MJ HUDSON

Background

In accordance with the Pillar 3 disclosure requirements of BIPRU 11, the Firm is required to disclose information relating to the capital it holds, each material category of risk it faces and the risk assessment process it has in place to monitor these. These disclosures complement the Firm's minimum capital requirement calculation (Pillar 1) and the internal review of its capital adequacy (Pillar 2).

The Firm is subject to the FCA's Remuneration Code, the aim of which is to ensure that firms have risk-focused remuneration policies, which are consistent with and promote effective risk management, do not expose them to excessive risk, and which include measures to avoid conflicts of interest.

The Firm is authorised and regulated by the FCA and is categorised as a Collective Portfolio Management Investment Firm ('CPMI') for capital purposes.

The Firm has not omitted any disclosures on the grounds of confidentiality.

Risk management

Overview

The Firm has established a risk management process in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. The risk management process and the fundamental risk appetite of the firm is overseen by the board.

The board has identified the main areas of risk to which it is exposed as being business and operational. The board formally reviews each year the risks, controls and other risk mitigation arrangements and assesses their effectiveness.

The board reviews management accounts demonstrating continued adequacy of the Firm's regulatory capital on a regular basis.

Appropriate action is taken where risks are identified which fall outside of the Firm's tolerance levels or where the need for remedial action is required in respect of identified weaknesses in the firm's mitigating controls.

Business risk

The Firm relies on fee revenue from its client mandates. If such mandates were to underperform, leading to redemptions and/or closure, the revenue of the Firm would be at risk without other replacement mandates. However, most mandates are closed-ended without rights of redemption.

This risk is further mitigated by the fact that the Firm has a diversified client base and is not considered to be at risk from the loss of a single major client.

Operational risk

The Firm relies on the operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities.

The Firm has identified a number of key operational risks to manage. These relate to systems failure, regulatory breaches and failure to follow investment restrictions. Appropriate polices are in place to mitigate against these risks, including taking out adequate professional indemnity insurance.

Credit risk

The Firm bears credit risk on any fees invoiced to clients and not yet collected. Most such fees are invoiced in advance and in any case there is a low history of bad debts.

The Firm has no exposure to trading counterparties (brokers); this risk rests with the funds managed by the Firm.

Market risk

The Firm does not run a trading book and as such only has exposure to debtors and cash balances held in currencies other than GBP, the Firm's operating currency. As the firm is rarely exposed to foreign exchange, market risk is deemed immaterial.

Liquidity risk

The Firm maintains a surplus of liquid resources sufficient at all times to meet any immediate requirements it could prudently foresee. The finance directors continually monitors the cash position of the Firm. The Firm maintains a liquidity risk policy which formalises this approach.

Professional liability risk

The Firm has a legal responsibility for risks in relation to investors, products and business practices. The firm has in place appropriate coverage of professional indemnity insurance and the policy excess is held in own funds.

Regulatory capital requirement

As a CPMI, the Pillar 1 minimum capital requirements of the Firm are the higher of:

- The Funds under Management Requirement: €125,000 + 0.02% of (AIF AuM > €250 million);

AuM is calculated on the absolute value of all assets of all funds managed by the Firm, including assets acquired through the use of leverage, whereby derivative instruments shall be valued at their market value, including funds where it the firm has delegated the management function but excluding funds that it is managing as a delegate.

- The fixed overhead requirement ('FOR'): 25% of the firm's operating expenses less certain variable costs;

  The FOR is based on the previous audited expenditure of the Firm. The Firm monitors its expenditure on a monthly basis and takes into account any material fluctuations in order to determine whether the FOR remains appropriate to the size and nature of the business or whether any adjustment needs to be made intra-year.

  It is the Firm's experience that the Fixed Overhead Requirement establishes its capital requirements.

- The sum of the market and credit risk requirements. (The firm is not subject to an operational risk requirement.)

The Firm has concluded from its ICAAP (Pillar 2) process that it does not need to hold further capital over and above the Pillar 1 requirement, which as at 30 June 2018 was £297,250.

Capital resources

As at 30 June 2018 the Firm held regulatory capital resources of £588,815 which is all comprising Tier 1 capital. These capital resources are deemed to be sufficient and are monitored continually.

Remuneration

Policy

The Firm follows the proportionality guidelines within the Remuneration Code with regard to remuneration policies and its disclosures relative to the size of the Firm.

The Firm has a Remuneration Committee which reports to the Board and is directly responsible for the overall remuneration policy which is reviewed annually.

The principles in the Remuneration Code cover total remuneration, fixed and variable. The Firm incentivises staff through a combination of the two. Variable remuneration is adjusted in line with capital and liquidity requirements as well as the Firm's performance. As part of a long-term incentive plan, certain staff members may be eligible to receive instruments (shares or options) in the parent company of the Firm.

Remuneration is designed to ensure that the firm does not encourage excessive risk taking and staff interests are aligned with those of the clients. The business model of the Firm is such that neither the Firm nor its employees are remunerated according to the performance of the AIFs it manages. Also, they are not in a position actively to seek out risks in order to affect AIF performance, as generally they will be reviewing and implementing advice received from an external adviser or manager in relation to the AIF.

Disclosure

During the financial year ended 30 June 2018 the Firm had a single business division, investment advisory and management. Relevant information for the period in relation to Code Staff (those staff whose actions have a material impact on the risk profile of the firm), is:

Number of individuals (all senior management)	6
Total fixed compensation	£422,055
Total variable compensation	£42,627

The Firm has no direct employees; instead it pays a fee to other group companies for services their employees provide. The above figures represent the total remuneration paid by group companies to staff who are fully or partly involved in the activities of the firm.

MJ Hudson Fund Management Limited, October 2018