

PILLAR 3, STEWARDSHIP CODE AND REMUNERATION DISCLOSURE

Introduction

Following the implementation of the Investment Funds Prudential Regime (“IFPR”) in the UK on 1 January 2022, which was implemented by the FCA through the MIFIDPRU Sourcebook (“MIFIDPRU”) and applies to all MiFID investment firms, the FCA has advised MIFIDPRU investment firms to comply with their reporting and other obligations under GENPRU and BIPRU (as detailed below) that ran up to the reference date of 31 December 2021, including the requirement to produce the Pillar 3 Disclosure.

The purpose of this document is to set out the Pillar 3 Disclosure for Frostrow Capital LLP (the “Firm”) as required under Chapter 11 of the FCA’s Prudential Sourcebook for Banks, Building Societies and Investment Firms BIPRU 11 and is complimentary to the Firm’s minimal capital requirement (“Pillar 1”) and the internal review of its capital adequacy (“Pillar 2”). Pillar 3 Disclosures are issued on an annual basis, after the Firm’s year end and published as soon as practical thereafter on the Firm’s website (www.frostrow.com), when the annual financial statements have been audited. The Firm will publish information more frequently if deemed necessary due to changes in the characteristics of the Firm’s business, including material changes in capital adequacy or risk exposure.

This Pillar 3 Disclosure serves as the Firm’s final Pillar 3 Disclosure and has been prepared in accordance with the requirements of BIPRU 11 and relates to the Firm’s 2021 financial year end. Therefore, unless otherwise stated, all figures disclosed in this document are as at 31 December 2021.

The Pillar 3 Disclosure does not form part of the Firm’s audited financial statements and the information provided herein is unaudited.

The Pillar 3 Disclosure is produced for information purposes in relation to the Firm’s capital adequacy and its identified risk exposures and is for professional investors only. It may not include all of the Firm’s risks and reliance should not just be placed in making any judgement on the financial position or risks faced by the Firm.

The Pillar 3 Disclosure has been verified by the Firm’s Senior Management.

Background

The Capital Requirements Directive (“CRD”) and Alternative Investment Fund Management Directive (“AIFMD”) adopted under the UK regulatory framework, whilst the UK was a member of the of the European Union (“EU”), introduced a revised regulatory capital framework, governing the amount and nature of capital that credit institutions and investment firms must maintain.

In the UK, the CRD and AIFMD have been implemented by the Financial Conduct Authority (“FCA”) through the General Prudential Sourcebook (“GENPRU”), the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”) and the Interim Prudential Sourcebook for Investment Businesses (“IPRU-INV”).

The CRD 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 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. All regulated firms are required to carry out this review as part of the Internal Capital Adequacy Assessment Process (“ICAAP”); and

- Pillar 3 requires disclosure of specified information about a firm's underlying risk management controls and capital position to encourage market discipline.

The AIFMD adds further capital requirements, based on the Alternative Investment Fund ("AIF") assets under management and professional liability risks.

The Firm benefits from the FCA Capital Requirements Regulation derogation allowing it to carry forward the CRD III rules as at 31 December 2013 and, as such, the following disclosures are in accordance with the requirements of Chapter 11 of Building Societies and Investment Firms ("BIPRU").

Rule 11 of BIPRU sets out the provisions for the Pillar 3 Disclosure. The rules provide that companies may omit one or more of the required disclosures if such omission is regarded as immaterial. Information is considered material if its omission or misstatement could change or influence the decision of a user relying on the information. In addition, companies may also omit one or more of the required disclosures where such information is regarded as proprietary or confidential. The Firm will also pay due regard to the limited number of AIFM Code Staff, as such having consideration for any relevant omissions. The Firm believes that the disclosure of this document meets its obligation with respect to Pillar 3.

Scope and application of the requirements

The Firm, a UK Limited Liability Partnership with four executive partners, eighteen employees (who are collectively referred to in this document as "Staff") and two corporate partners, is authorised and regulated by the FCA and, as such, is subject to minimum regulatory capital requirements, as detailed below.

The Firm's is a full-scope UK Alternative Investment Fund Manager ("AIFM") with MiFID top up permissions and has therefore been categorised by the FCA as a Collective Portfolio Management Investment ("CPMI") firm for capital purposes. As a CPMI firm, the Firm is subject to the BIPRU rules as well as the AIFMD rules in IPRU-INV. As such, the Firm is subject to an initial capital requirement of €125,000 under IPRU-INV in respect of its AIFM activities.

The Firm is an independent investment companies group and AIFM which specialises in providing a range of services to a number of leading London Stock Exchange-listed investment companies. The Firm operates principally as an AIFM. In accordance with its business model and with the consent of the Alternative Investment Funds ("AIFs") boards, the Firm delegates the portfolio management function to third party portfolio managers (the "Delegates") who perform the day to day portfolio management services.

The Firm therefore holds no trading book positions on its balance sheet.

The Firm performs the AIFM risk management function as well as other additional services, such as administration and accounting services, marketing and distribution services, company secretarial and board advisory services and other general management services.

The Firm is not a member of a group and, as such, is not required to prepare consolidated reporting for prudential purposes.

With effect from 1 January 2022, the Firm has become subject to the IFPR and MIFIDPRU and is categorised as a Small and Non-interconnected Investment firm ("SNI"). The Firm's annual Internal Capital Adequacy Assessment process ("ICAAP") will be replaced by the new Internal Capital Adequacy and Risk Assessment process ("ICARA"). The Firm has performed an assessment on how the IFPR will affect its regulatory capital requirements and have determined that the IFPR is unlikely to material impact the Firm's Pillar 1 requirement. The ICARA process is similar to the ICAAP process and is designed to supplement the Firm's own funds and liquidity requirements and allow the Firm to identify, monitor, and, if relevant, mitigate all material potential harms that could result from the ongoing operation or winding down of its business.

Risk management framework

The Firm's Board (the "Board") has overall responsibility in determining the Firm's business strategy and risk appetite and in facilitating the implementation and enforcement of the risk management process. The Firm has established a robust risk management process to ensure effective systems and controls are in place to

identify, monitor, manage and report on risks arising in the business, reflecting the requirements of SYSC 4.1.1R.

Risk governance

The Firm's risk governance arrangements are as follows:

The Board

The Firm's business strategy and risk appetite are determined by the Firm's Board. Although retaining overall responsibility, the Board has delegated to the Board Risk Management Committee ("BRMC"), the responsibility of developing and approving the strategic risk view of the Firm, including the Firm's risk appetite, tolerance and related strategy and the implementation of the risk management framework and systems and controls, as appropriate to the size, nature and complexity of the Firm, having regard to the relevant laws, standards, principles and rules (including the FCA principles and rules). In addition, the Board has delegated day-to-day risk management to the Firm's Chief Risk Officer ("CRO").

Board Risk Management Committee

The BRMC is a sub-committee, established by the Board to support it in achieving its objectives and responsibilities in respect of risk management, as detailed above. The BRMC provides advice to the Board on all risks associated with the Firm's business with focus on business and operational risk management issues which have been identified as the main areas of risk to which the Firm is exposed.

Risk management function

The Firm has a permanent risk management function that is functionally and hierarchically separate from the portfolio management function which, as previously disclosed, has been delegated to third party portfolio managers. The Board has delegated the responsibility of day-to-day risk management to the Firm's CRO who has the necessary authority, access to all relevant information and regular contact with Senior Management. The CRO is supported by the Firm's Risk Manager. Both the CRO and Risk Manager are members of the BRMC.

Risk identification and key risks

Business risk

Business risk is the risk that the Firm may not be able to carry out its business plan or strategy arising from changes in the business, such as:

- a deterioration in the Delegates' performance and, in general, business and economic conditions, leading to a significant reduction in assets under management and reduced management fees.
- the Firm's business model or strategy proving inappropriate due to a change in regulations;
- the Firm not being able to carry out its business plan and desired strategy.

The Firm receives fixed fees as well as fees dependent on the performance of the client's investment portfolio and assets under management. The Firm is able to substantially mitigate this risk as the fees are due from the AIFs and it is part of the Firm's responsibility to manage the liquidity within the AIFs. The Firm also mitigates against business risk by maintaining a high surplus of regulatory capital. In respect of the performance of the AIFs' investment portfolios, the Firm, as AIFM, has robust oversight arrangements in place, which includes reviewing the performance of the portfolio manager and overseeing that they have appropriate and adequate systems and controls in place.

The Firm has engaged ACA Group ("ACA") as its compliance consultant and Herbert Smith Freehills ("HSF") as its external counsel to ensure the Firm understands, is ready for and complies with forthcoming regulations. ACA provide a Regulatory Update Report on a quarterly basis, supported by webinars on hot topics. One member of the Firm's staff has been designated to monitor and review new government and industry recommendations and legislation. Members of staff, as part of their continuous professional development, attend webinars and receive technical updates from the AIC, ACA, HSF and other legal firms,

Grant Thornton and other accountancy firms, plus other relevant organisations. Details of any forthcoming regulatory changes and the progress of their implementation are discussed at each BRMC meeting.

If, for any reason, the Firm could not maintain sufficient commercial activity or became unviable, Senior Management would carefully consider the business strategy and model to determine if there were activities to be ceased, costs to be cut, or other opportunities that the Firm should take advantage of. However, in the event that there were no credible opportunities to turn the business around, the management of the business would make a conscious decision to cease current business activity while sufficient capital is available to wind-down the regulated activities and resign the FCA authorisation in a controlled fashion without causing detriment to the Firm's AIFs and the AIFs' investors, and creditors.

The Firm's regulatory capital position is reviewed at each BRMC meeting.

Operational risk

Operational risk has the potential to impact the financial status and reputation of the Firm, resulting from inadequate or failed internal processes, people and its systems.

The Firm has identified a number of key operational risks to manage. These relate to serious regulatory or other legislative breaches, risk management failure, internal calculation/reporting errors, failure of the Firm's and its key third parties' IT systems and failure of the key third party providers.

The Firm has robust policies and procedures in place, which are regularly reviewed, to mitigate against the above risks. In respect of its Delegates and other third parties, the Firm, has oversight arrangements in place, which includes reviewing the performance of and overseeing that the third parties have appropriate and adequate systems and controls in place.

In addition, as well as being monitored and audited by external third parties, the Firm has in place an adequate level of professional indemnity insurance, maintains a business continuity plan, has implemented appropriate information security systems and controls, has built continuous professional development into the annual performance review of staff and provides training, which each help to mitigate against operational risk.

Senior Management, who are members of the BRMC, discuss operational matters and potential material risks during BRMC meetings. Where the BRMC identify risks that fall outside of risk tolerance levels, appropriate action is taken and the Board is advised accordingly.

Credit risk

The Firm has *de minimis* exposure to credit risk in respect of its management fees invoiced and cash held in bank accounts. The Firm considers that there is little risk of default in the short or medium term by its clients, who are all viable going concerns. The Firm's bank accounts are held with C Hoare & Co, a highly respected family-run bank, based in London.

Given the nature of the Firm's exposure to credit risk, no specific policy for hedging and mitigating credit risk is in place. The Firm uses the standardised approach when calculating risk-weighted exposures in respect of its debtors. This amounts to 8% of the total balance due. All bank balances are subject to a risk-weighted exposure of 1.6% in accordance with BIPRU 3.4 of the FCA Handbook.

Credit risk summary:

Credit risk exposure	Risk weighting	Risk weighted exposure (£000)
Cash in the bank	1.6%	69
Inter-company	8%	0
Trade debtor	8%	119
Prepayments and accrued income	8%	8
Other debtors (<1 year)	8%	13
Other debtors (>1 year)	8%	0
TOTAL		209

Market risk

Since the Firm holds no trading book positions on its balance sheet, the Firm's exposure to market risk is by virtue of fluctuations in client AIFs' FUM, where the Firm is paid on an *ad valorem* basis. The change in the value of fees due to foreign exchange valuations is not applicable as all fees are billed in GBP.

Liquidity risk

Liquidity risk is the risk that the Firm does not have adequate liquid assets to meet its obligations as they fall due. The Firm maintains healthy financial resources to meet its regulatory obligations and holds an adequate amount of excess cash, held in accounts with a reputable UK bank to ensure that the Firm is sufficiently financed in the long term and is in a position to withstand stressed business conditions. Cash and capital forecasts are performed on a regular basis to ensure that the Firm has sufficient cash resources to meet future cash flow and regulatory capital requirements. Liquidity risk is therefore not considered a material risk to the Firm.

Management accounts are circulated at each Board Meeting, for the purpose of demonstrating continued adequacy of the Firm's regulatory capital.

Professional Liability Risk

The Firm has a legal responsibility for risks in relation to investors, products and business practices for the AIFs for which is the appointed AIFM, including, but not limited to: loss of documents evidencing title of assets of the AIFs; misrepresentations and misleading statements made to the AIFs or their investors; acts, errors or omissions; failure by the Senior Management to establish, implement and maintain appropriate procedures to prevent dishonest, fraudulent or malicious acts; improper valuation of assets and calculation of share prices; and risks in relation to business disruption, system failures and process management. The Firm is aware of, and monitors, a wide range of risks within its business operations and towards its AIFs' investors. The Firm has in place appropriate internal operational risk policies and procedures to monitor and detect these risks which are reviewed periodically.

The Firm has opted to mitigate its professional liability risks with professional indemnity insurance. The insurance policy does not have any exclusions which would adversely affect its liability to cover any professional liability risks faced by the Firm.

The Firm has in place appropriate coverage of professional indemnity insurance, where single claims are covered for up to £60,000,000, exceeding the required 0.7% of total assets under management, and aggregate cover is £60,000,000, exceeding the required 0.9%. The policy excess of £50,000 is held in Own Funds.

Regulatory capital

The Firm is a Limited Liability Partnership and its capital arrangements are established in its Partnership Deed. Its capital is summarised below.

Capital adequacy

Capital resources

As at 31 December 2021, the Firm's total capital resources for regulatory purposes stood at £1,454,500, comprising of cash only.

Tier 1 capital*	£1,454,000
Tier 2 and 3 capital	£0
Deductions from Tiers 2 and 3	£0
Total capital resources	£1,454,000

*No hybrid Tier 1 capital is held.

Capital requirements

The Firm is small with a simple operational infrastructure. The Firm has no trading book exposure and no exposure to market risk, with *de minimis* exposure to credit risk, arising from cash in the bank and management fees receivable from the AIFs it manages. The Firm follows the standardised approach to both market and credit risk. 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. The Firm has therefore adopted the basic indicator approach calculates operational risk as a simple 15% of average annual income over 3 years.

As disclosed above, the Firm is a CPMI firm and, as such, its Pillar 1 capital requirement is the higher of:

- the funds under management requirement (base own funds (€125,000)* plus 0.02% of the portfolios of AIFs under management exceeding €250m); and
- the own funds based on FOR (which is essentially 25% of the Firm’s operating expenses less certain variable costs); plus
- Professional Indemnity Insurance (“PII”) Policy excess.

*As per GENPRU 2.1.48A (in line with IPRU-INV 11.3.1R(1)).

0.02% is taken on the absolute value of all assets of all funds managed by the Firm (for which it is the appointed AIFM) in excess of €250m, including assets acquired through the use of leverage, whereby derivative instruments shall be valued at their market value, including funds where, it, the Firm, has delegated the management function, but excluding any funds that it is managing as a delegate.

The FOR is calculated, in accordance with FCA rules, based on the Firm’s previous year’s audited expenditure and based on the Firm’s annual expenses, net of variable costs deducted, which includes discretionary bonuses paid to its staff and administrator fees.

The Firm has not identified credit risk exposure classes or the minimum capital requirements for market risk as it is believed that they are immaterial.

The Firm monitors its expenditure on a monthly basis and takes into account any material fluctuations to determine whether the FOR remains appropriate to the size and nature of the business or whether any adjustment needs to be made intra-year. This is monitored by the Managing Partner and reported to the BRMC and the Board on a quarterly basis, or sooner should the urgency arise.

As at 31 December 2021, the Firm’s Pillar 1 capital requirement was £1,329,000. This has been determined by reference to the Firm’s initial capital requirement of €125,000* plus AUM Own funds (which as at 31 December 2021 was higher than the FOR); plus, the Firm’s PII policy excess. *As per GENPRU 2.1.48A (in line with IPRU-INV 11.3.1R(1)).

.In respect of Pillar 2, the Firm’s analysis shows that no additional Pillar 2 capital or liquidity is required to mitigate any risks faced by the Firm, as the Firm has not identified capital to be held over and above the Pillar 1 requirement.

Satisfaction of capital requirements

As detailed previously, as at 31 December 2021:

the Firm’s total capital resources for regulatory purposes stood at £1,454,500, comprising of cash only.

the Firm’s Pillar 1 capital requirement was £1,329,000.

Therefore, as at 31 December 2021, the Firm had regulatory surplus capital under Pillar 1 in the sum of £125,500.

The Firm is therefore satisfied at the date of this assessment and through its risk management framework and stress tests, that the Firm has sufficient capital resources to withstand all of the specified stresses as well as allowing for an orderly wind down of the business if there was a need to do so.

UK Financial Reporting Council's Stewardship Code

FCA COBS Rule 2.2.3R requires FCA authorised firms to publicly disclose whether they conform to the requirements of the UK Financial Reporting Council's Stewardship Code (the "Code"). Adherence to the Code is voluntary. In accordance with its business model and as disclosed previously, the Firm delegates the AIFM portfolio management function in respect of its six AIFs, to third party portfolio managers ("Delegates"), whilst having the responsibility of oversight of the Delegates. Such oversight includes overseeing and monitoring how the Delegates discharge their stewardship responsibilities. Therefore, while the Firm supports the principles of the Code, it does not consider it appropriate to conform to the Code at this time. If the Firm's business strategy changes in such a manner that the provisions of the Code become relevant, the Firm will amend this disclosure accordingly.

Where relevant, the Firm's Delegates, are required to disclose publicly clearly on their website, or if they do not have a website, in another accessible form, the nature of their commitment to The Code or, where it does not commit to the Code, its alternative investment strategy.

Remuneration Code Disclosure

The Firm is authorised and regulated by the FCA as a CPMI firm and so is subject to the FCA Remuneration Code Rules ("RemCode") as set out in the SYSC Sourcebook of the FCA's Handbook. In accordance with the RemCode, the Firm has adopted a Remuneration Policy which is designed to ensure that the Firm's compensation arrangements:

- are consistent with and promotes sound and effective risk management;
- do not encourage risk taking which is inconsistent with the risk profiles of the instruments constituting the funds of the AIFs managed;
- include measures to avoid conflicts of interest; and
- are in-line with the Firm's business strategy, objectives, values and long-term interests and that of the AIFs and the AIFs' investors and includes measures to avoid any conflict of interest where the Firm:
 - is likely to make a financial gain, or avoid financial loss, at the expense of an AIF;
 - has a distinct interest in the outcome of the service provided to an AIF or of a transaction carried out on behalf of an AIF;
 - has a financial or other incentive to favour the interest of one AIF or group of AIFs over the interests of another AIF;
 - carries on the same business as an AIF; or
 - receives, or will receive, from a person other than an AIF, an inducement in relation to the service provided to an AIF, in the form of monies, goods or services, other than the standard commission fee or fee for that service.

Proportionality

The Firm which, under the RemCode, falls within proportionality level three, is allowed to disapply certain of the RemCode requirements. Having given consideration to the size, internal organisation, nature, scope and complexity of the Firm, the Board is satisfied that proportionality can be applied to the Firm's Remuneration Policy.

Application of the requirements

The RemCode is applicable to those members of staff classified as AIFM Remuneration Code Staff ("AIFM Code Staff"), who are those members of staff whose professional activities have a material impact on the risk profile of the Firm or of the AIFs that the Firm manages, as described by the FCA rules.

The Firm is required to disclose certain information, on at least an annual basis, regarding its Remuneration Policy and practices for identified AIFM Code Staff. The Firm's disclosure is made as a proportionality level

three firm in-line with the Firm's size, internal organisation and the nature, scope and complexity of its activities.

Summary of information on the decision-making process used for determining the Firm's Remuneration Policy:

- The Remuneration Policy has been agreed by the Board in-line with the remuneration principles laid down by the FCA.
- Due to the size, nature and complexity of the Firm, the Firm is not considered to be a 'significant' AIFM and has therefore neutralised the requirement to establish a Remuneration Committee. This decision will be reviewed in the event of a material change to the Firm or in the event of any change in applicable regulation or regulatory guidance. The Firm's founding executive partners make remuneration decisions for the AIFM and set the remuneration of all the Firm's Staff and determine the annual discretionary award for each individual, following the year-end performance appraisal process. Remuneration considerations that result from performance appraisals are based on both the individual's performance and on the financial performance of the Firm.
- The Firm has disapplied the pay-out process rules in respect to the Firm and to its delegated portfolio managers because, on assessment of the proportionality elements, there is sufficient evidence to demonstrate that the Firm can be considered to be carrying out non-complex activities and is operating on a small scale or based on other rationales outlined in its Remuneration Policy.
- The Firm's Remuneration Policy, the FCA's remuneration principles contained therein, together with the implementation thereof, are reviewed at least on an annual basis or following a significant change to the business, thus requiring an update to its Internal Capital Adequacy Assessment Process ("ICAAP").

Summary of how the Firm links between pay and performance

- The FCA's remuneration principles cover an individual's total remuneration, comprising of fixed and variable components. The Firm incentivises its staff through a balanced combination of both components.
- The Firm is owned 70% by four 'natural' partners, with the residual 30% balance owned by two corporate partners. Drawings/Appropriations are made to the Firm's natural partners, on a monthly basis, with an annual top-up to the agreed percentage split. In addition, each of the corporate partners receives an annual profit share payment. These payments are dependent on the levels of profitability of the Firm and there are no contractual or other obligations requiring payments to be made that would be detrimental to the capital adequacy of the Firm. Other payments made by the Firm to the partners, both internal and corporate are to those who have provided AIFM capital to the Firm. FGT receives a priority payment on a six-monthly basis and other providers receive priority payments on an annual basis.

The sixteen employees at the Firm have a contract of employment and receive a salary and a discretionary bonus.

- In respect of the Firm's staff, the Firm's Board determines the payment of discretionary bonuses following the annual performance appraisal process which takes place at the end of each financial year. Fixed and variable remuneration considerations, resulting from the performance appraisals are based on both the measurement of the performance of the individual, in the role assigned to them, and the financial performance of the Firm.

Application to Delegates

It is the Firm's business model to delegate the AIFM portfolio management function to third party portfolio managers. The Alternative Investment Fund Managers Directive ("AIFMD") remuneration rules require that where an AIFM delegates portfolio management or risk management:

- the Delegate should be subject to regulatory requirements on remuneration that are equally as effective as the AIFMD remuneration rules; or

- appropriate contractual arrangements should be put in place in order to ensure that there is no circumvention of the remuneration rules.

The Firm has therefore put in place a contractual agreement with each of its Delegates, which requires the Delegate to either (i) have a Remuneration Policy (or equivalent), that ensures there is no circumvention of the AIFMD remuneration rules, or (ii) to adhere to the Firm's Remuneration Policy on the basis specified herein. The basis on which the Remuneration Policy applies to Delegates will be reviewed by the Firm in the event of a material change to the Firm or in the event of any change in applicable regulation or regulatory guidance.

Issued and approved by Frostrow Capital LLP
Authorised and regulated by the Financial Conduct Authority

5 April 2022