Pillar 3 Disclosure

Executive Summary

The Pillar 3 disclosure provides information on risks, capital and risk management arrangements of the Applerigg Limited UK Consolidation Group ("the Group"), which comprises the following companies:

- Sand Aire Limited ("SAL" or the "Firm") – subject to prudential consolidation as it is a regulated BIPRU firm being caught by the consolidation requirements in BIPRU 8.5.1R;
- Applerigg Limited ("Applerigg") – is defined as a Financial Holding Company as its main role is to acquire holdings in institutions or financial institutions and would therefore be in scope of consolidation per BIPRU 8.5.1R;
- Yealand Group Limited ("YGL") - is defined as a Financial Holding Company as its main role is to acquire holdings in institutions or financial institutions and would therefore be in scope of consolidation per BIPRU 8.5.1R;
- Carvetian Capital Management Limited ("CCML") – a UCITS management firm is an indirect subsidiary of a Financial Holding Company and is therefore subject to the regulation of that company (ie a BIPRU firm per BIPRU 8.5.3);
- Yealand Administration Limited ("YAL") – may as it provides administration services for collective investment schemes to both third party investment management groups, be defined as an ancillary services entity. The definition of an ancillary services entity is "… the principal activity of which consists of owning or managing property, managing data-processing services, or a similar activity which is ancillary to the principal activity to one or more institutions." YAL meets the definition of an ancillary services entity as:
  - Its principal relationship is with other entities within the Group (ie over 50% of turnover received from CCML.)
  - Its services are essential to CCML's fund management activities and there is a close relationship between the two entities, including the fact that most staff costs are borne by YAL.

The following two firms are no longer part of the Group as they are in the process of being wound down:

- Lord North Street Limited
- Sand Aire (Singapore) (PTE) Limited.

At the end of June 2020 the Group had Tier 1 Capital Resources of in excess of £6.85m, with a Pillar 1 Capital Requirement of £3.07m.

The Group maintains detailed risk registers which provides detailed analysis of the assumptions used, the risks identified, risk owners and base values, along with the Pillar 2 residual risk.

The current Group Pillar 2 residual risk requirement is £1.94m.

SAL's Pillar 3 Remuneration Disclosure is also included.

<u>Background</u>

The Group is consolidated under CRD III ("the Directive") and the FCA rules in BIPRU. SAL is controlled by an EEA Parent Financial Holding Company (Applerigg) and therefore must comply with the obligations laid down in BIPRU 11.3 on the basis of the consolidated financial situation of that EEA Parent Financial Holding Company.

The Directives consist of three 'Pillars':

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

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.

As the BIPRU firm within the EEA Group, SAL offers expert investment counsel to private clients, multigenerational families, charities and foundations seeking long-term support with their financial goals. SAL provides investment management, investment advice and other related family office services. SAL is incorporated under the laws of England and Wales and is authorised and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom.

<u>Materiality, Proprietary and Confidentiality</u>

The FCA's rules provide that the Group may omit one or more of the required disclosures if it believes that the information is immaterial. The Group believes 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 Group is permitted to omit one or more of the required disclosures where it believes that the information is regarded as proprietary or confidential. The Group considers proprietary information to include information on products or systems which, if shared with competitors, would render it's interests therein less valuable. Confidential information is considered to be where the Group has obligations to customers, suppliers or other counterparty relationships binding it to confidentiality.

The Group considers that they have made the disclosures in accordance with the rules.

<u>Frequency of Disclosure</u>

This Pillar 3 disclosure document ("the Disclosure") has been prepared by SAL.

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.

<u>Location and verification</u>

This Disclosure was approved by the Audit and Risk Committee and Board of SAL and the Statutory Board of Applerigg and then published on SAL's website www.sandaire.com. The Disclosure is not subject to audit.

<u>Scope of application</u>

With the exception of the Pillar 3 Remuneration Disclosure, the Disclosure covers the Group.

<u>Risk management Governance</u>

The governance structure, including that relating to risk management, and the main areas of risk are outlined below.

The Statutory Board of Applerigg is responsible for the overall management and development of the Group's business in line with the strategies agreed with the subsidiary companies. Applerigg has established a Group Risk Committee. This committee, which has clear terms of reference, is not a sub-committees of the Board but, with their members drawn from all the operating businesses, it is a forum to consider the risks from a consolidated perspective and provide key information to the Applerigg board to assist in its Risk oversight.

The risks faced by each operating businesses are identified, monitored and managed by the management teams and reviewed by the respective Boards as part of their governance structure. This includes the assessment of each risk first in terms of its probability (the likelihood that the risk will occur) and second its financial impact. These metrics together with the base cost associated with each risk are used to prepare the data required to calculate the consolidated Pillar 2 capital requirement. The Group policy is to use the risk assessment that has been undertaken by the operating businesses to calculate the gross Pillar 2 requirement for the Group, and then adjust this for mitigating factors that would reduce the aggregated figure and also increase it where the aggregation does not cover the perceived consolidated group risk.

The key risks assessments that the businesses face are reflected in a Group Risk Register and in Risk Management Procedures. The Risk Registers are subject to regular review at the appropriate Executive Committee and Audit and Risk Committee along with the Boards of the Group companies.

The Applerigg Board receives regular reports from each business function and any material risks identified are managed and controlled as appropriate.

Under BIPRU 11.2.4R SAL is controlled by an EEA Parent Financial Holding Company and must comply with the obligations laid down in BIPRU 11.3 on the basis of the consolidated financial situation of that EEA Parent Financial Holding Company. It is however the responsibility of the SAL Board to ensure compliance with the BIPRU regulations, and as such more detail is provided below on SAL.

<u>Sand Aire Limited Board ("SAL")</u>

<u>Executive</u>

James Fleming (Chief Executive Officer)
Andrew Waldren (Chief Operating Officer)

<u>Non-Executive</u>

Warwick Newbury (Chairman)
Christopher Scott
Oliver Sargent
Bruce Offergelt
Vincent Thompson

The executive directors together with the following form the management team and serve as member of the Executive Committee:

Marc Cane	Head of Risk and Compliance
James Smart	Chief Financial Officer
Andy Mattocks	Head of Corporate Development
StJohn Gardner	Chief Investment Officer
Charlotte Filsell	Head of Family Office Services
Michael Mowlem	Managing Director, Private Equity
Chris Horler	Managing Director, Real Estate

The key committees within SAL are the:

Audit and Risk Committee ("ARCo")
Remuneration Committee ("RemCo")
Executive Committee ("ExCo)
Client Committee ("ClientCo")
Investment Governance Committee ("InvCo") incorporates the Valuation Committee ("Val Co")
Operations Committee ("OpsCo")

The SAL Board oversees the risk appetite and profile of the Firm and ensures that business developments are consistent with the Risk Appetite and goals of the Firm, along with its parent company, Applerigg. The Board reviews and endorses SAL's risk management framework, which includes the establishment of policies for the control of risk. The Board receives information on the risk profile of SAL, breaches of the policy framework and external developments that may have some impact on the effectiveness of the risk management framework. It also approves significant changes to risk management policies and framework and approves the Firm's risk appetite annually. The Board also ensure that the risk culture remains strong and that controls are respected by staff – this is achieved by the Board setting clear expectations regarding appropriate behaviours; and implemented by the Firm's Senior Management through their leadership actions and communication, organisational governance, and the setting of incentives and consequences for SAL staff.

The SAL risk governance structure is made up of the following committees outlined below, which aid senior management and the Board in the identification, assessment, monitoring and management of risk in Sandaire.

	Board Committees		
	Sand Aire Ltd Board	Audit & Risk Committee	Remuneration Committee
Purpose / scope	Responsible for: • strategic decision making; • risk appetite and managing risk effectively; • oversight of the effectiveness of the day-to-day management of the business and supporting committees.	Responsible for: • oversight of the strategy for, attitude to and appetite for risk generally and operational, investment, reputational and prudential risk specifically.	Responsible for: • ensuring effective policies and procedures to remunerate, reward and incentivise staff; • ensuring these encourage the 'right' behaviour and support our culture, values & risk appetite, and fully comply with all legal and regulatory requirements.
Membership	Chairman* NED 1 NED 2 NED 3 CEO COO CFO^ Head of RIC^	NED 1* Chairman NED 2 CEO^ CFO^ COO^ Head of R&C^	Chairman* NED 1 NED 2 CEO^

* Denotes chairperson; ^Denotes non-member attendee

Management Committees	Executive Committee	Client Committee	Operating Committee	Investment Governance Committee
Purpose / scope	Responsible for: • effective and efficient day-to-day operations of the business; • develop and deliver strategic and annual business plans; • managing business risks, including culture, values and conduct; • ensuring appropriate systems and processes; • maintaining adequate capital resources; • evaluating each prospective new client, new business or new product / service opportunity, ensuring these are suitable for Sandaire, the client, consistent with our risk appetite, can be delivered effectively, and appropriately priced.	Responsible for: • delivering the revenue side of the P&L, and the client / external part of annual business plans; • ensuring individual client retention and segment / department growth plans are in place; • review and co-ordination of all client, marketing and business development activity.	Responsible for: • delivering the cost side of the P&L, and the infrastructure / internal part of annual business plans; • cross-business operating model, change, IT, processes, business management, control, risk management, and capital adequacy; • ensuring functional plans are in place; • the pricing of investments that are not effectively priced by an independent third party, ensuring that the methodology is suitable and appropriate and consistent with the investment process.	Responsible for: • reviewing all market, economic and other data relevant to the investment process; • considering and revising, as appropriate, the asset allocation used to ensure that individual investment decisions for each portfolio are suitable and in line with the client's risk appetite; • evaluating illiquid (PE and RE) investments, restructurings and disposals, ensuring these are suitable for Sandaire, clients, consistent with our risk appetite, deliverable, and profitable; • oversight of the overall business level IM, PE and RE portfolio; • ensuring a compelling IM, PE and RE proposition, and robust investment process.
Membership	CEO* CFO COO Head of R&C Head of CD Head of CRM CIO MD of PE MD of RE	CEO* Head of FOS (CRM) Head of CD MD of PE MD of RE Head of Marketing^ FOS (CRM) Directors / representative* RE Director^	COO* CEO CFO Head of CD Head of R&C Head of IT Head of Change Head of Ops Head of CST Head of HR	CIO* CEO COO MD of PE MD of RE IM Directors PE Directors RE Directors Head of R&C^

* Denotes chairperson; ^Denotes non-member attendee; subject to detailed terms of reference

The main areas of risk to which SAL are exposed are market risk, credit risk, operational risk, liquidity risk, business risk and group risk. These risks are reviewed at least annually as part of the Internal Capital Adequacy Assessment Process ("ICAAP"), however more frequent reviews of the risk register take place by the ExCo and at the quarterly ARCo meetings. 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.

SAL performs detailed stress testing based upon a business plan/budget. This testing assesses the impact of a business downturn event on the companies' ability to continue trading.

The Group ICAAP is formally approved by the SAL ExCo, SAL ARCo and the SAL Board, along with the Boards of the other Group Companies.

The main areas of risk are defined as follows:

Market risk

Market risk is the risk arising from fluctuations in the values or income from assets, or from movement in interest and/or exchange rates. As SAL does not have a trading book or invest in tradeable assets, the only market risk is to foreign exchange risk on non-sterling balances arising from fees charged and settled in currencies other than sterling.

The risk is reduced through monitoring the balances and converting to sterling any funds not required to fund expenses in that currency when we have sufficient funds to achieve a market rate.

Credit risk

Credit and counterparty risk is the risk of loss arising from the default of a counterparty, which results in a loss to SAL.

The key sources of credit and counterparty risk are;

- Bank deposits
- Travel and other receivables
- Prepayments

SAL holds bank deposits with banks with good quality ratings and with whom we have a long established relationship.

Fees charged to clients are currently SAL's only source of income. The small number of clients and the close relationship with each means that any fee related issues, including late payment, should be quickly resolved.

Prepayments are created where SAL pays in advance for a service that is received over an extended time period. SAL are careful in selecting their service providers to best ensure that the service will be delivered.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external causes.

These failures can be deliberate, accidental or natural. Operational risk is one of the most significant risks for SAL as people and systems play a major role in our operations.

Liquidity Risk

This is the risk that either SAL, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

Business Risk

Business risk arises from a change in the business as a result of both internal decisions/actions and external factors/events.

Group Risk

Group risk covers first the risk that the financial position of Applerigg may be adversely affected by its relationship (financial or non-financial) with any other group company, and second, the risks faced by the consolidated Applerigg Group, which may affect the financial position of the whole group, e.g. reputational contagion.

Capital Resources

SAL has complied with the Directive.

As of June 2020 SAL is a BIPRU Firm that it is not permitted to hold client money. Its capital resources requirements are the greater of;

- Base capital requirement of €50,000
- Fixed Overhead Requirement
- Sum of the market and credit risk requirements

The capital resources and Pillar 1 capital requirements of SAL at 30 June 2020 were:

	£000s
Tier 1 Capital	12,311
Deductions from Tier 1	(7,458)
Total Capital after Deductions	4,854
Pillar 1 - Fixed Overhead Requirement	2,159
Pillar 1 Capital Surplus	2,695

Pillar 3 Remuneration Disclosure

SAL is subject to the FCA Rules on remuneration. These are contained in the FCA's Remuneration Code located in the SYSC Sourcebook of the FCA's Handbook. The Remuneration Code ("the Rem Code") covers an individual's total remuneration, fixed and variable and SAL incentivises staff through a combination of the two.

The SAL team is the most important element of its business. In light of this SAL, 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 SAL's Remuneration Policy 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 the SAL Remuneration Policy Statement ("RPS") which has been approved by the RemCo and is in line with remuneration guidelines approved by Applerigg. The RemCo comprises only the non-executive directors.

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, the SAL Remuneration Policy is designed to ensure that it complies with the Rem Code and that the 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 SAL's business strategy, objectives, values and long-term interests

<u>Diversity</u>

SAL is an equal opportunities employer and our policy is to ensure that all employees and applicants seeking employment are treated fairly and on merit regardless of their gender, gender reassignment or sexual orientation, age, race, religious belief, disability, marital/civil partnership status, pregnancy or maternity. This applies to Executive and Non-executive directors.

SAL seeks to create a working environment and encourage a culture where all staff are able to further develop their skills and knowledge and where progression is based upon merit.

<u>Proportionality</u>

Enshrined in the European remuneration provisions is the principle of proportionality. This has been considered and is reflected in this Disclosure.

Specifically the FCA has sought to apply proportionality in SYSC 19C.3.34G and FG17/7 General Guidance on Proportionality – The BIPRU Remuneration Code (SYSC19A) and Pillar 3 disclosures on Remuneration (BIPRU 11).

In accordance with these rules SAL has dis-applied the following rules of the code:

1. SYSC 19C.3.40R;
2. SYSC 19C.3.44R;
3. SYSC 19C.3.47R;
4. SYSC 19C.3.49R;
5. SYSC 19C.3.51R.

<u>Application of the requirements</u>

SAL is required to disclose certain information on at least an annual basis regarding the RPS and practices for those staff whose professional activities have a material impact on the risk profile of the firm. The disclosure is made in accordance with the size, internal organisation and the nature, scope and complexity of SAL's activities.

The key components of the RPS are summarised as follows:

Base Salary – SAL 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 – SAL recognises and rewards the performance of its staff in a given financial year through an annual bonus scheme, which covers all employees. This is linked to the consolidated pre-tax results so that there is a correlation between the annual results, the bonus pool generated or determined with respect to these results 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 the income received or the consolidated results for SAL, are approved by the RemCo of SAL 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 SAL's income, and hence its overall result, 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.

SAL'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 – SAL has a share scheme, which allows employees 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 would suffer a loss if the value of the shares subsequently falls.

<u>Code Staff</u>

As SAL is a relatively small company, ultimate responsibility and accountability is focused on a limited number of individuals. SAL has classified the following as Remuneration Code staff as at the date of this statement (30 June 2020):

James Fleming – Director and Chief Executive Officer
Marc Cane – Head of Risk and Compliance
StJohn Gardner – Chief Investment Officer
Charlotte Filsell – Head of Family Office Services
Andy Mattocks – Head of Corporate Development
Andrew Waldren – Director and Chief Operations Officer
Michael Mowlem – Managing Director, Private Equity
Chris Horler – Managing Director, Real Estate
James Smart – Chief Financial Officer

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 the above Code Staff in the financial year ending 31 December 2019 was £1,872,813.(31 December 2018 - £1,392,621).