Cape Ann Asset Management Limited
(FRN: 735908)
Pillar 3 Disclosure Statement
June 2018

Introduction

Cape Ann Asset Management Limited ("**Cape Ann**") is authorised and regulated by the Financial Conduct Authority ("**FCA**") as an Alternative Investment Fund Manager ("**AIFM**"). The EU's Capital Requirements Directive ("**CRD**") and the Alternative Investment Fund Managers Directive ("**AIFMD**") have been implemented in the UK through rules established by the Financial Conduct Authority ("**FCA**") in its Handbook of Rules and Guidance for regulated firms. The CRD created a regulatory capital framework consisting of three "pillars":

- Pillar 1 sets out the minimum capital requirements for credit, market and operational risk and under AIFMD this extends to include consideration of AUM and professional negligence risks;
- Pillar 2 requires regulated firms, and the FCA, to take a view on whether additional capital should be held against capital risks not covered adequately or at all by Pillar 1; and,
- Pillar 3 requires regulated firms to publish certain information on their risk management objectives and policies and on their capital resources.

These disclosures are made in respect of Cape Ann Asset Management Limited ("**Cape Ann**") in compliance with the rules and guidance set out in the FCA Handbook and Cape Ann's disclosure policy[1]. The information contained herein has been prepared on an unconsolidated basis.

The Firm

Cape Ann is a private limited company providing discretionary investment management services primarily to institutional clients through commingled funds established, operated and managed by the firm. Cape Ann has one subsidiary, Cape Ann Asset Management, Inc. ("**CAAM Inc.**"). There are no current or foreseen material, practical or legal impediments to transfers of capital between Cape Ann and CAAM Inc.

Risk Management

FCA requires that a regulated firm manage a number of different categories of risk.

- ***Credit Risk.*** *The potential risk that arises from clients or counterparties failing to meet their obligations as they fall due.* Cape Ann has adopted a standardised approach to credit risk. Because of the nature of its business, Cape Ann's credit risk is limited to that arising in respect of unpaid investment management fees, fund investments, cash deposits and prepaid expenses. Investment management fees are calculated on an ad valorem basis in arrears and are normally paid within five business days of each month end. Cape Ann's investments primarily comprise units in The Cape Ann (Ireland) Trust, an Irish UCITS.

[1] FCA rules provide that required disclosures may be omitted if the information is believed to be immaterial or where it is regarded as proprietary or confidential. Materiality is based on the criteria that the omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. Information is regarded as proprietary if sharing that information with the public would undermine a firm's competitive position. Information is regarded as confidential where there are obligations to customers or counterparties binding a firm to confidentiality. Where a disclosure is considered to be immaterial or has been omitted on the grounds that it relates to information that is proprietary or confidential in nature, this has been described.

Cape Ann's cash deposits are primarily held in current accounts offered by major banking institutions. No provisions have to date been required in respect of asset impairment or non-recovery. Credit risk arising in relation to prepaid expenses is not considered material for the purposes of this disclosure.

- ***Market Risk.*** *The risk that the value of, or income arising from, assets and liabilities varies as a result of changes in interest rates, exchange rates or other market prices.* Cape Ann has no trading book and does not invest in commodities. Market risk under Pillar 1 is therefore limited to foreign exchange fluctuations where Cape Ann's assets and liabilities are denominated in currencies other than GBP. Non-GBP assets primarily comprise investments in the Cape Ann (Ireland) Trust and a proportion of cash deposits. Cape Ann regularly assesses its foreign exchange needs and exposures and does not actively seek foreign exchange exposures via forward currency hedging activities.

- ***Liquidity Risk.*** *The risk that a firm may have insufficient liquid resources to cover cash flow shortfalls or fluctuations in funding and be unable to meet its obligations as they fall due.* Liquidity risk consists of two primary items – funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that the counterparties who provide Cape Ann with short-term funding will withdraw or not roll over that funding. Market liquidity risk is the risk of a generalised disruption that makes normally liquid assets illiquid. Cape Ann has no borrowing and is not dependent on external financing. Cape Ann benefits from an operational subsidy payable by SP Ltd in the early years of its business operations. SP Ltd is a private company with significant financial resources. Given this, Cape Ann is not exposed to funding liquidity risk. Cape Ann has some exposure to market liquidity risk. This could occur if Cape Ann's corporate banks were to suffer from severe financial distress.

- ***Business Risk.*** *The risk that a firm may not be able to carry out its business plan and/or desired strategy.* The principal business risks facing Cape Ann are:

  - ***Operational Risk.*** *The risk of loss, or breach of contractual requirements, resulting from inadequate or failed internal processes, people or systems; human error; or, external events.* This includes the risk of loss or breach arising from the inadequate supervision of third party service providers. Cape Ann seeks to mitigate these risks by (i) keeping its business simple; (ii) taking advantage of technology solutions; (iii) identifying and managing sources of risk, stress testing those risks and maintaining insurance to offset financial losses; (iv) documenting procedures; and (v) reviewing the operations of material business operations on a periodic basis. Cape Ann is not required to calculate an operational risk requirement.

  - ***Concentration Risk.*** *The risk that exposures to specific sectors or asset concentration could result in losses.* Cape Ann invests client assets principally in publicly traded developing market equity securities. Cape Ann's business could suffer (i) from a decline in its investment performance (ii) a change of sentiment on the part of institutional investors away from publicly traded developing market equity securities and/or a shift of their asset allocations to private equity, hedge funds, commodities or other types of investments, or (iii) a sharp appreciation of US dollar.

  - ***Insurance Risk***. *The risk of a failure of insurance cover.* Cape Ann maintains fiduciary liability (e.g. professional indemnity), crime (e.g. errors and omissions) and ERISA insurance at a level and with a deductible which Cape Ann considers appropriate for the business. Cape Ann seeks to obtain insurance only from well capitalised insurance firm(s) to minimise the risk of loss arising from insurance risk.

- ***Interest Rate Risk**. The risk that significant changes in interest rates may have an adverse impact on the business.* Cape Ann does not engage in or run a trading book and has no significant borrowings that might give rise to material interest rate risks.

Cape Ann's Board of Directors is responsible for determining Cape Ann's risk strategy, setting its risk appetite and ensuring that risk is monitored and controlled effectively. Cape Ann's Board consults the Compliance and Operational Risk Management Group before deciding to make (i) material investments, loans or capital expenditures; (ii) significant investments; (iii) material changes in its cost structure, base salaries or the level of discretionary bonus payments; or (iv) material repayments or distributions of shareholder capital. Cape Ann's operational risk management framework is updated when needed to reflect material changes in Cape Ann's business, capital obligations or resource requirements. Cape Ann's operational risk appetite is regularly reviewed. Cape Ann aims to ensure that staff remain focused on compliance with applicable regulations, improving procedures, minimising risk and establishing a robust risk, capital and performance structure.

Capital Resources and Regulatory Obligations

Cape Ann is a BIPRU firm subject to a base own funds requirement of €50,000. That is because Cape Ann is not authorised to take proprietary trading positions or hold client money. Cape Ann is exempt from the operational risk requirement at Pillar 1 and is not required to calculate an operational risk capital charge. Cape Ann must calculate the sum of its core regulatory capital and its professional liability risks capital requirement. These are set out in the following table:

Cape Ann	**£'000**
Total capital after deductions	747
Capital requirement	641
Excess capital before stress test	106
Additional capital required following stress test	-
Excess capital after stress test	**106**

Cape Ann has prepared an assessment of capital adequacy (Internal Capital Adequacy Assessment Process document or "**ICAAP**") in accordance with CRD Pillar 2 requirements set out in BIPRU 2.2 of the FCA Handbook. The ICAAP takes account of the principal risks and uncertainties set out above. As a long only asset manager that invests client assets primarily in publicly traded developing market equity securities, Cape Ann is mainly exposed to operational risk; however there is some small exposure both to business risk and credit risk. These exposures are regarded as typical for a business engaged in the activity of asset management. Cape Ann's Chief Compliance Officer, who is independent of Cape Ann's investment function, acts as the firm's operational risk manager and monitors and manages these risk exposures with input from Cape Ann's business groups. In assessing operational risk appetite, consideration has been given to identifying the material risks facing Cape Ann's business. The ICAAP process involves separate consideration of risks to firm capital combined with stress testing using scenario analysis and consideration of the financial resources required in a wind down situation. The ICAAP is updated formally on an annual basis and in the interim should a material change occur in the risk or business profile of the firm.

Non-trading book exposures in equities: Disclosures of non-trading book exposures in equities are considered immaterial as any investment in equities is limited to investments in the Cape Ann (Ireland) Trust. Full disclosure of these investments and of the accounting techniques and valuation methodologies employed are disclosed in Cape Ann's audited annual report and accounts.

Remuneration Code Provisions

Cape Ann has completed this section of the Pillar 3 disclosure document on the basis that it is a full scope AIFM BIPRU firm that is subject to the remuneration rules set out in SYSC 19B and SYSC 19C and is eligible to apply principles of proportionality pursuant to BIPRU rules. Market regulators impose a variety of requirements on asset management firms with respect to remuneration. The general thrust of these remuneration codes (in aggregate, the "**Remuneration Code**") is to ensure that regulated firms have (i) robust governance arrangements in place, (ii) established remuneration controls for staff whose professional activities could have a material impact on the risk profile of their firms, and (iii) qualitative and quantitative disclosures of their remuneration policies.

Applicability of the Remuneration Code

Cape Ann must establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote effective risk management. The policies, procedures and practices must not encourage excessive risk-taking. Cape Ann may apply regulations in a proportionate manner based on the size, nature and complexity of its business. Cape Ann must assess its own characteristics and develop and implement policies and practices that appropriately align it with the risks faced by its business. Cape Ann must ensure that adequate and effective incentives are given to all members of staff. In designing its approach towards remuneration and alignment, Cape Ann has taken into account its structure and the size, nature and complexity of its business.

Identification of Remuneration Code Staff

Cape Ann is required to identify those members of staff who are covered by the Remuneration Code ("**Remuneration Code Staff**"). Because of its small size and the responsibilities assumed, Cape Ann considers all staff to be Remuneration Code Staff. All Remuneration Code Staff are provided with a copy of this document on an annual basis. Certain burdensome provisions of the Remuneration Code (i.e., the requirements to restrict the ratio of discretionary payments to base salary, to defer remuneration over a period of time or to pay a portion of remuneration in shares) are not deemed to be applicable to Cape Ann's operations.

Investment Approach

Cape Ann is a long only, value investor in developing market equities. Cape Ann's investment team employs a bottom-up fundamental approach to stock picking using an assessment of intrinsic value. Cape Ann defines value as the discount of a security price to the underlying economic value of the business. The objective is to maximise the intrinsic value of the portfolio over time through a disciplined investment process. Investment managers identify inexpensive stocks through the screening process and then conduct fundamental research to assess the quality of the underlying company. The investment team generally avoids companies with danger of severe capital loss due to excessive leverage or poor corporate governance. Cape Ann considers responsible investment and environmental, social and governance ("ESG") related issues to be an integral part of its broader qualitative research process and its investment team has developed an ESG Policy to outline this approach which is available to clients, prospects and interested parties upon request from clientservice@capeannam.com.

As investors, Cape Ann looks to take a long term view and seeks to take advantage of volatility and mispricing that may arise through uncertainty or recent events and how investors may extrapolate its impact on security prices. The team is continually assessing the best use of capital and engages in a consistent buy and sell discipline. Cape Ann's investors seek to sell stocks in the portfolio that have crystallised value and rotate the proceeds into more attractively valued stocks that are qualitatively acceptable. Ordinarily, name turnover will be in the 20-30% range per annum and portfolio turnover in the 30-40% range per annum.

Cape Ann looks to add investments to the programme when they will help to maximise the earnings, assets and dividends of our investment programme. Investments may be funded from the cash flow of the existing portfolio or by the sale of investments which have come to offer less value. This approach is generally evolutionary rather than revolutionary. Cape Ann ordinarily maintains client cash balances at low levels in line with the Programme's investment guidelines. Typically, 40 - 80 investments will be owned in the programme with a reasonable diversification by country, industry and sector. Cape Ann analyse currency fundamentals and may periodically undertake forward currency hedging transactions, although such activity is limited to 20% of the value of the portfolio and is not intended as a major part of the overall investment management programme. Cape Ann has no bias in terms of market capitalisation and seek opportunities in small, mid and large cap companies. In assessing risk, Cape Ann does not refer to stock market volatility. Rather, Cape Ann sees risk as the possibility of paying a price above the intrinsic value of a business, thereby suffering a permanent loss of capital.

Cape Ann principally invests client assets in publicly traded equity securities and will seek to avoid subjecting clients to excess counterparty, liquidity or misalignment risk. Cape Ann does not short stocks, utilise derivatives or margin, underwrite securities, issue or write options, futures, warrants or over-the-counter ("OTC") instruments, with the exception of the potential investment in a very limited number of Market Access Products ("MAPs") designed to provide access to local markets Cape Ann cannot access directly. Cape Ann does not participate in securities lending programmes. Cape Ann does not invest in fixed income instruments, physical real estate, commodities or contracts for difference. Assets included in client portfolios are normally priced by independent fund administrators using closing market prices and exchange rates. Cape Ann does not charge performance fees. It is therefore reasonable to state that Cape Ann does not trade in unusual or high risk products and has designed its systems and controls with this in mind.

Cape Ann's Remuneration Policy
Cape Ann does not charge performance fees and receives asset based fees on a monthly basis. The articles of association that govern Cape Ann's business specifies the ratio of profits less direct costs before any remuneration (internally referred to as profits before remuneration and tax or "**PBRT**") is shared between Cape Ann employees and shareholders. The ratios set out are as follows:

		Shareholders & Corporate Tax	
Year	Working Staff	"A"	"B"
1	100%	0.00%	0.00%
2	100%	0.00%	0.00%
3	90%	4.99%	5.01%
4	80%	9.98%	10.02%
5	70%	14.97%	15.03%
Thereafter	60%	19.96%	20.04%

The first financial year was 1st April 2016 – 31st March 2017.

Establishing these ratios ensures that both employees and shareholders are focused on growing Cape Ann's business in a profitable and efficient manner. While a minimum of 60% of PBRT will be distributed to working staff as remuneration, the split between each working employee is determined by the Remuneration Group. The current members of the Remuneration Group are Jonathan Bell, Pete Lockey and Tim Linehan. Cape Ann does not believe that the appointment of external staff to the Remuneration Group would benefit the firm or its clients. The Remuneration Group obtains feedback on the performance and contribution of each individual employee or member. Remuneration is not based on the profitability of any specific investment recommendation, the implementation of a given trade(s) or the growth/retention of any particular investor. The Remuneration Group considers the following factors when determining the levels of remuneration paid to each member of staff:

- *Contribution and Ownership of Responsibility*. Cape Ann looks at contribution to the success of the firm over a multi-year period, ownership of various responsibilities, whether related to investment, marketing and client service, investment administration or firm management.
- *Market Levels*. Cape Ann believes that whilst base salaries should be competitive in the longer term, they will be below market rates during the early years of the business.
- *Reliability*. It is a great benefit to a lean organisation when Cape Ann can rely on someone over a period of years to get a task done. Good work which has needed a great deal of supervision is less valuable although, of course, normal in the early stages of a responsibility.
- *Success of Cape Ann*. If Cape Ann is successful there should be a benefit to all. Cape Ann recognises a system of this sort cannot deliver when the business is not doing well. In other words, if PBRT drops, remuneration must fall.
- *Split Between Fixed and Discretionary Components*. Fixed remuneration should be more oriented to those with a reliable proven record of adding value and discharging responsibility. Where such a record has not been established the flexibility of discretionary payments is more appropriate. Fixed aspects of expenditure should also be kept low as this provides the greatest level of flexibility and allows Cape Ann to withstand various stresses – performance volatility, loss of client assets, exchange rate volatility and changes in interest rates – without needing to terminate employees.

Notifications of discretionary payments are typically provided bi-annually. Actual allocations can be amended at any time by the Remuneration Group. Bonuses are only paid after Cape Ann ensures that FCA capital and liquidity requirements are satisfied and fees are collected. Cape Ann has not broken out details by business area or between various senior staff.

Over time, Cape Ann will look to ensure that fixed elements of expenditure are less than 50% of Cape Ann’s total revenues. Cape Ann takes this approach to minimise risk to its underlying clients and to the firm itself from financial losses that may result from errors, market and foreign exchange rate volatility, investor redemptions, increased costs, etc. Cape Ann believes this approach reduces risks to the firm and to the marketplace as a whole and is consistent with Remuneration Code objectives. Cape Ann does not offer guaranteed bonuses. Cape Ann is aware of Remuneration Code provisions governing the deferral of variable remuneration and the retention of part of this variable remuneration in Cape Ann’s commingled funds. Cape Ann has applied principles of proportionality when implementing the Remuneration Code in this regard and has implemented policies that meet core regulatory objectives without creating undue administrative overheads or complexities.

Disapplication of Remuneration Code Provisions

Given the limited size, scope and nature of Cape Ann’s activities and consistent with the explicit guidance given by the FCA, Cape Ann has dis-applied provisions or proportionately applied provisions related to (i) leverage for fixed and variable components of remuneration, (ii) retained shares and other financial instruments, (iii) deferral and (iv) performance adjustments. Cape Ann has considered the impact of remuneration policies on its capital requirements, ICAAP and monitoring programme.