HALKIN
INVESTMENTS

Halkin Investments LLP

Governance Arrangements and Management of Risk Framework

Pillar III Disclosure

Version: 1.0

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Please note - This document should not be deemed to be Investment Advice.

Contents

1 Purpose

Firms are required under the Senior Management Arrangements, Systems and Controls (SYSC) manual of the Financial Conduct Authority Handbook to have in place robust governance arrangements and effective procedures which allow it to identify, manage, monitor and report the risks it is or might be exposed to.

Halkin Investments LLP is authorised and regulated by the Financial Conduct Authority (FCA) and this document sets out how the Firm complies with its obligations to identify, define, manage and mitigate risks.

The firm does acknowledge that as an IFPRU categorised Firm that the disclosure rules of a BIPRU firm may not apply but in light of the firm wishing to be extremely transparent with regards to our financial prudence, we have taken the initiative to disclosure our Pillar III as well within our Governance Arrangements and Management of Risk Framework disclosure, therefore the relevant parts of the document is designed to meet the Pillar III Disclosure obligations.

2 Review of Document

This document will be reviewed regularly, at least once a year, and amended as considered necessary by the Firm's Executive Committee. Furthermore, in the event of a change in circumstances or regulation then this document will be reviewed and amended as necessary, then finally signed off by the Executive Committee.

3 Responsibilities

3.1 Executive Committee Responsibilities

The Executive Committee ("EXCO") of the Firm are responsible for the Firm's risk management governance structure and how the Firm's risk exposure must be managed in line with the Firm's overall business objectives and within its stated risk appetite. This includes the governance of the process for identifying, evaluating, managing and reporting the significant risks faced by the Firm.

The EXCO are ultimately responsible for ensuring that the Firm maintains sufficient capital and liquidity resources to meet its regulatory capital and liquidity requirements and to support its growth and strategic objectives. Risk management is embedded throughout the business, with the overall risk appetite and risk management strategy approved by the EXCO propagated down throughout the business as appropriate.

4 Governance Arrangements

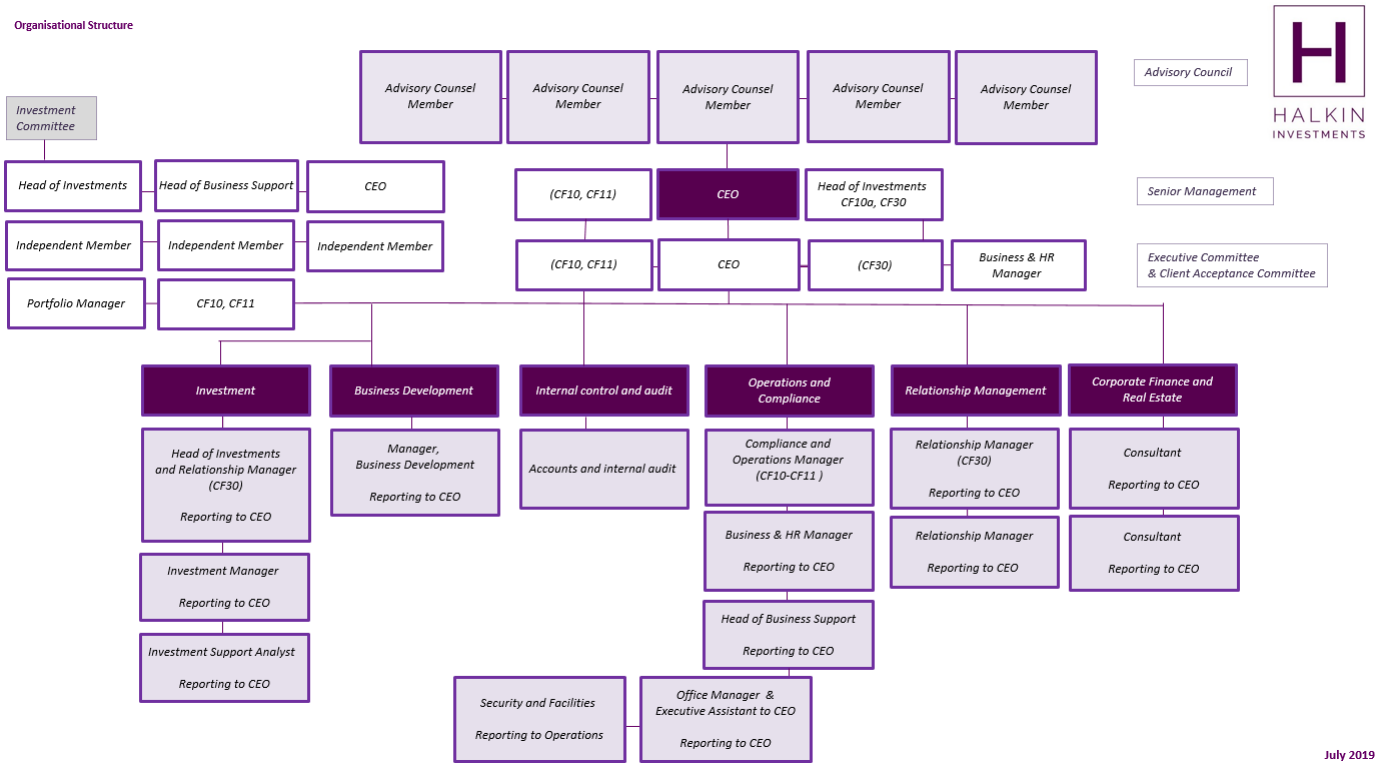
Where the firm is incorporated as a Limited Liability Partnership ("LLP"), the members have agreed that the Executive Committee ("EXCO") working in line with the firms CEO have the responsibility of the day to day management and supervision of the business to ensure first class governance is maintained.

The firm has an Independent Investment Committee with whom meet on a bi annual basis consisting of independent external and internal members where the high level asset allocation is discussed and matters of risk management.

The firm has a Client Acceptance Committee commonly known as a CAC that meet on an adhoc basis where there is a requirement to do so, where the proposer will present the specific prospective client to the committee and based on the complete file, the committee will review and sign off, if appropriate.

The firm has a senior Advisory Counsel, with whom meet on a bi annual basis where the members will advise the firm on current business and growth initiatives of the firm.

The Governance Arrangements of the Firm is illustrated below in the following Organisational Structure:



5 Pillar III Disclosure

The Capital Requirements Directive ('CRD') of the European Union created a regulatory capital framework across Europe governing how much capital financial services firms must retain. The rules are set out in the CRD under 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.

The rules in the FCA Prudential Sourcebook for BIPRU sets out the requirements for a Pillar 3 disclosure.

5.1 Business Model

The firm provides both discretionary investment management and advisory services to Professional clients, given the ethos of the firm and the clients of the firm, the services which we provide are tailored to each client's individual needs and financial objectives. The firm ensures that the decisions made on a discretionary basis are appropriate and aligned, moreover on advisory mandates we ensure the advice we provide our clients in suitable and appropriate. We feel a proactive forward-thinking approach to the needs of our clients is what sets ourselves apart from the traditional private banking model where we spend a siginifcant amount of time with our clients to really understand our client's objectives. The firm has the regulatory permissions to Hold and Control client money. The firm is classified as an IFPRU 125k EUR firm.

5.2 Capital Adequacy and ICAAP

The Firm's overall approach to assessing the adequacy is documented in the Individual 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 these risks. The risks identified are stress-tested against various scenarios to determine the level of capital that needs to be held and maintained.

Where risks can be mitigated by capital, the Firm has adopted the CRD requirements for Pillar 1. Where the Executive Committee 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 EXCO once a year, Senior Management 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. Moreover, the EXCO assess the risks of unexpected occurrences, which the firm mitigates by maintaining a healthy surplus at all times.

5.3 Capital Resources

An IFPRU firm must maintain at all times capital resources equal to or in excess of the base requirement (EUR 125k).

The Pillar 1 capital requirement for an IFPRU firm is the higher of:

- Base Capital Requirement OR
- Credit Risk plus Market Risk plus Counterparty Risk Capital Requirements OR
- Fixed Overhead Requirement

The Firm has no innovative Tier 1 capital instruments or deductions.

The Firm must maintain at all times capital resources equal to or in excess of the Pillar 1 requirement. During the 12 month accounting period to 31st March 2019, the firm fully complied with all capital requirements and operated well within regulatory requirements.

At the accounting reference date, the Firm held the following capital position:

Description	Amount (£ 000's)
Members Capital	1,950
Profit and Loss	1,459
Other deductions	2,443
Core Tier 1 Capital	966
Total Capital Resources	966
Credit Risk Capital Requirement @ 8%	62
Market Risk Capital Requirement @8%	64
Fixed Overhead Requirement	297
Total Pillar 1 Requirement	297
Total Pillar 2 Requirement	297
Base Capital Requirement (using an exchange rate of 0.89664)	112
Total Capital Requirement	297
Surplus capital over minimum requirement	669

The EXCO are therefore comfortable that the Firm is, and has been throughout the financial year, adequately capitalised for Pillar 1 purposes. The Firm holds approximately £996K in cash and cash equivalents as at year end. The EXCO are comfortable that this will ensure prudent capitalisation and cover for market downturns and other risks that may materialise in the short to medium term.

The EXCO constantly monitors the performance of the Firm and capital adequacy is regularly assessed by them. The Firm will also monitor risks throughout the year and decide if additional capital should be held against them. Additional risks that supplement the Pillar 1 requirements are detailed below and, where necessary, additional capital will be provided.

6 Management of Risk Framework

6.1 Risk Profile

The Firm has identified the following core risk categories: e.g. strategic, market, credit, liquidity, operational, legal, interest rate, excessive leverage and financial crime.

The Firm's profile of these risks is continually evolving and is generally driven by:

- Changes to the market in which it operates;
- The Firm's strategies and business objectives and;
- The Firm's business/operating models

The Firm will endeavour to achieve positive returns through carefully considered discretionary decisions or through appropriately aligned advice based on the client's objective.

As such the effective management and robust control of both the upside of risk taking and its potential downside is a fundamental core competency of the Firm.

6.2 Risk Appetite

The Executive Committee are responsible for setting and managing the Firm's risk appetite, defining the type and level of risk that the Firm is willing to accept in pursuit of its business growth initiatives and objectives.

6.3 Three Lines of Defence

The Firm's governance structure is designed such that the business unit is the first line of defence, the compliance function is the second line of defence with the Senior Management / Executive Committee representing the third line of defence.

First line of Defence Business – Relationship Manager and Investment Team	**Strategies and goals, Firm Values & Risk Appetites**
	Identification, control and management of risks. Operating requirements: roles and responsibilities, supervision, procedures, systems and controls
	Identifying Risks Faced
	Identifying Risks Taken
	Control and Management of Risks
Second line of Defence Compliance and independent oversight of business	**Risk Management Framework**
	Policies and Procedures
	On hand guidance and Training
	Performance Management and Annual reviews
	Continuous Professional Development ("CPD")
	Compliance Monitoring
	Client Acceptance Committee, Advisory Counsel, Investment Committee
	Independent Annual external Compliance Consultant review
Third Line of Defence Senior Management/ Executive Committee	**Governance**
	Full accountability for the assessment and the management of risks.

6.4 Risk Assessment Framework

The EXCO are responsible for approving the Risk Assessment Framework, which is used to ensure that the Firm has a comprehensive understanding of its risk profile, including both existing and emerging risks facing the Firm, and to enable it to assess the adequacy of its risk management in the context of the Firm's risk appetite.

Principal Risks	Appetite	Mitigation
Strategic Risk		
The risk that arises decisions that fail to reflect the full business operating environment and the impact of failing to adequately identify changes to the business model.	The firm is always forward thinking in order to remain competitive by identifying appropriate opportunities and assessing the risks, rewards and costs associated with them before proceeding.	Due diligence and industry specific market research is carried out prior to accepting any new business opportunity/ initiative and a full assessment of the potential and actual risks is taken into account. Discussion with the Advisory Counsel. Consultation with external compliance consultants. Executive Committee approval.
Counterparty Credit Risk		
The risk of financial loss due to the failure of a customer to meet their obligations to settle outstanding amounts	The Firm will only engage with clients who are financially sound and appropriately categorised in order to receive the services Halkin offer	Management monitor exposure to credit risk on an on-going basis. The firm's cash and bank deposits are placed with major financial institutions which are regulated and have sound credit ratings.
Market Risk		
Risk of client's losses in their portfolios due to market conditions.	The firm does NOT engage in propriety trading and does not actively seek market exposure. The firm's investment team diligently deploy the client's portfolio in accordance with the client's risk appetite and financial objective.	In the event Halkin was to carry out proprietary trading, the firm would first ensure they have the appropriate permissions in place to do so, we would liaise with our compliance consultants and advisory counsel. Client portfolios are actively managed and monitored to detect in a timely fashion and to endeavour to avoid any unexpected market movements.
Liquidity Risk		
The risk that the Firm does not have sufficient liquid resources or is unable to deploy such resources to meet its actual or potential obligations in a timely manner as they fall due.	The Firm will maintain sufficient surplus capital in excess of its regulatory capital requirements to meet any financial obligations as they fall due.	The firm manages its liquidity requirements through the use of cash flow forecasts. Periodic reviews of financial resources and ongoing management to ensure we maintain sufficient financial resources in order to meet our financial obligations.

Principal Risks	Appetite	Mitigation
Operational Risk		
The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events	The Firm actively identifies and manages the risk of its people, processes or systems failing. Operational risk is inherent in any business however the Firm will take steps to prevent such risks from increasing our operational costs	Employees are provided relevant training and guidance on their obligations. All employees have at least an annual review. The firm also encourages and supports Continuous Professional Development ("CPD") of all staff.
Legal		
The risk arising from defective transactions, failing to take appropriate measures to protect assets, changes in law and claims resulting in a liability or loss to the Firm.	The Firm will appoint external legal advisors however the Firm does not intend to have any appetite for legal breaches	Employees are provided relevant training and guidance on their obligations. Appropriate levels of Professional Indemnity and Director's and Officer Insurance cover is maintained. Regular monitoring of changes in law and the implications to the Firm, where the processes will be adapted prior to the implementation of a change which impacts the firm.
Interest Rate Risk		
The risk that interest rates (e.g. Libor, Euribor) and/or their implied volatility will change	The Firm accepts that volatility in interest rates will impact on its overdraft facility.	The firm holds cash reserves in surplus of its regulatory capital requirements. Cash balances are regularly monitored and an overdraft facility is maintained although not utilised.
Risk of Excessive Leverage		
The potential increase in risk caused by a reduction in the Firm's own funds through expected or realised losses.	The Firm will maintain sufficient surplus equity capital in excess of its regulatory capital requirements to meet any financial obligations as they fall due.	The firm manages its financial resources through the use of income and cash flow forecasts. Periodic reviews of financial resources and ongoing management to ensure we maintain sufficient financial resources in order to meet our financial obligations.

Principal Risks	Appetite	Mitigation
Financial Crime Risk		
The risk that the Firm fails to prevent its involvement in or use by other parties to commit financial crime	The Firm has NO appetite whatsoever for any breaches or lapses occurring that result in any financial crime taking place. The firm has a ZERO tolerance for such activity.	Employees are provided relevant training and up to date guidance on their obligations. Moreover, independent training on this subject is provided by our external compliance consultants. AML Policies and Procedures are regularly reviewed and updated as required, which are signed off by the Executive Committee.

7 Remuneration Policy

The Firm's Remuneration Policy complies with the Remuneration Code in relation to its size, nature, scope and complexity of our activities.

The Policy is aligned to the Firms' business strategy, objectives, values and long term interests in respect of performance and effective risk management in line with the Firm's risk appetite.

A copy of the Remuneration Policy is available via the Firm's website and sets out how the Firm complies with the Remuneration Code.

8 Public Disclosure of Return on Assets

The Firm will meet its reporting obligations by disclosing in its annual report a notice of its return on assets. Details of the average total assets can be found in the Report.

9 Breaches of Pillar III

Any breaches of the applicable rules with regards to the Pillar 3 requirement will be recorded on the Firm's breach log in conjunction with its Regulatory Breach procedure and reported to the Financial Conduct Authority in an open and cooperative manner as promptly as possible.

10 Breaches of Governance Arrangements

Any breaches of the IFPRU rules will be recorded on the Firm's breach log in conjunction with its Regulatory Breach procedure and reported to the Financial Conduct Authority in an open and cooperative manner as promptly as possible.