Pillar 3 disclosures

for the year ended 31 March 2020

Overview

The Capital Requirements Regulation ("CRR") of the European Union provides a regulatory capital framework across Europe governing the amount and nature of capital to be maintained by credit institutions and investment firms in order to promote safety and soundness in the financial system. The CRR regime consists of three 'Pillars'. Pillar 1 sets out the minimum capital amount that meets the firm's credit, market and operational risk; Pillar 2 requires the firm to assess whether its Pillar 1 capital is adequate to meet its risks and is subject to annual review by the firm's regulatory supervisor; and Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position.

Ocean Dial Asset Management Limited ("ODAM" or "the firm") is regulated by the Financial Conduct Authority ("FCA") who categorise the firm as a BIPRU limited licence 50k firm reporting on an individual basis. ODAM is an investment management company and as such has no trading book exposures and has no subsidiaries or investments. Consequently the rules in Chapter 11 of BIPRU set out the provisions for Pillar 3 disclosure. This document is designed to cover the Pillar 3 disclosure obligations of ODAM.

Policy

Pillar 3 disclosures will be issued as a minimum on an annual basis and are published on the firm's website. These disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion in the firm's annual report. These disclosures are approved by the board of ODAM.

Pillar 3 disclosures have been prepared purely for explaining the basis on which the firm has prepared and disclosed certain capital requirements and information about the management of certain risks and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any judgement about the firm.

ODAM is permitted to omit required disclosures if it believes the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information. In addition, the firm may also omit required disclosures where it believes the information is regarded as proprietary or confidential. The firm has made no omissions on the grounds that it is immaterial, proprietary or confidential.

Risk management

ODAM is governed by its directors and management ("Management") who determine its business strategy and risk appetite. They are also responsible for establishing and maintaining the firm's governance arrangements along with designing and implementing a risk management framework that recognises the risks faced by the firm.

Management also determine how business risks may be mitigated and assess on an on-going basis the arrangements to manage those risks by meeting on a regular basis to discuss current projections for profitability, cash flow, regulatory capital management, and business planning and risk management. The firm's business risks are managed through a framework of policy and procedures having regard to relevant laws, standards, principles and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required.

Management have identified that market, credit, operational, liquidity, concentration and business risks are the main areas of risk to which ODAM is exposed. Annually management formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness. Where management identify material risks they consider the financial impact of these risks as part of our business planning and capital management and conclude whether the amount of regulatory capital is adequate.

Risk appetite

When running the business the firm has been, and will continue to be, cautious with regard to risks. The firm has a low overall risk appetite. Specifically, it does not intend to take significant risk with its own capital and ensures that risk taken within the portfolios it manages is closely monitored. Any issues arising with the latter would not only affect the clients but have an adverse effect on the firm itself. The firm further demonstrates its low overall risk appetite by ensuring that capital retained by the firm is well in excess of its regulatory requirement.

Operational controls are designed to ensure that there is little risk of errors occurring since this would have a detrimental impact on the firm and our clients. As risks are identified within the business, appropriate controls are put in place to mitigate these. Business lines are responsible for ensuring the operation and effectiveness of the controls they operate. Management oversight and, where the controls can be monitored independently, compliance ensures the controls continue to operate. The frequency of compliance monitoring in respect of each area is determined by the significance of the risk and are reported to the firm's management.

The firm has a low appetite for credit and market risk in that it is only exposed to GBP/US$ foreign exchange movements resulting from management fees from the sub-funds of its ICAV being receivable in US$ and some expenses being payable in US$. To manage this exposure the company maintains both a GBP and US$ bank account so US$ receipts can be used to settle US$ payments without the need for foreign exchange transactions. The firm has a FX policy in place to convert US$ management fees on a monthly basis.

In practical terms, the low risk appetite means that, whilst management would be prepared to tolerate a degree of unexpected costs and recognising a business can never be risk-free, management would not expect an unbudgeted material increase to the firm's cost base as expenditure is closely reviewed on a monthly basis. Management enforces this through a policy of stopping, investigating and / or resolving business events that impact the firm's profit and loss or asset value with a loss trigger of the higher of £50,000 or 5% of the latest audited profits after tax.

Liquidity risk policy and tolerance

Management's policy is to maintain sufficient liquid funds to meet obligations as they fall due, or as needed in the event of an orderly wind down. A material increase in unbudgeted expenses would only be agreed if coupled with an identified increase in cash income, or sufficient excess liquid capital to support any forecast negative cash flow. Such an increase would only arise as a result of formal business planning.

In this respect the firm's policy is to maintain funds in liquid or readily realisable form sufficient to meet the firm's fixed operating expenses and liabilities due in the next six calendar months. The firm defines "liquid" as having instant access to funds (current bank accounts, overnight accounts and daily dealing investments). The firm defines "readily realisable" as other funds that can be realised within three working days without significant erosion of their carrying value to the business. The firm's liquidity policy determines the liquidity risk tolerance. A breach of the in-house policy would trigger the implementation of contingency funding arrangements.

The liquidity of the firm's assets is monitored through a monthly financial reporting process. The firm's liquidity is measured by the amount of cash held at the bank. At 31 March 2020 this amounted to £1.4m (31 March 2019: £1.4m).

Material risks considered

There are a number of risks that the firm faces, whether direct or indirect. This includes all issues which would affect the firm from a control and oversight perspective. The firm is required to determine whether any of those risks would jeopardise the firm's ability to maintain sufficient capital in order that it can continue to protect its client's interests or the interests of the market. The firm considers the most important risks it faces are:

Risks Internal and External, Present and Future	Overall Risk rating H / M / L	Additional notes	Mitigating controls & management actions	Additional Capital Required
Failure to adhere to the investment strategy and objectives of the Funds	L	Failure to adhere to the agreed strategy could result in a lawsuit and significant damage to the Firm's reputation	• All investment advice from the advisor is reviewed and approved by ODAM • New investments are subject to review and analysis by the Risk Committee to ensure there is no 'style drift' • Compliance controls within Alphadesk designed to minimise risk of trading outside investment strategy • Daily NAVs produced by ODAM and the Administrator	Nil
Poor relative investment performance over the medium to long term	M	Sustained poor investment performance will lead to redemptions and significant damage to the Firm's reputation as a high quality boutique fund manager	• Recruitment of high quality, experienced investment managers and advisers • Succession planning for senior investment professionals • Investment risk meetings to monitor and check on fund performance and investment decisions	Nil
Poor fund liquidity management	L	Poor liquidity of the underlying investments may impact the Fund's ability to repay redemptions in a timely manner	• Investment liquidity in each Fund is monitored monthly • Quarterly Risk Management meetings monitor the liquidity of investments in each Fund • Liquidity of each Fund is stress tested on a regular basis • Experience of closing funds and repaying all investors in an orderly and timely manner	Nil
Significant reduction in funds under management	M/H	There are a range of factors, such as widespread market turmoil or failures, which are beyond control	• Two funds managed, one of which is open-ended • Strong relationships with institutional investors and ability to provide fund vehicles and tailor Share Classes to meet their needs • Experience Business Development team to rebuild AUM • Experienced portfolio managers employed and team of analysts in Mumbai	Nil
Loss of IM mandate/ fund closure	M/H	ODAM maintains close and regular contact with the investors in the funds and with the Board of its Funds	• Ability to manage its cost base if the business suffers the closure of a fund • Contingency funding in place to cover this eventuality • Ultimately a timely and orderly wind-down is provided for in stress testing	Nil

Risks Internal and External, Present and Future	Overall Risk rating H / M / L	Additional notes	Mitigating controls & management actions	Additional Capital Required
Lack of diversification of geographical area of fund investments	H	The Firm has only two funds and a concentrated investor shareholder base	• The Firm is a boutique single country fund manager so concentration risk is an issue for the Firm for which additional capital has been allocated	£30,000
High percentage of total AUM being held by relatively few investors in the Funds	M/H	A low number of high percentage investors in a fund significantly increases the impact of the loss of one investor in the fund	• Marketing resource increased so as to expand the reach of potential investors in the Funds	Nil
Loss of key staff	M	In a small team, one key person's unplanned departure would have a significant impact	• Incentives for key staff to remain • Extended notice periods and restrictive covenants • Cover can be provided by other staff in short-term • Succession planning for senior management	Nil

Regulatory capital
ODAM is a limited liability company and its capital arrangements are established in its Articles of Association. Its share capital consists of 41,080 ordinary shares of 1p each representing a nominal value of £411. As at 31 March 2020 there were no options in issue on the share capital of the firm.

The main features of the firm's capital resources as at 31 March 2020 for regulatory purposes are as follows:

Capital	**£'000**
Total tier one capital after deductions	721*
Total tier two capital after deductions	-
Total tier three capital after deductions	-
Total regulatory capital	**721**

* **Excludes £345,000 of unaudited profit for the year ended 31 March 2020**

Pillar 1 capital
ODAM is a BIPRU limited licence 50k firm and as such its Pillar 1 capital requirements are the greater of:
a) Its base capital requirement of €50,000; or
b) the sum of its market and credit risk requirements; or
c) its Fixed Overhead Requirement ("FOR").

A summary of the firm's Pillar 1 requirement is shown below:

		£'000
Base Capital Requirement (a)		44
Credit Risk Requirement	43	
Market Risk Requirement	8	
Concentration Risk Requirement	30	
Sum of Credit and Market Risk Requirement (b)		81

Fixed Overhead Requirement (c)	230
Pillar 1 requirement (Higher of a, b or c)	**230**

Pillar 2

In addition to the minimum level Pillar 1 requirements, the firm must also hold sufficient additional capital, and maintain sufficient liquidity, that senior management deem necessary based on the risks faced by the business. The assessment and quantification of this additional capital requirement is documented as part of the firm's Internal Capital Adequacy Assessment Process (ICAAP) which is designed to help the firm's consideration of the risks to business activities, to consider how they are managed and to determine the level of additional risk based capital the firm should hold (Pillar 2), or additional liquidity, in order to mitigate those risks.

No further Pillar 2 capital or liquidity is required to mitigate any risks faced by the business because the firm's business risks are adequately mitigated by the basic capital requirements as defined by the FCA;

- The P&L of the firm is sensitive to the fees received from investment management activities but the review has not identified any material risks to the revenues or capital base from this activity;
- The firm does not forecast or foresee any combination of risk events occurring concurrently;
- The risk management process is well developed and sufficient for the business;
- The firm has sufficient liquidity to manage the liquidity risks (which are primarily cash flow).

The firm's total capital requirement is therefore £230,000 and with regulatory capital of £721,000 it has a capital surplus of £491,000 representing an FCA Solvency Ratio of 314%.