
c. Sales & Marketing
d. Operations

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.

In accordance with CRD III and CEBS guidance the Firm takes a proportionate approach to its Remuneration Code disclosures in line with the nature, scale and complexity of the Firm and as such has chosen not to disclose exact remuneration figures in regards to the remuneration of the six Code Staff identified by the Firm's Policy. Furthermore, all discretionary remuneration is directly related to the performance of our managed entities and as such staff interests are intrinsically aligned with the interest of the Firm and its Clients vis-à-vis remuneration and performance.

Profits allocated to members of the Ltd are disclosed in aggregate in the report and accounts of the Firm.

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.

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