

AKO Capital LLP Pillar 3 Disclosure and Policy

As of 30 November 2009

Introduction

Regulatory Context

The Pillar 3 disclosure of AKO Capital LLP (“the Firm”) is set out below as required by the FSA’s “Prudential Sourcebook for Banks, Building Societies and Investment Firms” (BIPRU) specifically [BIPRU 11.3.3 R](#). This follows the introduction of the Capital Requirements Directive (“CRD”) which represents the European Union’s application of the Basel Capital Accord. The regulatory aim of the disclosures is to improve market discipline.

Frequency

The Firm will be making Pillar 3 disclosures annually. The disclosures will be as at the Accounting Reference Date (“ARD”).

Media and Location

The disclosure will be available from the Registered Office on request and this availability is published on our website.

Verification

The information contained in this document has not been audited by the Firm’s external auditors and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Group.

Materiality

The Firm regards information as material in disclosures if its 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. If the Firm deems a certain disclosure to be immaterial, it may be omitted from this Statement.

Confidentiality

The Firm regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm’s investments therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

Summary

The CRD requirements have three pillars. Pillar 1 deals with minimum capital requirements; Pillar 2 deals with Internal Capital Adequacy Assessment Process (“ICAAP”) undertaken by a firm and the Supervisory Review and Evaluation Process through which the firm and regulator satisfy themselves on the adequacy of capital held by the Firm in relation to the risks it faces and; Pillar 3 which deals with public disclosure of risk management policies, capital resources and capital requirements. The regulatory aim of the disclosure is to improve market discipline.

The Firm is an Investment Management Firm. It acts solely as agent, so an important protection to our customers is provided through the appointment by the customers of

independent custodians and administrators. The Firm's greatest risks have been identified as business and operational risk. The Firm is required to disclose its risk management objectives and policies for each separate category of risk.

The Firm has assessed business and operational risks in its ICAAP and set out appropriate actions to manage them. The main risks faced by the business and the processes for their mitigation and control are detailed below:

Operational risk

This incorporates the portfolio management, trading, valuation and risk management processes undertaken with respect to customer portfolios as well as the regulatory and contingency planning done at the Firm level.

Nicolai Tangen has overall responsibility for the portfolio and is supported by an experienced team of investment professionals. The firm utilises portfolio management and risk management systems and these provide portfolio and position level exposure details as well as risk information including beta, liquidity and volatility characteristics.

To ensure the accuracy of the portfolio records daily custodian reconciliations are performed as well as a weekly reconciliation to the fund administrator. To ensure the independence of valuations these are produced by the administrator and reviewed by the Firm to confirm their accuracy.

Within the Firm compliance procedures are overseen by the Compliance Officer, David Woodburn, and monitored by monthly reviews undertaken in conjunction with the firm's compliance consultants, Kinetic Partners LLP.

The Firm has documented contingency planning and disasters recovery procedures and these are regularly tested.

Business risk

The Firm has a single investment strategy and the main business risk is a fall in the assets managed which could arise as a result of redemptions following poor investment performance or if Nicolai Tangen left the business. This risk is mitigated by the hard and soft lock ups that apply to investments in the AKO funds and the liquid nature of portfolio and redemption terms (quarterly on 90 days notice) which would allow for orderly disposal of positions if required. It is however recognised that the loss of Nicolai Tangen (CEO and CIO) could have significant impact on business as investors can redeem without penalty in these circumstances.

Market and credit risk

The only customers of the Firm are the AKO funds and the fees due from these funds give rise to the Firm's counterparty exposure. However the fees due are settled promptly and in practice this risk is minimal. The Firm does have exposure to a prolonged equity market downturn as this would be likely to hit the performance of the AKO funds. However, as described above, this risk is mitigated by the hard and soft lock ups operated on these funds. The Firm's exposure to foreign currency movements is limited as all foreign currency is converted into GBP on a regular basis.

Background to the Firm

Background

The Firm is incorporated in the UK and is authorised and regulated by the FSA as an Investment Management Firm. The Firm is categorized as a BIPRU 50K limited licence investment management firm and is solo regulated.

BIPRU 11.5.1 R**Disclosure:** Risk Management Objectives and Policies**Risk Management Objective**

Our general risk management objective is to develop systems and controls to mitigate risk to a level that does not require the allocation of Pillar 2 capital.

Governance Framework

Nicolai Tangen and David Woodburn make up the Governing Body of AKO Capital LLP. The Governing Body meets informally on a weekly basis and formally on a quarterly basis. The agenda of the formal quarterly meetings includes standing items dealing with operational, compliance and personnel matters and minutes of these meetings are retained on file.

The Governing Body has the daily management and oversight responsibility for the Firm. Nicolai Tangen and David Woodburn work closely together and discuss and address operational matters in the normal course of the business day, as well as at their weekly and quarterly meetings.

The Governing Body is responsible for the entire process of risk management, as well as forming its own opinion on the effectiveness of the process. In addition, the Governing Body decides the Firm's risk appetite or tolerance for risk and ensures that the Firm has implemented an effective, ongoing process to identify risks, to measure their potential impact and then to ensure that such risks are actively managed. Senior Management is accountable to the Governing Body for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Firm.

Risk Framework

AKO Capital LLP manages risk through the development of appropriate systems and controls. These systems and controls include:

- Regular meetings of the Governing Body, as described above;
- Weekly Investment Policy Meetings of the investment team;
- The appointment of a Compliance Officer who reports directly to the CEO and Governing Body;
- Segregation of duties between the front and back office functions and the use of an independent administrator for the production of the monthly NAVs.

BIPRU 11.5.4 R**Disclosure:** Compliance with BIPRU 3, BIPRU 4, BIPRU 6, BIPRU 7, BIPRU 10 and the Overall Pillar 2 Rule**BIPRU 3**

For its Pillar 1 regulatory capital calculation of Credit Risk, under the credit risk capital component the Firm has adopted the Standardised approach ([BIPRU 3.4](#)) and the Simplified method of calculating risk weights ([BIPRU 3.5](#)).

Credit Risk calculation

Credit Risk Capital Requirement	Rule	Capital Component
Credit risk capital component	BIPRU 3.2	£196,992
Counterparty risk capital component	BIPRU 13 & 14	£0
Concentration risk capital component	BIPRU 10	£0
Total		£196,992

	Rule	Exposure	Risk Weight	Risk weighted exposure amount
National Government Bodies	BIPRU 3.4.2	£0	0%	£0
Banks etc long-term	BIPRU 3.4.36	£0	50%	£0
Banks etc short-term	BIPRU 3.4.39	£4,192,000	20%	£838,400
Exposure to Corporates/Debtors	BIPRU 3.4.52	£1,624,000	100%	£1,624,000
Past due item	BIPRU 3.4.96	£0	100%	£0
Fixed assets	BIPRU 3.4.127	£0	100%	£0
Accrued Investment management fees	BIPRU 3.4.128	£0	100%	£0
Total		£5,816,000		£2,462,000
Credit Risk Capital Component	8% of risk weighted exposure			£196,992

BIPRU 4

The Firm does not adopt the Internal Ratings Based approach and hence this is not applicable.

BIPRU 6

The Firm, being a Limited Licence Firm is not subject to the Pillar I Operational Risk Requirement and, therefore, this is not applicable.

BIPRU 7

The Firm has Non-Trading Book potential exposure only ([BIPRU 7.4](#), [7.5](#)).

BIPRU 10

The Firm closely monitors and assesses its Non-Trading Book limits in line with ([BIPRU 10.5.2 R](#) to [BIPRU 10.5.10 R](#)). When the Firm has a single exposure exceeding 25% of its capital resources, it is recorded in the Breaches Register, reported to the FSA and monitored until such time as is rectified upon receipt of fees. Also, the Firm monitors its position to ensure the sum of its exposures of more than 10% do not exceed 800% of its Regulatory Capital Resources.

Overall Pillar 2 Rule

The Firm has adopted the “Pillar 1 plus” or “Structured” approach to the calculation of its ICAAP Capital Resources Requirement as outlined in the Committee of European Banking Supervisors Paper, 25 January 2006.

The ICAAP assessment, including the risk management objective, is reviewed by the Governing Body and amended where necessary and when a material change to the business occurs.

BIPRU 11.5.8 R**Disclosure:** Credit Risk and Dilution Risk

The Firm is primarily exposed to Credit Risk from the risk of non-collection of fees from the funds it manages and these are normally received within a few days of being due. The Firm holds all of its cash at banks with robust credit ratings. Consequently risk of past due or impaired exposures is limited.

BIPRU 11.5.12 R**Disclosure:** Market Risk

The Firm has Non Trading Book potential exposure only ([BIPRU 7.4](#) & [7.5](#)).

Market Risk calculation

	Rule	Position	Risk Weight	PRR
Interest rate positional risk requirement	BIPRU 7.2	£0	8%	£0
Equity positional risk requirement	BIPRU 7.3	£0	8%	£0
Commodity positional risk requirement	BIPRU 7.4	£0	8%	£0
Foreign currency positional risk requirement	BIPRU 7.5	£0	8%	£0
Option positional risk requirement	BIPRU 7.6	£0	8%	£0
Collective investment undertaking positional risk requirement	BIPRU 7.7	£0	32%	£0
Total		£0		£0

BIPRU 11.5.2 R**Disclosure:** Scope of application of directive requirements

The Firm is subject to the disclosures under the [Banking Consolidation Directive](#) however, it is not a member of a UK Consolidation Group and consequently, does not report on a consolidated basis for accounting and prudential purposes.

BIPRU 11.5.3 R**Disclosure:** Capital Resources

The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under ([GENPRU 2 Annex 4](#)). Tier I Capital comprises of LLP Members' Capital.

Tier I Capital	£743,000
Deductions	£0
Tier 2 Capital	£0
Deductions	£0
Capital Resources	£0
Tier 3 Capital	£0
Deductions	£0
Total Capital	£743,000

BIPRU 11.5.5 R

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by [BIPRU 11.5.4R \(3\)](#).

BIPRU 11.5.6 R

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by [BIPRU 11.5.4R \(3\)](#).

BIPRU 11.5.7 R

This disclosure is not required as the Firm does not have a Trading Book.

BIPRU 11.5.9 R

This disclosure is not required as the Firm does not make Value Adjustments and Provisions for Impaired exposures that need to be disclosed under [BIPRU 11.5.8R \(9\)](#).

BIPRU 11.5.10 R

Disclosure: Firms calculating Risk Weighted Exposure Amounts in accordance with the Standardised Approach

This disclosure is not required as the Firm uses the Simplified method of calculating Risk Weights ([BIPRU 3.5](#)).

BIPRU 11.5.11 R

Disclosure: Firms calculating Risk Weighted Exposure amounts using the IRB Approach

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit and therefore is not affected by [BIPRU 11.5.4R \(3\)](#).

BIPRU 11.5.13 R

Disclosure: Use of VaR model for calculation of Market Risk Capital Requirement

This disclosure is not required as the Firm does not use a VaR model for calculation of Market Risk Capital Requirement.

BIPRU 11.5.14 R

Disclosure: Operational Risk

The Firm's Fixed Overhead Requirement (FOR) is disclosed as a proxy for the Pillar I Operational Risk Capital calculation. The Firm's Pillar I Capital Resources Requirement is the FOR which is the higher of FOR or the sum of Market Risk and Credit Risk Requirement.

Fixed Overhead Requirement GENPRU 2.1.53

£665,000

BIPRU 11.5.15 R

Disclosure: Non-Trading Book Exposures in Equities

This disclosure is not required as the Firm does not have a Non-Trading Book Exposure to Equities.

BIPRU 11.5.16 R**Disclosures:** Exposures to Interest Rate Risk in the Non-Trading Book

Although the Firm has substantial cash balances on its Balance Sheet, there is currently no significant exposure to Interest Rate fluctuations.

BIPRU 11.5.17 R Disclosures: Securitisation

This disclosure is not required as the Firm does not Securitise its assets.