



## ABERFORTH PARTNERS

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### **DISCLOSURE OF RISK AND REGULATORY CAPITAL MANAGEMENT**

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#### **Background and scope**

Aberforth Partners LLP (the firm) is authorised and regulated by the Financial Conduct Authority (FCA).

For regulatory purposes, it is defined as a “limited licence” firm (the firm does not hold client money or client assets) and is subject to MIFIDPRU regulations. The firm is not subject to consolidated regulatory supervision. Accordingly, comments on the regulatory capital position below relate to that of Aberforth Partners LLP and not the consolidated group. As the firm also acts as an Alternative Investment Fund Manager it is further categorised for prudential purposes as a “Collective Portfolio Management Investment” firm (CPMI). Aberforth Unit Trust Managers Limited (AUTM) is a wholly owned subsidiary of Aberforth Partners LLP. AUTM is a “UCITS firm”.

#### **Risk management objective**

The firm’s members (partners) are committed to ensuring that its affairs are organised and controlled responsibly and effectively, with adequate risk management systems.

From a prudential perspective, the firm’s risk management objective is to maintain, at all times, overall financial resources, including both capital and liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

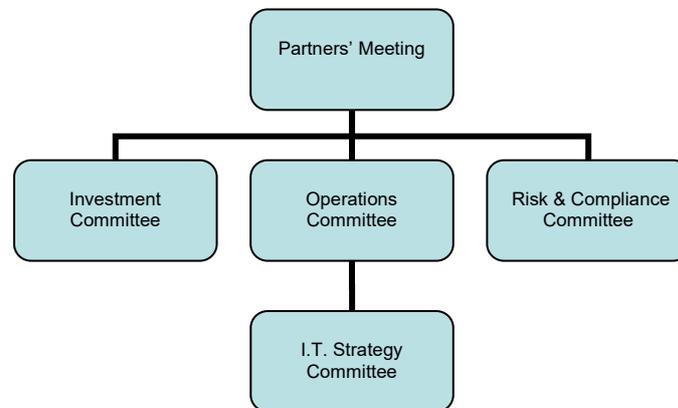
The partners are responsible for defining risk appetite and strategy and for considering the adequacy of capital resources in context of the risks faced by the business. Whilst the risk of sub optimal investment decisions is accepted as inherent to the business, the firm’s appetite for other forms of risk is low.

The firm’s strategy to deliver on its risk management objective is described in more detail below.

#### **Risk governance and reporting**

As an owner-managed business there is clear alignment of partners’ interests with those of the firm and all partners are committed to ensuring that risks are identified and managed on a basis proportionate to the nature and scale of the firm’s business.

The nature and scale of the firm is such that a separate risk management function or department is, in the opinion of the partners, neither appropriate nor necessary. Functional and hierarchical separation of risk management from portfolio management is achieved through the governance structure described below. Governance at Aberforth is exercised as follows:



The Partners' Meeting, comprising all partners, is the firm's ultimate decision making forum and is responsible for business strategy and matters which are material to Aberforth. Meetings are quarterly or as required. The day-to-day implementation and monitoring of strategy has been delegated to a number of committees as follows:

- the Investment Committee meets weekly or as is required and is responsible for exercising oversight on the firm's investment/trading activities including its responsibilities for Stewardship and Environmental, Social and Governance matters. Its membership comprises the whole of the investment management team.
- the Operations Committee meets monthly or as is required and is responsible for managing the implementation of strategic and other decisions on behalf of the firm. Its membership comprises three partners, one of whom is the Operations Partner. A sub-committee comprising partners, senior members of staff, and third party IT specialists has been constituted to exercise oversight of the firm's IT strategy and Cyber resilience.
- the Risk & Compliance Committee meets quarterly or as required and comprises all partners plus the firm's Head of Risk and Compliance and Risk and Compliance Manager. All investment managers attend this meeting. This forum oversees the firm's compliance with its regulatory obligations and also formally reviews the firm's actual risk exposures relative to its risk appetite. It is chaired by the Head of Risk and Compliance.

Within the firm, day-to-day responsibility for risk management and monitoring capital resources is delegated to the Operations Partner.

The Operations Partner provides an update on operational matters at each Partners' Meeting and Operations Committee meeting. This update will include reporting on aspects relevant to the partners' assessment of current and prospective risks faced by the firm and the effectiveness of existing and/ or planned controls.

The Operations Partner is also responsible for preparing and presenting monthly management accounts and, on an annual basis, statutory accounts and budgets for the following year. As part of the latter process, the partners consider and approve regulatory capital plans.

In addition, and as noted above, the firm's Head of Risk and Compliance reports formally to the partners on a quarterly basis at the Risk & Compliance Committee. These reports present the results of a comprehensive monitoring program designed to examine the firm's compliance with all relevant rules and regulations, the primary focus being on compliance with the FCA's Handbook. The effectiveness of senior management arrangements, systems and controls is regularly reviewed as part of this process.

The firm also has in place a process designed to specifically and formally assess the level of regulatory capital and liquid resources held relative to the risks faced by the business. This Internal Capital Adequacy and Risk Assessment process (ICARA) is described further below.

### **Remuneration Policy**

Partners' compensation is by way of an entitlement to a share of the firm's profits and accordingly is wholly variable in nature. Individual shares are agreed and remain subject to the terms of a Limited Liability Partnership Deed. All partners work full time for the firm. The firm has a Remuneration Policy that is in compliance with the FCA Remuneration Code's proportionality requirements for firms such as Aberforth, which is classed in the lowest tier as a Level 3 firm under AIFMD and as a Small Non-Interconnected ('SNI') firm under MIFIDPRU. These classifications reflect Aberforth's smaller, less complex nature. Staff remuneration comprises salary, bonus (wholly discretionary), and benefits. The various elements of staff remuneration are considered at least annually by the Operations Committee with any proposed changes being subject to agreement at a Partners' Meeting. A separate remuneration committee is considered neither necessary nor proportionate. The firm seeks to reward individuals commensurate with their individual contribution, as well as reflecting the performance of the business generally, and does not seek to encourage excessive risk taking in the process. The aggregate sum paid to all Code Staff in the year ended 30 April 2022 was £7.3 million.

### **Risk management policies**

The nature of the firm's business is such that certain categories of risk, as defined by the FCA, such as insurance risk, residual risk, securitisation risk, interest rate risk, and pension obligation risk, have either limited or no relevance and are not considered further in this document.

The firm's policies for addressing those risk types which are considered relevant to its business are summarised below.

### ***Concentration risk***

As a result of its scale and deliberate strategic focus on a small number of large institutional mandates, the firm does have an exposure to concentration risk. The firm's ability to withstand a reduction in Assets Under Management (AUM) is regularly stress tested.

### ***Liquidity risk***

Liquidity risk is managed through the firm's conservative approach to working capital management. Cash is held in instant access accounts with highly rated counterparties and is maintained at a level which is prudently in excess of that considered necessary by the ICARA process (see below).

### ***Credit risk***

Credit risk arises principally in relation to banking arrangements and investment management fees billed in arrears.

As noted above, the firm has a number of banking relationships and is satisfied with the relevant credit ratings in this respect.

Similarly, as a result of the nature of the firm's client base, the partners consider the likelihood of default on unpaid fees to be very low. The firm has never suffered an instance of client payment default.

### ***Market risk***

The firm has an indirect market risk exposure (the firm is not permitted to deal as principal so has no direct exposure). In other words, poor investment performance may result in a reduction in AUM. As noted previously, the partners view this risk as intrinsic to the business of discretionary fund management.

### ***Operational risk***

The majority of risks to which the firm is exposed are operational in nature.

In seeking to manage operational risk, the firm places reliance on strong internal controls, both preventative and detective but proportionate to the nature and scale of the business, to mitigate the likelihood of many of the risks identified, such that the partners consider the net risk to be low. The firm strives to deliver exceptional client service and one aspect of this is being able to demonstrate a robust internal control environment. On an annual basis, the firm seeks external independent assurance on this matter in so far as it relates to the operational areas of most relevance to clients. This review is conducted in accordance with the International Standards on Assurance Engagements 3402 (ISAE 3402) and, to date, the reporting framework set out in Technical Release AAF 01/20, issued by the Institute of Chartered Accountants in England & Wales.

This framework of internal controls is supplemented by a number of factors fundamental to the nature of the firm, including:

- The relative simplicity of the business model and its consistent application since inception;
- The agency nature of the firm's business;
- The clear alignment between the business owners and its executive management;
- The firm provides services to a small number of large, institutional clients;
- Single asset class specialisation and lack of product proliferation;
- A desire to manage AUM at or below a clearly defined upper limit on capacity;
- The firm benefits from a high level of experienced resource relative to the scale of the business;
- The firm's client centric culture and focus; and
- Low level of fixed overhead relative to income.

In addition, the firm maintains insurance cover for certain risks and is satisfied as regards the capacity of its underwriters to fulfil any obligations they may have under these contracts.

Whilst the firm looks to identify and manage all the risks that arise from its operations, the partners believe that the most pervasive risk faced by the firm is reputational and the impact that may have on its ability to retain existing and/ or secure new business. In this regard, the firm's annual capital plan has been stress tested by reference to a reduction in AUM. The partners have concluded from this exercise that current capital resources are adequate.

### **Capital resources**

The firm's capital resources comprise wholly "tier 1" capital represented by "Eligible LLP members' capital". There are no deductions from this figure so that, as at 30 April 2022, permanent capital resources were £1.8 million (2021: £1.8 million). "Tier 1" capital is the highest ranking in terms of quality from a regulatory perspective.

No capital may be returned to a retiring member unless and until a corresponding sum has been contributed to the firm by remaining or new members (partners).

### **Capital resource requirements**

The firm's minimum capital requirements are calculated in accordance with the FCA's MIFIDPRU Own Funds rules.

As noted above, the firm has also completed an ICARA in accordance with the FCA's Own Funds requirements. This process is designed such that the partners regularly consider whether the Own Funds capital requirement is sufficient in context of the risks faced by the business.

In reaching a conclusion on this, the partners consider a number of matters including:

- an analysis of potential material harms which could impact the firm's clients, the wider market, or the firm itself; with an assessment of how the firm mitigates risks; and the adequacy of own funds and/or liquid assets, taking account of mitigating factors as appropriate;
- the results of stress testing the impact of a reduction in AUM; and
- an estimate of the level of liquid resources required to progress an orderly wind down of the business in the event of distress.

The ICARA is formally approved by the partners on an annual basis. Regular consideration is given as to whether there have been any material changes in the risk environment sufficient to prompt the partners to revisit the last ICARA conclusion.

The firm's ICARA currently indicates that the firm's Own Funds requirement is sufficient and no additional Own Funds requirement is necessary.

### **Minimum capital resource requirements**

As at 30 April 2022, the firm's **Fixed Overheads Requirement** was £883,000. This equates to one quarter of the firm's relevant annual fixed expenditure excluding certain categories of discretionary or variable expense. Under MIFIDPRU the firm's overall financial adequacy also considers the firm to hold minimum Own Funds required to support an orderly wind down. As at 30 April 2022 this amount is equal to £915,000.

The current nature and scale of the firm's business activities are such that it is also required to maintain under AIFMD, at all times, capital resources equal to or in excess of the **Fixed Overheads Requirement** plus the **professional negligence capital requirement**. At the same date, the firm's **professional negligence capital requirement** was £167,000. Accordingly, under these rules, at 30 April 2022, the firm's **minimum capital resources requirement** was £1,050,000. This figure also represents the minimum level of liquid assets which the firm is obliged to hold.

As noted above, the partners' review of capital adequacy, in context of the risks the firm is exposed to (the ICARA), concluded that the minimum levels of capital described above, and calculated in accordance with the relevant rules, would be adequate.

Capital resources as at 30 April 2022 of £1,966,000 are significantly in excess of the minimum required and comprise wholly high quality Tier 1 funding. In addition, at that date, the firm held a level of liquid resources (£3,719,000) which, again, is prudently in excess of that required.

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***June 2022***

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