



## **Frostrow Capital LLP (the “Firm”)**

### **Pillar 3, Stewardship Code and Remuneration Disclosure**

#### **Introduction**

The Capital Requirements Directive (“CRD”) of the European Union (“EU”) established a regulatory capital framework across Europe, governing the amount and nature of capital that credit institutions and investment firms must maintain. The Alternative Investment Fund Managers Directive (“AIFMD”) introduced a EU-wide capital regime in respect of fund management firms managing Alternative Investment Funds (“AIFs”).

In the United Kingdom, the CRD 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 implemented the AIFMD requirements pertaining to capital resources and requirements through the Investment Funds Sourcebook (“FUND”) Interim Prudential Sourcebook for Investment Businesses (“IPRU-INV”).

The FCA CRD framework consists of three ‘Pillars’:

- Pillar 1 sets out the minimum regulatory capital requirements that regulated firms need to hold, that meet a firm’s credit, market and operational risk capital requirements;
- Pillar 2 requires a firm to analyse the risks to the business and then consider whether the risks are mitigated to an appropriate standard. Where a firm considers that the risks are not adequately mitigated then it is required to assess the amount of internal capital it considers adequate to cover all of the risks to which it is, or likely to be, exposed and the need to hold additional capital against the risks not covered by Pillar 1. Stress and scenario tests are conducted to ensure that its processes, strategies and systems are comprehensive and robust and that its capital reserves are sufficient; and

Pillar 3 requires firms to develop a set of disclosures which allows market participants to assess key information about a firm’s underlying risks, its policies and controls for managing risk and its capital position and resources.

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 11 sets out the provisions for Pillar 3 disclosure. The rules provide that firms may omit one or more of the required disclosures if such omission is regarded as immaterial, proprietary or confidential.

The Firm believes that the disclosure of this document meets its obligation with respect to its Pillar 3 obligations, as verified by the Firm’s Board Risk Management Committee (“BRMC”).

Unless there is a material change in the risk profile or characteristics of the Firm, Pillar 3 disclosures are issued on an annual basis, after the Firm’s year end, and published as soon as is practical once the Firm’s audited annual accounts have been finalised.

Unless otherwise stated, all figures in this disclosure are as at 31 December 2020.

The Firm is permitted to omit required disclosures if it believes that the information is immaterial and such 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, the Firm may omit required disclosures where it believes that the information is regarded as proprietary or confidential. In the Firm's view, proprietary information is that which, if it were shared, would undermine its competitive position. Information is considered to be confidential where there are obligations binding it to confidentiality with its customers, suppliers and counterparties.

Where the Firm has chosen to omit information because it is proprietary or confidential, it has explained the omission and provided the reason.

## **Scope and Application of the Requirements**

The Firm is a UK Limited Liability Partnership and is authorised and regulated by the FCA as a full-scope UK Alternative Investment Fund Manager ("AIFM"). As a result, the Firm is required to meet AIFMD capital requirements and disclosure obligations. In addition, the Firm has permission to provide additional portfolio management services and, as such, is categorised by the FCA as a Collective Portfolio Management Investment ("CPMI") firm for capital purposes, which also makes the Firm a BIPRU firm. The Firm is not a member of a group and, as such, is not required to prepare consolidated reporting for prudential purposes.

### **COVID-19**

The outbreak of COVID-19 has had, and continues to have, a material impact on businesses and the economic environment in which they operate. The Firm has a comprehensive governance and internal control framework through which the Firm has managed, and continues to manage, the impacts of the outbreak on our business, clients and staff.

The Firm activated its business continuity plan in March 2020 and continues to manage and review the arrangements in place to meet the evolving impacts of the pandemic. To date, the Firm has not experienced any material disruptions in the delivering of its services to clients, nor any notable deterioration in the adequacy and effectiveness of the Firm's governance and internal control arrangements.

## **Risk Management**

In accordance with the AIFMD, the Firm has an established risk management function, to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business.

The Firm's Managing Partner is the Senior Manager responsible and accountable for the oversight of the Firm's risk management. The Firm's Governing Body (the "Board") is responsible for the monitoring of any risk management issues at the Firm. Whilst maintaining responsibility for monitoring risk management, the Board has delegated the day-to-day risk management to the Firm's Chief Risk Officer ("CRO") who is a member of the BRMC, a sub-committee established by the Board to support it in achieving its objectives and responsibilities by providing advice on all risks associated with the Firm's business with focus on business, portfolio and operational risk management issues.

The BRMC meets on a quarterly basis and reports to the Board on whether the Firm remains within its risk appetite.

Both the BRMC and the Firm's Board, which also meets on a quarterly basis, discuss current projections for profitability, cash flow, regulatory capital management, business planning and risk management.

The Firm's Senior Management, engage in the Firm's risks through a framework of policies and procedures and robust internal control systems, 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.

The internal resources of the Firm, dedicated to its control functions, are involved in the oversight of activities which are undertaken by service providers acting on behalf of either the Firm or the AIF Boards.

An AAF 01/06 assurance report assessing the effectiveness of the Firm's internal control environment is prepared annually by the Firm and reported on by independent external auditors.

The Firm has engaged a firm of independent compliance consultants to monitor its compliance arrangements, to assess the effectiveness of the Firm's compliance framework, in accordance with the Firm's risk-based compliance monitoring programme which is executed over the course of each calendar year. The compliance consultants compliance monitoring review reports, once received by the Firm are presented to both the BRMC and the Board. Any recommendations made in the reports are addressed and actioned by the Firm immediately.

The Board, through the BRMC have identified that: Business; Portfolio; Operational and Counterparty; Financial; Accounting, Legal and Regulatory; and Reputational Risk are the main areas of risk, to which the Firm is exposed. The BRMC, at each meeting, formally review the risks, controls and other risk mitigation arrangements and assesses their effectiveness. 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. Further information on the identified risks are as follows:

### **Business Risks**

The Firm has developed internal controls appropriate to the size, nature and scope of its activities, which reflect the perceived primary risks to the business. A description of the controls is detailed below. The Firm, as an AIFM, is ultimately responsible for these; however, responsibility also falls on each of the delegated portfolio managers: Augmentum Fintech Management Limited, First Sentier Investors (UK) IM Limited (trading as Stewart Investors), Lindsell Train Limited, Menhaden Capital Management LLP and OrbiMed Capital LLC ("the Delegates"), who have been engaged to provide portfolio management services to the Firm's six AIF Clients. The Firm has robust oversight arrangements in place to ensure that each Delegate has the same level of internal controls in place as itself.

### **Transaction Controls**

The Firm has ensured that the delegated portfolio managers have suitable pre-order checks, within their own firms, as trades are the responsibility of the delegated portfolio managers. The Firm carries out post-trade checks on a daily basis.

### **Portfolio Controls**

Daily checking of portfolio positions against independent brokers' and custody reports.

### **Settlement Controls**

Reconciliation and reporting of trades to the Firm by each delegated portfolio manager and ensuring that the settlement process is efficient.

### **Financial Resources**

The Firm is adequately capitalised and it closely monitors its financial resources. The Partners of the Firm have input the required financial resource, to enable the Firm to be able to act as an AIFM and are in a position to provide additional resources if and when required.

### **Contingency Plan**

The Firm maintains has prepared and maintains a contingency plan in the form of a Business Continuity Plan and Cyber Response Plan, which are tested on an annual basis.

### **Regulatory Controls**

To ensure compliance with applicable rules and regulations, ongoing monitoring of the Firm's controls is carried out, both internally and independently. The Firm employs only high calibre, appropriately qualified and experienced personnel, whose professional development is assessed and recorded on an annual basis.

### **Conflicts Controls**

It is not envisaged the Firm will have any material conflicts outside of those typical of every investment firm.

### **Compliance**

The Firm ensures that its compliance arrangements are suitable and effective and has oversight arrangements in place to ensure that its Delegates similarly have in place suitable policies and procedures and that these are properly adhered to.

### **Senior Management**

The Firm has a rigorous framework in place both for internal promotion and external recruitment, ensuring that senior management are experienced professionals who possess the knowledge, skills and experience to perform their duties and, collectively, to understand the Firm's activities, including the main risks faced by the Firm and reflect an adequately broad range of experiences, are of sufficiently good repute and act with honesty, integrity and independence of mind to effectively oversee and monitor decision-making.

### **Economic Risks**

The Firm's model is to delegate responsibility for the implementation of the AIFs' investment strategy to experienced and skilled portfolio managers who, it is expected, will ensure that the Firm's AIFs continue in existence. The Firm has ultimate responsibility and monitors each portfolio manager's performance and reports accordingly to each AIF's board.

### **Professional Liability Risk**

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

### **Credit Risk**

The Firm has *de minimis* exposure to credit risk.

The Firm's cash is held at C Hoare & Co, a highly respected family run bank, based in London.

The credit risk to the Firm's own invoices is also *de minimis*. All the Firm's clients are viable going concerns with minimal risk of default in the short or medium term.

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 simplified standardised approach detailed in BIPRU 3.5.5 of the FCA Handbook when calculating risk-weighted exposures of 1.6% (cash in the bank) and 8% in respect of its other assets.

### **Credit Risk Summary:**

<b>Credit risk exposure</b>	<b>Risk weighting</b>	<b>Risk weighted exposure £000</b>
Cash in the bank	1.6%	51
Inter-company	8%	NIL
Trade debtor	8%	115
Prepayments and accrued income	8%	6
Other debtors (<1 year)	8%	19
Other debtors (>1 year)	8%	NIL
<b>TOTAL</b>		<b>191</b>

### **Market Risk**

The Firm does not have any exposure to either foreign exchange risk or position risk, which together make up market risk.

## Professional Liability Risk

The Firm has a legal responsibility for risks in relation to its AIFs' investors, products and business practices including, but not limited to: loss of documents evidencing title of assets of the AIF; misrepresentations and misleading statements made to the AIF or its 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. These procedures and risks are documented, demonstrating how the Firm aims to mitigate these risks and are reviewed at least on an annual basis.

The Firm has in place appropriate coverage of professional indemnity insurance, where single claims are covered for up to £55,000,000, exceeding the required 0.7% of total assets under management, and aggregate cover is £55,000,000, exceeding the required 0.9%. The policy excess of £50,000 is held in Own Funds.

## 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 liquidity obligations.

## Operational and Counterparty Risk

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

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 and failure of its and its third party administrators' IT systems, leading to inadequate IT security.

To mitigate against these risks, the Firm has implemented appropriate policies and procedures, which includes the Firm having in place a sufficient level of professional indemnity insurance.

## Regulatory capital

The Firm is a Limited Liability Partnership and its capital arrangements are set out in its Partnership Deed.

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

	31 March 2021 £000
Tier 1 capital*	1,304.5
Tier 2 capital	-
Tier 3 capital**	-
Deductions from Tiers 1 and 2	-
<b>Total capital resources</b>	<b>1,304.5</b>
* No hybrid tier one capital is held	
** Note: Tier 3 capital is to be removed under the CRD IV	

The Firm is small with a simple operational infrastructure. It has no market risk and credit risk arising from management and performance fees receivable from the AIFs it manages.

As detailed in the section headed '*Scope and Application of the Requirements*', the Firm is authorised and regulated by the FCA as a full-scope UK AIFM and categorised as a CPMI firm. As such, its capital requirements are the higher of:

- €125,000 (base capital requirement) + 0.02% of AIF AUM (> €250m) (own funds requirement); or
- The sum of the market & credit risk requirements; or

- The fixed overheads requirement (“FOR”) which is essentially 25% of the Firm’s operating expenses less certain variable costs; plus
- the Firm’s professional indemnity insurance policy excess of £50,000.

0.02% is taken on the absolute value of all assets of all AIFs 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 portfolio management function, but excluding any AIFs that it is managing as a delegate.

The Firm has adopted the simplified standardised approach to credit and market risk and the basic indicator approach to operational risk. The basic indicator approach calculates operational risk as a simple 15% of average annual income over 3 years.

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 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 monitors its expenditure on a monthly basis and takes into account any material fluctuations in order 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 Senior Management on a monthly basis.

## Remuneration Disclosure

As detailed in the section headed ‘*Scope and Application of the Requirements*’, the Firm is authorised and regulated by the FCA as a full-scope UK AIFM and categorised as a CPMI firm. As such, it is subject to the AIFM remuneration principles (the “Principles”) which are contained in the AIFM Remuneration Code (“RemCode”) - SYSC 19B of the FCA Handbook.

The Firm's business is to provide a range of services to its investment trust Clients, including the management of six AIFs.

The 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.

With respect to the hiring of new members of staff, the Board agrees their reward structure; this is then subject to ongoing review.

The Firm’s Remuneration Policy also applies, on the basis specified therein, to entities to which the Firm has delegated portfolio management activities. The Firm has therefore put in place a contractual agreement with each Delegate, 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 Firm's Remuneration Policy is designed to ensure that the Firm complies with the Principles and its compensation arrangements which:

- is consistent with, and promotes sound and effective risk management;
- does not encourage risk-taking which is inconsistent with the risk profiles of the instruments constituting the funds of the AIFs managed;
- is in-line with its business strategy, objectives, values and 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.

The implementation of the Firm's Remuneration Policy is reviewed at least on an annual basis by the Board, to ensure the Firm's compliance with policies and procedures for remuneration.

## **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 three levels. The Firm falls within the FCA's proportionality level three and, as such, this disclosure is made in-line with the requirements for a level three firm.

### **Application of the requirements**

The Firm is required to disclose certain information, on at least an annual basis, regarding its Remuneration Policy and practices for identified AIFM Remuneration Code Staff ("AIFM Code Staff") of the Firm and the Delegates (where relevant), whose professional activities have a material impact on the risk profile of the Firm. The Firm's disclosure is made in accordance with the Firm's size, internal organisation and the nature, scope and complexity of its activities. The Firm's full Remuneration Policy is available at the request of its AIFs' investors.

#### **1. Summary of information on the decision-making process used for determining the Firm's Remuneration Policy**

- The Firm's Remuneration Policy has been agreed by the Firm's Board in-line with the FCA's Principles.
- Due to the size, nature and complexity of the Firm, it is not required to appoint an independent remuneration committee.
- 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 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").

**2. Summary of how the Firm links between pay and performance**

In respect of the Firm’s staff, the Firm’s Board determines the payment of discretionary bonuses following annual staff performance appraisals, which take place at the end of the Firm’s 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.

**3. Aggregate quantitative information on remuneration broken down by significant business division (where such business divisions exist)**

Business Area	Aggregate compensation expense for prior fiscal year
Portfolio Management and Trading	†
Non-Trading	†

†The Firm has disapplied the pay-out process rules in respect to the Firm and to any of its Delegates 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 the rationales as detailed in the Firm’s Remuneration Policy.

**4. Aggregate quantitative information on remuneration, for AIFM Code Staff whose actions have a material impact on the risk profile of the Firm/of those AIFM Code Staff of the Firm who are fully or partly involved in the activities of the AIFs**

AIFM Code Staff	Aggregate compensation expense in 2020
Senior Management:	†
Staff whose actions have a material impact on the AIFs (if applicable)	†

†The Firm has disapplied the pay-out process rules in respect to the Firm and to any of its Delegates 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 the rationales as detailed in the Firm’s Remuneration Policy.

**5. Amounts of remuneration for the financial year for those AIFM Code Staff of the Firm who are fully or partly involved in the activities of the AIFs and the number of beneficiaries (Level 3 only)**

AIFM Code Staff/Beneficiaries (Number)	Total amounts of remuneration
Fixed Remuneration	†
Variable Remuneration	†

†The Firm has disapplied the pay-out process rules in respect to the Firm and to any of its Delegates 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 the rationales as detailed in the Firm’s Remuneration Policy.

**6. Total remuneration allocated to relevant AIFs. The Firm currently manages six AIFs**

AIF	Fixed remuneration	Variable remuneration	Total remuneration	Total AuM
Augmentum Fintech plc	†	†	†	†
Finsbury Growth & Income Trust PLC	†	†	†	†
Menhaden PLC	†	†	†	†
Pacific Assets Trust plc	†	†	†	†
The Biotech Growth Trust PLC	†	†	†	†
Worldwide Healthcare Trust PLC	†	†	†	†

†The Firm has disapplied the pay-out process rules in respect to the Firm and to any of its Delegates 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 the rationales as detailed in the Firm's Remuneration Policy.*

## **Stewardship Code**

The Firm delegates the day-to-day portfolio management activities in respect of its six AIFs: Augmentum Fintech plc, Finsbury Growth & Income Trust PLC, Menhaden PLC, Pacific Assets Trust plc, The Biotech Growth Trust PLC and Worldwide Healthcare Trust PLC, whilst having the responsibility of oversight. Such oversight includes overseeing and monitoring how the Delegates discharge their stewardship responsibilities.

**30 April 2021**