

Pillar 3 Disclosure - Overview

The Capital Requirements Directive ("the Directive") of the European Union established a revised regulatory capital framework across Europe governing the amount and nature of capital that investment firms such as Sand Aire Limited ("SAL"), Lord North Street Limited ("LNS") and Northbridge Management Limited (NML) must maintain, including provisions for compensation. Implementation of the Directive in the United Kingdom was by way of rules introduced by the Financial Conduct Authority ("the FCA") through the General Prudential Sourcebook ("GENPRU"), the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"), the Prudential Sourcebook for Investment Firms ("IFPRU") and the Senior Management Systems and Controls Sourcebook ("SYSC").

The disclosure requirements of Pillar 3 aim to complement the minimum capital requirements of Pillar 1 and the supervisory review process of Pillar 2 and aim to encourage market discipline by enabling market participants to assess key pieces of information on risk exposures and the risk assessment processes of the company.

The FCA framework consists of three 'Pillars':

1. Pillar 1 establishes the minimum capital retention requirements that we must have to meet credit, market and operational risk exposures;
2. Pillar 2 involves an assessment by us, and the FCA, of whether our Pillar 1 capital is adequate to meet our risk exposures and whether there is any requirement to hold additional capital in respect of any risks not covered by Pillar 1; and
3. Pillar 3 requires us to disclose specified information about our policies for managing risk and our capital requirements and compensation arrangements.

The rules of BIPRU chapter 11 provide that the firm may omit one or more of the required disclosures if it believes that the information is immaterial. SAL, LNS and NML believe information should be considered as material if its omission or misstatement could change or influence the assessment or decision of a user relying on it to make economic decisions.

Additionally the firm is permitted to omit one or more of the required disclosures where it believes that the information is regarded as proprietary or confidential. SAL, LNS and NML consider proprietary information to include information on products or systems which, if shared with competitors, would render SAL, LNS and NML interests therein less valuable. Confidential information is considered to be where SAL, LNS or NML has obligations to customers, suppliers or other counterparty relationships binding SAL, LNS or NML to confidentiality.

SAL, LNS and NML consider that they have made the disclosures in accordance with BIPRU 11.

Frequency of Disclosure

This disclosure document has been prepared by Sandaire Investment Office ("Sandaire"), which comprises Sand Aire Limited and Lord North Street Limited, and Northbridge Management Limited, all of which are companies incorporated under the laws of England and Wales and are all

authorised and regulated by the Financial Conduct Authority (“FCA”) in the United Kingdom, in accordance with the requirements of Pillar 3.

Disclosures will usually be made on an annual basis and published as soon as practicable after the audit of the annual financial statements but this Disclosure may be updated at other times.

Location and verification

This Disclosure was approved by the Statutory Boards and then published on Sandaire’s website www.sandaire.com. The Disclosure is not subject to audit.

Scope of application

The Disclosure covers the three regulated firms on an individual basis.

Risk management

The main areas of risk to which Sandaire and NML are exposed are market risk, credit risk, operational risk and concentration risk. These risks are reviewed at least annually as part of the Internal Capital Adequacy Assessment Process (“ICAAP”). Individual risks are identified and their impact on the business and likelihood of occurring are assessed and recorded. Controls are then identified which mitigate the impact of each risk.

Sandaire performs detailed stress testing based upon a business plan/budget. This testing assesses the impact of a business downturn event on the company’s ability to continue trading.

The ICAAP is formally approved by the Statutory Boards.

Market risk

Sandaire is exposed to market risk as a significant proportion of its income is based on funds under management, as such a downturn in markets would impact revenues. The risk is reduced by using asset allocation strategies which provide well diversified offerings with limited exposure to any one asset class.

Credit risk

Sandaire’s principal exposure to credit risk relates to non settlement of fees by clients and by the Funds which we manage. Fees from Funds are paid on a monthly basis and there are financial systems and controls in place to manage late payment.

With respect to client fees, the small number of clients and the close relationship with each means that any fee related issues may be quickly resolved.

Operational risk

Operational risk refers to inadequacies or failures in processes, people or systems or from external events.

Sandaire operates a robust risk management control system to identify and reduce the companies' exposure to risks.

Concentration risk

Concentration risk arises from a lack of diversity in business activities where, for example, there is reliance on a substantial client or an individual commercial relationship. Sandaire has a fully resourced front office team which enables it to provide the desired level of service to existing clients and to seek new business opportunities. Sandaire regularly evaluates the impact on the business of losing a significant client.

Capital Resources

Throughout 2016, SAL, LNS and NML complied with the Capital Requirements Directive.

SAL is an IFPRU Limited Licence Firm permitted to hold client money and is also approved as an Alternative Investment Fund Manager and a Collective Portfolio Management Investment Firm. As such its capital resources requirements are the greater of:

- Base capital requirement of €125,000 plus, if funds under management exceed €250,000,000, 0.02% of the excess, subject to a maximum of €10,000,000.
- Fixed Overhead Requirement
- Sum of the market and credit risk requirements

LNS is a BIPRU Limited Licence Firm. As such its capital resources requirements are the greater of:

- Base capital requirement of €50,000
- Fixed Overhead Requirement

NML is a BIPRU Limited Licence Firm. As such its capital resources requirements are the greater of:

- Base capital requirement of €50,000
- Fixed Overhead Requirement

The capital resources of SAL, LNS and NML as at 1 January 2017 were:

Company	SAL	LNS	NML
	£'000	£'000	£'000
Tier 1 Capital	21,353	1,218	201
Deductions from Tier 1	-18,806	0	0
Tier 2 Capital	0	0	20
Deductions from Tier 2	0	0	0
Tier 3 Capital	0	0	0
Deductions from Tier 3	0	0	0
Total Capital after deductions	2,547	1,218	221
Capital Resources Requirement	1,799	482	43
Surplus	748	736	178

Pillar 3 Remuneration Disclosure

SAL, LNS and NML as Limited Licence Firms are subject to FCA Rules on remuneration (although NML has no employees). These are contained in the FCA's Remuneration Code located in the SYSC Sourcebook of the FCA's Handbook. SAL is also an Alternative Investment Fund Manager (AIFM) and is therefore subject to the AIFM Remuneration Code also located in the SYSC Sourcebook. The Remuneration Code ("the Rem Code") covers an individual's total remuneration, fixed and variable and SAL and LNS incentivise staff through a combination of the two.

Our team are the most important element of our business. In light of this Sandaire aims to recruit and retain talented people who, acting both individually and as a team, can add value to the business and help the business continue to grow and develop, in the best interests of all stakeholders, clients, shareholders and employees.

It is this direct alignment of interests that has been considered when developing and shaping Sandaire's Remuneration Policies. To ensure that the overall remuneration plans (base salary packages, discretionary annual bonus and longer term incentivisation schemes) are appropriate for the business and will help it to achieve its goals.

These are detailed in our Remuneration Policy Statement ("RPS") which has been approved by both Sandaire and the Remuneration Committee of its parent company, Applerigg Limited ("Applerigg").

The RPS will be reviewed as part of an annual process and at other times, as appropriate, if a significant change to the business requires it.

In summary our Remuneration Policy is designed to ensure that we comply with the Rem Code and that our compensation arrangements:

1. are consistent with and promote sound and effective risk management;
2. do not encourage excessive risk taking;
3. include measures to avoid conflicts of interest; and
4. are in line with the Firm's business strategy, objectives, values and long-term interests.

Proportionality

Enshrined in the European remuneration provisions is the principle of proportionality. The FCA has sought to apply proportionality in the first instance by categorising firms into 4 tiers. SAL and LNS fall within the FCA's fourth proportionality tier and as such this disclosure is made in line with the requirements for a Tier 4 Firm.

Sandaire has disapplied the following rules of the code:

1. SYSC 19A.3.47R;
2. SYSC 19A.3.49R;
3. SYSC 19A.3.51R.

Application of the requirements

We are required to disclose certain information on at least an annual basis regarding our Remuneration policy and practices for those staff whose professional activities have a material impact on the risk profile of the firm. Our disclosure is made in accordance with our size, internal organisation and the nature, scope and complexity of our activities.

The key components of the RPS are summarised as follows:

Base Salary - Sandaire aims to pay a market related salary noting that for the senior staff the focus is on total compensation rather than each component of remuneration individually.

Discretionary Annual Bonus - Sandaire recognises and rewards the performance of its staff in a given financial year through an annual bonus scheme, which covers all employees. This is directly linked to the consolidated pre-tax profits so that there is a full and direct correlation between the annual profits, the bonus pool generated from this performance and distribution of this pool to the team.

All bonus awards, which are wholly discretionary in that there are no guaranteed bonuses or individual payments linked directly to profits, are approved by the Remuneration Committees of Sandaire and, where appropriate of Applerigg. The award takes account of an individual's total contribution, not just financial considerations, but a more general assessment of their role, responsibilities and overall performance as part of a small unified team, which is focused on a single set of common aims and objectives.

It should be noted that the level of Sandaire's income, and hence its profits, is linked to the amounts that have been or will be invoiced to clients with respect to the same financial year as that used to determine the bonus pool. Future earning streams are not considered.

Sandaire's governance structure helps to mitigate the likelihood of any excessive risk taking or behaviour that may adversely impact the long term growth of the business and also ensures that all risk and compliance matters are communicated effectively and efficiently within and across the business and thus are readily available for consideration in determining individual bonuses.

Share Scheme - Sandaire has used and intends to use share schemes which allow employees who are adding strategic value to the business to participate in the equity. Employees other than those classified as Code Staff below are eligible to participate. Employees have to pay the "Unrestricted Market Value" for these shares and therefore effectively only benefit from the gain in the shares after they have been acquired and not for any period prior to their issue. It should also be noted that as employees are committed to paying the full market value for the shares at the time of issue, they will suffer a loss if the value of the shares subsequently falls.

Code Staff

As SAL and LNS are relatively small companies, ultimate responsibility and accountability is focused on a limited number of individuals. Sandaire has classified the following as Remuneration Code staff as at the date of this statement (31/05/17):

SAL

Alexander Scott - Executive Chairman

Alexandra Altinger - Chief Executive Officer

Kevin Corrigan - Director (appointed 2016)

Charlotte Filsell - Director (appointed 2016)

George de Courcy Wheeler - Director (appointed 2016)

Bruce Offergelt - Director
Andrew Waldren - Director (appointed 2017)

LNS

Alexander Scott - Executive Chairman
Alexandra Altinger - Director
Charlotte Filsell (appointed 2016)
George de Courcy Wheeler - Director
Bruce Offergelt - Director
Kevin Corrigan - CF30 (CIO) (appointed 2016)
Andrew Waldren CF28 (COO) (appointed 2017)

Alexander Scott and Bruce Offergelt are also executive directors of Applerigg but are not members of the Applerigg Remuneration Committee.

The Code Staff have been determined with respect to their involvement in the general management of the business and their individual responsibilities. The aggregate compensation expense for these Code Staff in the financial year ending 31 December 2016 was £1,329,375 and compensation totalling £704,514 was paid to other staff who were classified as Code Staff for part of the year but are not listed above.