Pillar III disclosure

Pillar 3 Disclosure as at 31 December 2016
Delcap Asset Management Limited ('Delcap' or 'the Firm') is authorised and regulated by the Financial Conduct Authority ('FCA') and as such is subject to regulatory capital requirements and certain disclosure requirements.

The Firm is subject to the Capital Requirements Directive ('CRD III') and the rules in the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU'). As such, in respect of the MiFID business that the Firm has permission to conduct, the Firm is prudentially categorised as a BIPRU firm.

Delcap is also authorised as a full scope UK Alternative Investment Fund Manager ('AIFM') and has since been prudentially categorised as a Collective Portfolio Management Investment firm ('CPMI'), which is a BIPRU firm.

As a result, the Firm has been subject to the requirements of IPRU(INV) 11 for its AIFMD business in parallel with the applicable rules in GENPRU and BIPRU in respect of its MiFID business.

This Pillar 3 disclosure as at 31 December 2016 is produced in accordance with the disclosure requirements applicable to Delcap as a BIPRU firm and as established under CRD III and the rules in BIPRU 11 as applicable to the Firm.

The CRD III established the regulatory capital framework across Europe governing the amount and nature of capital that credit institutions and investment firms must maintain.
In the United Kingdom, the CRD III was implemented by the FCA in its regulations through the GENPRU and BIPRU sourcebooks.

The framework consists of three 'Pillars':

- Pillar 1 sets out the minimum capital requirement calculated for the firm's credit and market risk components;
- Pillar 2 requires the firm to assess whether its Pillar 1 capital is adequate and to evaluate the impact that any other risk types may have on the Firm's capital requirement; and
- Pillar 3 requires disclosure of specific information about the firm's risk management controls, capital adequacy and remuneration.

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As at 31 December 2016, the rules in BIPRU 11 set out the provision for Pillar 3 disclosure as applicable to a BIPRU firm.

The rules in BIPRU 11 allow to omit required disclosures if the Firm believes that the information is immaterial such that omission would be likely to change or influence the decision of a reader relying on that information.

In addition, the Firm is allowed to omit required disclosures where the information is regarded as proprietary or confidential. Proprietary information is regarded as any information which, if it were shared, would undermine the Firm's competitive position.
Information is considered to be confidential where there are obligations binding the Firm to confidentiality with customers, suppliers and counterparties.

Delcap has made no omissions on the grounds that information is immaterial, proprietary or confidential.

Scope of business
In regard to the 12 month period this Pillar 3 disclosure relates to, the relevant disclosures are made on the basis of requirements and the proportionality guidance for a full scope UK AIFM which is categorised as a CPMI and a BIPRU firm.

Delcap is incorporated in the UK and has a branch in Brussels, Belgium. The Firm provides three core services including the management of an Alternative Investment Fund ('AIF'), individual discretionary portfolio management and global portfolio monitoring. The Firm also provides ancillary services including investment advisory and assistance with private equity placement.

In regard to the Firm's management of an AIF, the Firm is appointed as the AIFM of the TowerView Fund, which is a Specialised Investment Fund domiciled in Luxembourg. Delcap conduct both the portfolio and the risk management of the AIF. The AIF has three sub-compartments, which include; TowerView Fund - Balanced, TowerView Fund - Growth and TowerView Fund - Long Term Investments.
The Firm is a subsidiary of Delori Capital Partners LLP, which is a limited liability partnership registered in Belgium.

DELCAP
ASSET MANAGEMENT

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Risk management
The Firm is governed by its Directors who determine its business strategy and risk appetite and ensure that risk is monitored and controlled effectively. They are responsible for establishing and maintaining the Firm's governance arrangements along with designing and implementing a risk management framework that identifies, monitors and manages the risks that the business faces.

The Directors determine how the risks relevant to the Firm may be assessed and mitigated and on an on-going basis the arrangements required to manage those risks. The Directors meet periodically and discuss current projections for profitability, cash flow, regulatory capital management, and business planning and risk management. The Directors manage the Firm's risks through a risk management framework supported by policies and procedures implemented according to the relevant laws, rules and standard practice. These policies and processes are updated regularly as required.

Annually the Directors formally review the Firm's risk controls and other risk mitigation arrangements and assess their effectiveness. Where the Directors identify material risks, they consider the financial impact that those risks may have on the Firm and conclude whether the allocation of any additional resources is required.

In addition, specifically for the purpose of managing and mitigating risk within the AIF, according to the regulatory requirements applicable to the AIFM investment management activities as prescribed in the Investment Fund Sourcebook ('FUND'), the Firm has established a Risk Management function for the risk management of the AIF to be carried on independently from the portfolio management activities.

As required according to GENPRU 1.2 and the Pillar 2 rule, the Firm maintains an Internal Capital Adequacy Assessment Process document ('ICAAP') to establish whether the Firm is required to hold any additional capital to cover any risks the Firm is exposed to which are not fully captured under the Pillar 1 requirements.

Risks
The Directors have identified that market, credit, liquidity, business and operational risks are the main areas of risk to which the Firm is exposed.

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Market Risk. As an asset management firm, Delcap's portfolios are subject to market risk. Delcap's fees are based on assets under management and, as such, revenues are driven by the amount of assets under management. Delcap's exposure to foreign exchange risk is not considered material. The market risk capital component is calculated under Pillar 1 and no additional Pillar 2 is required.

Credit Risk. Delcap receives management fees on the basis of the value of investor's holdings in the AIFs or other portfolios. Delcap's free cash flow is placed on deposit with eligible banks approved by the Board, subject to an annual review. Delcap does not utilise any risk mitigation and uses a simplified approach for the calculation of credit risk. The credit risk capital component is calculated under Pillar 1 and no additional Pillar 2 is required.

Liquidity Risk. Delcap is subject to the requirement to hold liquid assets in excess of the total own funds requirement calculated under IPRU(INV)11, which was satisfied in the relevant period. Delcap has no borrowing and has limited exposure to market liquidity risk. Delcap's exposures to counterparties are represented by cash deposits with banks and management fees due from the AIFs. Regarding liquidity within the AIFs, Delcap's investment strategy is principally focused on publicly traded securities which ensures a sufficient level of liquidity. Investors' redemptions are allowed subject to prior written notice which reduces the impact of liquidity risk.
No additional Pillar 2 capital is required to cover liquidity risk.

Business Risk. Business risk arises from changes in the Firm's business structure that would prevent it from carrying on its business plan and desired strategy. Delcap has a relatively simple business model and any changes, whether caused by external factors or internal restructuring, are under the Board's control. No additional Pillar 2 capital is required to cover business risk.

Operational Risk. Operational risk is the risk of a material loss due to inadequate or failed internal processes, people and systems or from external events. This risk category includes the reputational risk that derives from any events caused by staff behaviour that might affect the credibility and reliability of the Firm overall. Delcap mitigates the impact of operational risks by maintaining sufficient financial resources to meet its regulatory capital obligations on an on-going basis, identifying and managing sources of risk with supervision of the operations of the business and maintaining PII. No additional Pillar 2 capital is required to cover operational risk.

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Regulatory capital

As a CPMI firm, Delcap is required to hold own funds in excess of the following:

The higher of:

- the Funds under management requirement (of its AIFs), i.e., €125,000 plus 0.02% of the amount by which the Firm's funds under management exceeds €250,000,000, (subject to a maximum of €10,000,000); and
- the fixed overheads requirement ('FOR'), i.e., one quarter of the Firm's annual fixed overheads.

Plus, to cover professional liability risks, either:

- additional own funds equal to 0.01% of the value of the AIFs managed by the Firm; or
- professional indemnity insurance (PII) cover meeting certain criteria (and for which any excess is to be held in addition to the own funds requirement).

The Firm has decided to cover professional liability risks by holding appropriate PII cover, and as such holds additional own funds equal to the value of the excess in the PII policy.

As a BIPRU firm, the Firm is also required to hold in parallel regulatory capital which will be the highest of:

- its base capital requirement of €50,000; or
- the sum of its market and credit risk requirements; or
- its Fixed Overhead Requirement.

The latest ICAAP establishes that the Firm is not required to maintain any additional capital resource under Pillar 2.

As a CPMI, which is a BIPRU firm, Delcap maintains sufficient capital to meet its regulatory requirements in regard to both the own funds requirements under BIPRU (and GENPRU) together with the initial capital and own funds requirements set out in respect of the Firm's AIFM business in IPRU(INV) 11. The relevant calculations of capital adequacy are shown below.

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Calculations for a CPMI firm, which is a BIPRU firm under IPRU (INV) 11

The Firm's capital adequacy as a CPMI is summarised as follows as at 31 December 2016:

Own funds	**£**
Own funds (permanent share capital and retained earnings)	£2,039,000
Own funds requirement	
The higher of: (i) Funds under management requirement (€125k) (ii) Fixed overheads requirement	 (i) £108,000 (ii) 464,000
plus	
Either: (i) Professional negligence capital requirement; or (ii) PII capital requirement	 (i) £0 (ii) £170,000
Total own funds requirement	£634,000
Surplus	**£1,405,000**

Under IPRU(INV) 11, as at 31 December 2016, the Firm was subject to a Fixed Overhead Requirement and was required to hold additional own funds to cover a defined PII excess. The Firm met the own funds requirement with a surplus of own funds of £1,405,000. The Firm also met the liquid assets test as it held liquid assets in the amount of £1,664,000, with a surplus of £1,030,000 in excess of the total own funds requirement.

Calculations for a BIPRU firm under BIPRU/GENPRU

The Firm's capital adequacy as a BIPRU firm is summarised as follows as at 31 December 2016:

Capital item	**£**
Tier 1 Capital (permanent share capital and audited reserves)	£1,531,000
Tier 2 Capital less deductions	£0
Tier 3 Capital less deductions	£0
Total Regulatory Capital after deductions	£1,531,000
Capital requirement	
Market risk + Credit risk	£294,000
Fixed Overheads Requirement	£464,000
Base Capital Resource Requirement	£43,000
Total Capital Requirement	£464,000
Surplus	**£1,067,000**

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The Firm is small with a simple operational infrastructure. Its market risk is limited to foreign exchange risk on its accounts receivable in foreign currency, and credit risk from cash deposits and advisory, management and performance fees receivable from the Firm's clients. The Firm follows the standardised approach to market risk and the simplified approach to credit risk.

The Firm is subject to the Fixed Overhead Requirement and is not required to calculate an operational risk capital charge though it considers this as part of its process to identify the level of risk based capital required.

Under BIPRU and GENPRU, as at 31 December 2016, the Firm was subject to a Fixed Overhead Requirement of £464,000. The surplus of regulatory capital under BIPRU and GENPRU was £1,067,000.

Remuneration code disclosure

As a CMPI, which is a BIPRU firm, Delcap is subject to the UK Remuneration Code as implemented in the rules in SYSC 19B and SYSC 19C, and the relevant proportionality guidance as applicable to the Firm**.**

According to SYSC 19C.1.1A, the AIFM Remuneration Code (SYSC 19B) also applies to a BIPRU firm which is a full-scope UK AIFM. Such a full-scope UK AIFM that complies with SYSC 19B will also comply with SYSC 19C. This is relied upon by the Firm and therefore Delcap is not required to demonstrate compliance with SYSC 19C.

According to the Pillar 3 disclosure requirements and as prescribed in BIPRU 11.3 and 11.5.18, the Firm is obliged to disclose certain information regarding its remuneration policies and procedures for individuals whose professional activities have a material impact on the risk profile of the Firm or of the AIF's managed by Delcap ('AIFM Remuneration Code Staff'). This includes senior management, risk takers, control functions, and any employees receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers.

Under the AIFM Remuneration Code and the proportionality guidance for a full scope UK AIFM, the Firm is allowed to comply with the disclosure requirements proportionately. As a result, the disclosure below is considered to be appropriate, given the Firm's prudential category, its size and the nature of its activities.

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The Firm has established and maintains remuneration policies, procedures and practices that are consistent with and promote effective risk management and prevent exposure to excessive risk. Due to the size, nature and complexity of the Firm, Delcap does not have a Remuneration Committee and the Firm does not employ external consultants to determine the Firms Remuneration Policy.

The Firm's Chief Executive Officer sets, and oversees compliance with, Delcap's Remuneration Policy, which is reviewed on at least an annual basis. The Firm's Chief Executive Officer determines the level of remuneration for the Firm's employees in line with Delcap's Remuneration Policy and procedures.

The structure of Delcap's remuneration programme is based on an element of fixed remuneration and also variable remuneration. Variable remuneration is determined on a discretionary basis according to the Firm's overall performance, the Firm's objectives, the departments' objectives and the personal objectives of the employees that are set and reviewed on an annual basis as part of the employees' annual performance appraisal.

Delcap does not link remuneration directly to the performance of the funds and portfolios under management or the amount of assets under management.

As at 31 December 2016, five individuals were classified as being senior management code staff.

The aggregate remuneration of AIFM Remuneration Code Staff was £102,636.17 during the year to 31 December 2016. This includes both fixed and variable elements of remuneration.