Brompton Asset Management Group LLP Pillar 3 disclosures

1. Capital resources

1.1 Introduction

Brompton Asset Management LLP (Brompton) is authorised and regulated by the Financial Conduct Authority (FCA). Brompton is subject to the FCA's prudential rules for banks, building societies and investment firms. The rules, which are designed to increase investor protection, require Brompton to assess the adequacy of its capital resources given its risks.

The prudential framework for investment management firms consists of 'three pillars'.

- Pillar 1 sets out the minimum capital requirements for the investment manager to cover credit, market and operational risk.
- Pillar 2 requires firms to undertake an overall assessment of their capital adequacy, taking into account the risks to which they are exposed and whether additional capital should be held to cover risks not adequately covered by Pillar 1 requirements.
- Pillar 3 compliments Pillars 1 and 2 by requiring firms to disclose information on their capital resources and requirements, governance and risk management framework. It also requires disclosure of a firm's remuneration policy for certain categories of staff.

This document is designed to meet Brompton's Pillar 3 obligations. Firms are permitted to omit disclosures if they believe the information is either immaterial or if the information could be regarded as proprietary or confidential.

1.2 Basis of disclosures

Brompton is a discretionary investment manager based in London and incorporated in England and Wales as a limited liability partnership. It provides discretionary investment management services to fund management groups, financial advisers, investment companies, private clients, including family trusts and pension plans, and charities.

The firm is a 'Limited Licence' firm with a requirement to hold capital of at least €50,000. It is not authorised to hold customers' assets, including client monies, and does not trade on its own account. Brompton is also subject to consolidated financial supervision.

The firm is a wholly-owned subsidiary of Brompton Asset Management Group LLP, which also owns a real estate investment management subsidiary. All Pillar 3 disclosures are on a consolidated basis.

The Pillar 3 disclosures are based on the Group's financial position at 31 March 2017. The information included in this document is unaudited and has been produced solely to meet the Pillar 3 disclosure requirements.

1.3 Risk management framework

Brompton's management committee determines the business strategy and risk appetite and the design and implementation of a risk management framework. Brompton has established a risk management framework appropriate for the size and nature of its business. Under the Group's business model:

- Brompton does not give investment advice;
- Brompton does not hold customers' assets and all assets managed or advised by Brompton are held by large independent custodians;
- Brompton does not hold client monies;
- Brompton concentrates on multi-asset investing and direct property investment only, offering very selective investment services;
- Brompton does not take positions as principal; and
- Brompton uses well-known and well-respected third parties to undertake the administration of monies managed on behalf of clients.

The main risks to which Brompton is exposed are set out below.

(1) Operational risk

Operational risk is the risk of loss arising from failed or inadequate internal processes or systems, human error or other factors. The risk is managed by the partners and senior management, who have responsibility for implementing appropriate controls for the business. The compliance function reviews the operation of these controls.

(2) Market risk

Brompton does not hold positions in market-related assets. Brompton's revenue is, however, exposed to market movements and, therefore, market risk. If the assets under management (AUM) fall, the fees earned from those AUM will reduce.

Brompton has mitigated some market risk by broadening its client base and the asset classes in which it invests. Brompton has also agreed fee bases that are not always dependent on the level of AUM.

(3) Liquidity risk

Liquidity risk is the risk that the group may be unable to meet its payment obligations as they fall due.

BROMPTON
ASSET MANAGEMENT

Brompton Asset Management Group LLP Pillar 3 disclosures

Brompton's liquidity policy is to maintain sufficient liquid resources to cover any cash flow imbalances in fees received or receivable. Brompton continually monitors income and spending levels to ensure there is always enough liquidity.

(4) Credit risk

Credit risk refers to the likelihood that customers fail to meet their obligations as they fall due.

Brompton has limited credit risk from the non-payment of investment management fees because most clients have their fees deducted from their underlying portfolios. Brompton also has a credit exposure to its banks but this is considered remote.

(5) Client risk

A significant loss of large clients would result in reduced fund management revenue.

Brompton has mitigated this risk by diversifying its client base, obtaining long-term contracts where appropriate and possible, managing Partner's assets and by concentrating on delivering investment performance and client service.

(6) Key personnel risk

Key personnel risk is the risk of losing one of the main partners. This could have an adverse effect on the growth of the business and/or the retention of existing business.

Brompton's partnership structure and values helps to recruit, develop and retain key personnel. As is common with most small businesses, Brompton does, however, depend on a few key personnel.

(7) Investment performance risk

Investment performance risk is the risk that funds or accounts underperform. Underperformance could result in reduced revenue and redemptions by clients and could also adversely affect the growth of the business.

Brompton mitigates this risk by having a robust investment process, experienced fund management personnel and the involvement of risk and performance personnel in the investment process, rather than as monitors.

(8) Regulatory risk

Regulatory risk is the risk that a change in the regulations or the interpretation of them will affect Brompton's business significantly.

Regulatory developments are monitored by compliance and the implications of changes are considered and dealt with.

1.4 Regulatory capital

The only regulated company within Brompton is a 'Limited Licence' firm. Thus the Group capital requirements are the greater of:

- Its base capital requirement of €50,000; or
- the sum of its market and credit risk requirements; or
- its 'Fixed Overhead Requirement' (FOR), which is assessed to be £ 922,000.

Brompton has a relatively simple operational and regulatory framework. Thus, Brompton's FOR exceeds the base capital requirement and the aggregate of its market and credit risks. Brompton's Pillar 1 capital requirement has, therefore, been determined by reference to its FOR of £ 922,000

Brompton's capital position at 31 March 2017 is summarised as follows:

Regulatory capital	Group £'000	Firm £'000
Partnership capital	1,705	625
Undistributed partnership profits	3,398	1,144
Deduct intangible assets	(615)	-
Tier 1 capital	4,488	1,769
Total capital resources	1,095	1,769
Total capital requirement	992	518

2. Remuneration code

Brompton is classified as a proportionality level 3 firm in accordance with the FCA's 'Remuneration Code' (Code).

Given the size and nature of Brompton's operations, Brompton has not established a separate remuneration committee. Instead Brompton's management committee has responsibility for the overall remuneration philosophy and for determining the remuneration of partners and other staff.

The majority of Brompton personnel are also partners of Brompton. They benefit from Brompton's long-term growth. Apart from a salary and a set share of partnership profits, they may benefit from additional rewards that recognise their individual performances in a particular period. Such rewards take into account a number of different factors including the promotion of sound and effective risk management, the level of risk taking, compliance and building a long-term business.

Brompton has identified its Code staff for the financial year to 31 March 2017, comprising those fulfilling controlled functions, those who are deemed risk takers, senior management and senior asset managers. The estimated total remuneration and profit share in respect of the year to 31 March 2017 for Code staff was £2.8 million, the majority of which could be deemed to be partnership profit share.