



HIGHCLERE

INTERNATIONAL INVESTORS

Pillar 3 Disclosure Statement

Introduction

Highclere International Investors LLP (“Highclere”) is a Limited Liability Partnership authorised by the Financial Conduct Authority (“FCA”). Highclere is categorised by the FCA as a BIPRU €50k limited licence firm and as such, is subject to the requirements of the FCA’s Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU).

The capital adequacy framework set out in BIPRU is based on the 2006 EU Capital Requirement Directive’s three pillars:

- **Pillar 1** specifies the minimum capital that Highclere is required to hold based on credit, market and operational risk.
- **Pillar 2** sets out the supervisory review process to be used by Highclere to take a view on whether the firm should hold additional capital to cover the pillar 1 risks or to cover other risks not covered under Pillar 1;
- **Pillar 3** requires firms to publish risk and capital information.

The disclosure requirements of the Pillar 3 aim to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). The Pillar 3 disclosure is made in accordance with requirements of BIPRU 11 unless that disclosure has been regarded as immaterial, proprietary or confidential. Additional information is available from Highclere’s Chief Compliance Officer, Fergus Gilmour (fgilmour@highclereinvestors.com).

Publication

Disclosure of the Pillar 3 document will be made via the Firm’s website www.highclereinvestors.com.

Business structure

Highclere’s audited financial statements are prepared in accordance with UK GAAP. Highclere has one wholly owned subsidiary – Highclere International Investors, Inc. (“HII Inc.”). HII Inc. is fully consolidated with Highclere as part of the Highclere Group for audit and regulatory capital purposes. There is no current or foreseen impediment to transfers of intra-group capital between Highclere and HII Inc.

Capital Management Process

Capital Adequacy is the degree to which capital resources on the firm’s balance sheet are sufficient to cover the capital requirements for the day to day operations and for the future, having regard to the inherent risks within the business. The capital management process is an integral part of the monthly management accounts review by the Chief Operating Officer. He reports to the Executive Group at quarterly meetings. Capital adequacy is an item on the agenda at each meeting.

ICAAP

The Internal Capital Adequacy Assessment Process (ICAAP) sets out the risk profile of the firm, the assessment of the material risks and the controls in place to mitigate them. The purpose of the ICAAP is to ensure that sufficient capital is maintained to withstand any resulting residual risk and thereby satisfy the Pillar 2 requirement.

Risk Management

The Firm is an Investment Management Firm. The main protection to clients is provided through client money and asset safekeeping arrangements. The Executive Group is ultimately responsible for the risk environment. The Executive Group has identified the greatest risks as business and operational. The Firm has assessed business and operational risks in its ICAAP.

Highclere has considered a range of categories of risk as suggested by the FCA:

- **Operational risk:** Operational risk refers to the risk of a direct or indirect loss resulting from inadequate or failed internal processes, systems or from external events. Highclere mitigates this risk by (i) detailed resource and training planning, (ii) maintaining key operating procedures, (iii) maintaining duplicate records and performing reconciliations with the prime records held by the Administrator, and (iv) keeping Highclere's business, structure and operational requirements relatively simple.
- **Business risk:** Business risk arises from changes in the core structure of the business that would prevent Highclere from carrying out its business plan and desired strategy. Highclere is a small, closely held organisation, where senior management own a significant stake in the business and all staff invest in the Funds alongside clients. All material structural changes to Highclere's business are subject to discussion by the partners at the Executive Group. The Executive Group considers business risk factors in planning and decision-making.
- **Credit risk:** As an asset management company, Highclere's main exposure to credit risk is the risk that management fees cannot be collected. Investment management fees for Highclere's US commingled funds are paid within six business days of each month by standing order out of the fund.
Highclere's accumulated cash reserves are placed on deposit each month. The eligible banks are each approved by the Executive Group. Highclere does not utilise any risk mitigation techniques (e.g., credit default swaps) to minimise our financial exposure to bank deposits.
- **Market risk:** As an asset management company, Highclere's portfolios are subject to market risk as a result of sudden and volatile changes in market or economic conditions. It is these conditions that provide the investment opportunities for Highclere.
- **Liquidity risk:** Highclere's core regulatory capital, surplus capital and free cash flow is primarily invested in cash deposits. Cash deposits are not subject to market risk. Further, Highclere's Executive Group does not invest capital that is (i) needed to meet core regulatory requirements, or (ii) needed to fund the operations of the business. Other than in a wind down scenario, there are no material threats to Highclere's liquidity position.

Capital Resource Requirements

Pillar 1:

Is the minimum capital requirement that a firm must hold determined by its size and nature. Under AIFMD and FCA measures, Highclere has surplus capital. For Highclere this is calculated as the greater of:

- A Base Capital Requirement (€125k plus 0.02% of AUM in excess of €250m)
- The sum of the Credit Risk Capital Requirement and Market Risk Capital Requirement; or
- The Fixed Overhead Requirement (“FOR”)

Pillar 2:

This requires firms to assess the adequacy of its internal capital to support current and future activities and to determine whether Pillar 1 capital alone is sufficient. This review is carried out through the ICAAP.

Remuneration

Highclere has classified all employees and partners as “Code Staff”.

Highclere falls within “Tier 4” firm under the FCA guide on proportionality and where relevant, has disapplied various provisions of the FCA Remuneration Code.

Capital Resources and Capital Adequacy

Highclere maintains sufficient capital to meet all regulatory requirements as set out in Pillar 1.

No Pillar 2 adjustments have been made under the ICAAP.

Data as at 31st March, 2020.

AIFMD vs BIPRU	at 31/03/20		
		AIFMD	FCA (BIPRU)
	Capital Required	£000's	£000's
	Fixed Overhead Requirement (FOR)	1,485	1,485
	A Measure Based on % AUM	338	
	Total Core Capital Required	1,823	1,485
	Capital Available within HII		
	Partnership Capital	2,196	2,196
	Adjustment for Material Holdings	-60	-60
	Capital Required	2,136	2,136
	Deficit / Surplus [two versions]	313	651