## OVERVIEW

This is the Pillar 3 disclosure made in accordance with the UK Financial Conduct Authority ("FCA") Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") and is designed to meet out Pillar 3 disclosure obligations.

The European Capital Requirements Directive (CRD) created a regulatory capital framework consisting of 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.

## FREQUENCY OF DISCLOSURE

Future disclosures will be issued on an annual basis. The disclosures will be published as soon as practical following the finalisation of the firm's Internal Capital Adequacy Assessment Process ("ICAAP") and the publication of its annual reports.

## VERIFICATION

These disclosures have been prepared in order to comply with regulatory requirements and provide information on risk management policies and certain capital requirements. They do not constitute financial statements and are based on unaudited financial positions and should not be relied upon in making judgements about Barmac Asset Management Limited ("Barmac").

## PUBLICATION

This report will be published on the Barmac's website.

## SCOPE AND APPLICATION OF THE REQUIREMENTS

Barmac is authorised and regulated by the Financial Conduct Authority ("FCA") to conduct investment business, but has made a policy decision not to hold client money or assets. Barmac is a BIPRU firm.

## RISK APPETITE AND MANAGEMENT

Barmac is exposed to a variety of risks, as analysed and quantified below. However, the Board have adopted a conservative approach to risk, resulting in a low risk profile for the firm, for the following reasons:

- the business model is straightforward agency investment management. As principal positions are not taken, Barmac's risk exposure is limited to counterparty risk and the impact on income;
- the recruitment of experienced personnel throughout the firm;
- limited exposure to credit risk;
- the corporate governance structure ensures that responsibilities within the firm are apportioned correctly with oversight functions staffed by experienced personnel with access to the Directors;
- comprehensive insurance arrangements which provide substantially higher levels of cover than historic loss data would indicate was required.

Risk management is a fundamental part of the day to day management of Barmac, both within operational procedures to ensure that the risks associated with the provision of investment management services are mitigated by appropriate controls and processes and also within our fundamental approach to stock selection and daily management of the client investment portfolios.

The Board meets monthly, or as and when necessary, and has primary responsibility for governance and oversight of the firm. The Chief Investment Officer (CIO) provides independent oversight over the firm's risk management process and controls, and has overseen the development of the Risk Management Policy. This sets out Barmac's processes for the management of internal and external risks arising from market, credit, operational, liquidity and other relevant risk categories, which form the basis for the risk management procedures. The Risk Management Policy is reviewed and updated on a regular basis.

Operational, market, credit and regulatory risks are reviewed monthly by the Board.

The risk management process is divided into the following components:

**Risk identification**
Barmac identifies and assess the impact of all types of risks affecting the operation of the business. This is a dynamic process without a rigid framework enabling a full discussion of potential emerging issues across the whole firm.

**Risk management**
Barmac establishes a control environment for each specific risk, categorises them, monitors and mitigates them on an on-going basis where necessary.

**Risk assurance**
Whilst most risks are assigned deadlines to be managed, all risks are reviewed at least annually. Owners of each risk are responsible in ensuring appropriate action is undertaken to minimise exposure and for reporting any change in the risks to the Board.

**Risk assessment**
Barmac sets outs its risk appetite by analysing each risk after appropriate mitigation exercises. The overall risk appetite is then reviewed as part of the ICAAP annually thereby driving the strategy of the firm.

The major risks to which the Firm is exposed are:-
a) Market risk
b) Credit risk
c) Operational risk
d) Liquidity risk
e) Business and reputational risk

Other less significant risks are:-
a) PI insurance risk
b) Financial risk
c) Investment Management risk
d) Personnel risk

**Market risk**
Market risk is the loss of earnings or capital arising from changes in the value of financial instruments. Barmac does not deal as principal and therefore does not carry any trade book market risk exposure. All trades and trade related activities are carried when dealing as agent on behalf of clients who take account of any trade related market risk, other than those trades associated with generating additional income from Barmac's cash deposits. Any such activity is within strictly controlled guidelines in order to minimise risk as far as possible.

**(i) Stock market risk**
The performance of The Castleton Growth Fund ("The CGF") is key to maintaining funds under management and earning any Performance Related Fee ("PRF"). This performance can be measured in both absolute and relative (to the stock market) terms. If stock markets were to trend lower for a prolonged period of time it will be difficult for the fund to provide any absolute gains and as such little or no PRF will be earned. Additionally if the fund also loses value due to stock market falls then The CGF could suffer attrition of funds under management via a combination of withdrawals and declining asset value. The same factors apply equally to our Discretionary Management Portfolio Services ("DMPS").

**(ii) Performance risk**
Irrespective of background market conditions The CGF could suffer withdrawals if Barmac's results underperform competing fund management groups. Thus we remain vulnerable at all times to such a circumstance and maintain constant monitoring of performance management. The same factors apply equally to our DMPS.

**(iii) Regulatory background**
All financial service companies are subject to the Financial Conduct Authority (FCA) and regulatory change directly from the FCA or via the EU can and does have a material impact upon the conduct of the business.

Barmac does still have a little market risk because its revenues are dependent upon the value of client assets under management in The CGF and DMPS. This risk is mitigated by using asset allocation strategies that diversify the portfolios of clients combined with a technical analysis system ("The Barmac Indicator") developed in-house. The fund managers operate with no restrictions to hold nominal holdings in certain sectors, and may therefore transfer all holdings in to cash or near cash during a negative market phase. Market risk is therefore considered largely negated.

Barmac has no exposure to interest rate risk and forex risk. If the directors believe there is a systematic credit risk then Barmac's deposits will be moved to Treasury bills (usually UK although if UK debt is perceived to have problems other government Treasury bills will be considered with an allowance made for currency risk).

**Credit risk**

Credit risk is the risk of losses because counterparties fail to meet all or part of their payment obligations towards Barmac.

The Board regularly review the ratings and financial standing of these counterparties to ensure they remain within approved parameters.

In respect of treasury deposits, Barmac aims to place all deposits with banks that come high on the credit quality steps laid out in the standardised approach to credit risk. Barmac considers all counterparties and exposure limits on a continual basis and revise the approved list as the Board consider necessary in the ever changing economic environment.

**Operational risk**

The risk of losses resulting from inadequate systems and controls. Operational risk is considered on a continual basis as Barmac strive to embed risk mitigation and improvements in processes and controls at all levels. There is oversight over the following operational risk areas identified in the risk management process:-

**(i) Financial management and control:** Carried out by Broadhead Peel Rhodes Limited independently who also prepare budgets and management accounts. Segregation of duties is often challenging in a small team but a small team does enable oversight from senior staff and therefore a high degree of control.

**(ii) Fraud:** Know Your Client (KYC) and due diligence checks carried out by staff independent of the fund managers. Audits on standard operating procedures are carried out regularly by Barmac's external compliance consultants. Further details on fraud prevention can be found in the firm's procedures and compliance manuals.

**(iii) Business continuity:** Barmac has disaster recovery plans in place in the event of natural or manmade disasters. Key man protection policies are also in place for key staff in addition to locum agreements with other fund managers to step in the event both fund managers are unable to perform their duties.

**(iv) Information technology and security:** Barmac has outsourced its IT function to a dedicated support unit, yearly due diligence reviews are carried out to obtain assurance on adequacy of systems and controls. The company has bespoke software which is developed by in house developers and any faults/enhancements can be quickly addressed to minimise any disruption to operations and customers.

**Liquidity risk**

Barmac's core activity is investment management business carried out on an agency basis. It is not in the business of packaging short dated loans into longer dated assets nor involved with collateralising and securitisation of assets, activities which would inherently expose asset managers to liquidity risk.

In formulating their liquidity risk management the directors have considered:

a) Pricing Liquidity Risk
b) Intra-day liquidity risk management
c) Management of collateral positions
d) How liquidity is managed across legal entities, business lines and currencies
e) Funding diversification and market access

Any liquidity risk faced by Barmac is intertwined with other risks faced by it, and therefore is considered a consequential risk. Barmac is likely to face liquidity stress if it encountered problems with a counterparty that exposed it to credit risk or where its reputation is impeded arising out of an operational risk exposure.

Therefore, in context of Barmac's permissible regulated activities, liquidity risk is defined as the risk of losses arising as a result of:

- Lack of funding prevents Barmac from taking on new assets under management,
- Lack of funding prevents Barmac from meetings its obligations.

**Business and reputational risk**

The risk of risks; Reputational risk is the risk of loss arising from adverse publicity affecting perceptions of the firm to customers, counterparties, staff and regulators. Barmac values its reputation as a prized asset and has integrated it into every function of the business. Barmac demands honesty, fairness and openness in all aspects of business and insist on the same from all those they do business with and employ. Barmac has controls in place to quantify reputational risk arising from compliance failures. The disaster recovery plan includes processes to notify all interested parties of a particular issue that is covered in the press. The objective is to limit the potential distress, to explain the position and outline the rectification on a timely basis. By publishing its fact sheets and investment strategies on the corporate website, Barmac asserts a culture of trust.

The Board of Directors recognise that not all of the risks to which Barmac is exposed can be mitigated by the addition of incremental capital, hence those other risks, such as reputation and legal risks, are managed by internal policies and procedures and monitored by management on an on-going basis.

Additional risks identified within the overall Pillar 2 rule have been assessed and evaluated by the Directors, and are not considered to be material to the firm.

## CAPITAL ADEQUACY AND ICAAP

Barmac's overall approach to assessing the adequacy of our internal capital is documented in the Internal Capital Adequacy Assessment Process ("ICAAP").

The ICAAP process includes an assessment of all material risks faced by the Firm and the controls in place to identify, manage and mitigate those risks. The risks identified are stressed-tested against various scenarios to determine the level of capital that needs to be held.

Where risks can be mitigated by capital the Firm has adopted a "Pillar 1 plus" approach whereby the Pillar 1 capital calculations are assessed. 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 Directors review risks and the required capital more frequently and will particularly do so when there is a planned change impacting risks and capital or when changes are expected in the business environment potentially impacting the ability to generate income. The ICAAP process has also been challenged internally by the Board.

## CAPITAL RESOURCES

The capital requirements of the firm are monitored on an on-going basis to ensure that at any time there is always sufficient capital in place. As at 30 June 2014 Barmac's capital resources for regulatory purposes were as follows:

| | Pillar 1 | ICAAP |
|---|---|---|
| Credit risk | £10,000 | £10,000 |
| Market risk | 0 | 0 |
| Operational risk | 0 | 0 |
| Fixed Overhead Requirement | £65,000 | £65,000 |
| Pillar 1 total | | £65,000 |
| Pillar 2 risk | | 0 |
| Additional capital to cover stress testing | | 0 |
| Additional costs of an orderly wind down | | £23,000 |
| ICAAP capital | | £88,000 |
| Current total capital | £462,000 | £462,000 |
| Surplus | £397,000 | £374,000 |

Barmac had £462,000 of regulatory capital after deductions in place as at 30 June 2015, compared with an ICAAP capital requirement of £88,000, resulting in a £374,000 (425%) surplus.

The regulatory capital which is required to be held by FCA regulations, is defined by the FCA as consisting of share or partnership capital as well as non-cumulative preference shares (known as tier one capital), cumulative preference shares, long term subordinated debt and securities, revaluation reserves and provisions (known as tier two capital) and short term subordinated debt and trading book profit/loss (known as tier three capital). The Firm follows FCA regulations accordingly and has calculated its regulatory capital in accordance with these definitions.

**FOR FURTHER INFORMATION PLEASE CONTACT US:**

Should you have any questions relating to our Pillar 3 Disclosure please contact:

**The Compliance Officer**
**Barmac Asset Management Limited**
**27a Lidget Hill**
**Pudsey**
**Leeds**
**LS28 7LG**

**0113 395 5323**

**info@barmacuk.com**