

AKO Capital LLP

Pillar 3 Disclosure ICAAP and Remuneration Disclosure

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](#) (for ICAAP) and [BIPRU 11.5.18 R](#) (for remuneration). 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 transparency and thereby to protect consumers.

Frequency

The Firm will be making Pillar 3 disclosures annually. The disclosures will be as at the Accounting Reference Date (“ARD”) which is currently 28 February.

Media and Location

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

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 AKO Capital LLP.

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 is mindful of the FSA’s comments regarding confidentiality and of the comment that both qualitative and quantitative data must be disclosed.

As such, the Firm’s policy is to disclose that information required under the FSA Rules but to treat further 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 will 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, capital requirements and remuneration policy. The regulatory aim of the disclosure is to improve market discipline and transparency.

The Firm is an Investment Management Firm. It acts solely as agent on behalf of the AKO Funds. A key protection to our customers, the AKO Funds, is provided through the appointment, by the Funds, of an independent Administrator and independent Prime Brokers (Custodians).

The Firm’s key risks have been identified and grouped as either market, credit, business or operational risks. The Firm has assessed these business and operational risks in its ICAAP and has set out appropriate actions to manage them.

Market risk

As an Investment Management Firm, we do not have a trading book. Our potential exposures are non-trading book exposures to foreign currency assets or liabilities held on our balance sheet.

We do not hold foreign currency assets or liabilities. Whilst the Funds pay fees in US\$, € and NOK these are converted to £sterling before they are paid to AKO Capital LLP thus ensuring we are not exposed to any currency risk on the balance sheet of the LLP.

Credit risk

The Firm’s exposure to credit risk is the risk that investment management fees cannot be collected and the exposure to banks where cash held is deposited.

The Funds’ Administrator is responsible for calculating the Net Asset Value of the AKO Funds and therefore for calculating and paying the management (and if necessary, performance fees) due. Historically the management and performance fees have been settled promptly and in practice this risk is minimal.

The Firm holds all cash with an A rated UK domiciled bank.

Business risk

By its nature a hedge fund manager has a higher business risk than some other types of business. However within this context the Firm again has a conservative business risk appetite.

Currently the Firm has a single investment strategy and the main business risk is the loss of assets under management which could arise if the Board of Directors of the AKO Funds terminates the investment management agreement with the Firm, or, whilst the mandate is not terminated, investors choose to redeem. This could arise as a result of poor investment performance or if Nicolai Tangen left the business.

The Funds have almost six years of track record and based on historic performance we consider it unlikely the Board will seek to cancel the mandate. However, as noted below, should such a situation occur we have analysed the termination costs and ensured we have sufficient assets to wind down the business if required.

Redemption risk is mitigated by the hard and soft lock ups that apply to investments in the AKO Funds and the liquid nature of the 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 (as set out in the key man clause as detailed in the Funds' offering memoranda). Accordingly the Firm has analysed the costs of winding down the business and holds assets to cover such a winding up of the business if this were required.

Operational risk

This incorporates the portfolio management, trading, valuation and risk management processes undertaken with respect to managing the AKO Funds as well as the regulatory and contingency planning done at the Firm level. Our operational risk appetite is conservative and, as a result, we invest to mitigate such risks.

Our staffing levels also provide a level of contingency cover in all critical business areas such as investment management, trading and operations.

To ensure the accuracy of the portfolio records, daily cash and position reconciliations are performed by the operations department to the records of the Prime Brokers to the AKO Funds, as well as a weekly reconciliation to the Funds' Administrator. To ensure the independence of valuations these are produced by the Administrator and reviewed by the Firm to confirm their accuracy.

We employ outside contractors to assist in our compliance procedures and to support our IT.

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

We also aim to keep all aspects of our operations as simple as possible. We have a single and relatively plain vanilla investment strategy (long/short European equity investing in listed stocks) and manage only a single portfolio (albeit via standard Master Feeder fund structure).

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's activities give it the BIPRU categorisation of a "Limited Licence" and a "BIPRU €50K" firm.

As a Limited Licence Firm we are considered a Proportionality tier four firm for the purposes of the FSA's Remuneration Code.

The Firm is not a member of a UK Consolidation Group and as such this document covers the Firm on a solo basis.

Risk Management Objective

The Firm has a risk management objective to develop systems and controls to mitigate risk to within its conservative risk appetite.

Governance Framework

Nicolai Tangen and David Woodburn make up the Managing Board of AKO Capital LLP which is its Governing Body. The Board meets informally on a weekly basis and formally on a quarterly basis.

Nicolai Tangen and David Woodburn, as the Managing Board have 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.

Risk Framework

The Managing Board is responsible for risk management and reviews the effectiveness of the Firm's system of internal controls to manage and mitigate the risks identified.

In summary, AKO Capital LLP manages risk predominately through the following:

- Regular meetings of the Managing Board;
- Weekly Investment Policy Meetings of the investment team;
- The recent appointment of a dedicated Compliance Officer who reports directly to the CFO and Managing Board;
- The recent appointment of a dedicated Risk Officer to review fund portfolio risk, who reports directly to the CIO and CFO; and
- Segregation of duties between the front and back office functions and the use of an independent administrator for the production of the monthly NAVs of the AKO Funds.

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 @ 28 February 2011

Credit Risk Capital Requirement	Rule	Capital Component
Credit risk capital component	BIPRU 3.2	£371,605
Counterparty risk capital component	BIPRU 13 & 14	£0
Concentration risk capital component	BIPRU 10	£0
Total		£371,605

	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	£6,133,888	20%	£1,226,778
Investment management fee Debtors	BIPRU 3.4.52	£3,418,282	100%	£3,418,282
Past due item	BIPRU 3.4.96	£0	100%	£0
Fixed assets	BIPRU 3.4.127	£0	100%	£0
Accrued items	BIPRU 3.4.128	£0	100%	£0
Total		£9,552,170		£4,645,060

Credit Risk Capital Component	8% of risk weighted exposure	£371,605
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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 1 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](#)).

Overall Pillar 2 Rule

The Firm has adopted the “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 is reviewed by the Managing Board of the Firm annually, or 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 investment management fees and the exposure to banks where cash held is deposited.

The Funds' Administrator is responsible for calculating the Net Asset Value of the AKO Funds and therefore for calculating and paying the management (and if necessary, performance fees) due. Historically the management and performance fees have been settled promptly and in practice this risk is minimal.

The Firm holds all cash with an A rated UK domiciled bank.

See above (BIPRU 3) for calculation of credit risk as at 28 February 2011.

BIPRU 11.5.12 R**Disclosure: Market Risk**

As an Investment Management Firm, we do not have a trading book. Our potential exposures are non-trading book exposures to foreign currency assets or liabilities held on our balance sheet.

We do not hold foreign currency assets or liabilities. Whilst the Funds pay fees in US\$, these are converted to £sterling before they are paid to AKO Capital LLP thus ensuring we are not exposed to any currency risk on the balance sheet of the LLP.

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 1 Capital comprises of LLP Members' Capital.

Tier 1 Capital	£958,000
Deductions	£0
Tier 2 Capital	£0
Deductions	£0
Capital Resources	£0
Tier 3 Capital	£0
Deductions	£0
Total Capital	£958,000

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 higher of FOR/the sum of Market Risk and Credit Risk Requirement.

Fixed Overhead Requirement GENPRU 2.1.53

£768,000**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.

BIPRU 11.5.18 R Disclosures: Remuneration**Background**

As an LLP, the Firm is owned by the Partners who work in the partnership. Each Partner is obliged, on joining, to contribute capital to purchase their ownership interest. Such interest gives them the right to share in the profits of the Firm, in accordance with the terms of the partnership deed, which provides, amongst other things, that their right to receive profits is subordinated to ensuring the Firm meets its FSA capital requirements at all times.

The LLP is majority owned by Mr Nicolai Tangen. Mr Tangen and Mr David Woodburn are the Designated Members and make up the Managing Board which has responsibility for operating the Firm.

The FSA defines Remuneration Code Staff (“Code Staff”) in [SYSC 19A.3.4](#) as senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as those detailed above, whose professional activities have a material impact on the firm’s risk profile.

The Firm has decided to treat all Partners as Code Staff. With one exception, Partners make up all AKO Capital FSA Approved Persons and FSA guidance would suggest that a partnership role would generally be considered as one that impacts the risk profile of the Firm.

The Firm’s Finance & Operations Controller is a FSA registered individual who is not a partner. His FSA registration is to enable him to effect the Funds’ foreign exchange trades which are performed for hedging purposes. The Managing Board does not consider this role to constitute “risk taking” and therefore this person is not included as Code Staff.

The Managing Board will consider the need to add any new joiners to the list of Remuneration Code Staff during the year.

While, as it is based on an ownership interest, it is not clear that a Partner’s right to share in the profits of the LLP falls within the definition of remuneration for the purposes of the Remuneration Code, we have analysed the Partners’ profit share in accordance with the FSA’s Remuneration Principles.

Application

Based on the Firm’s profile we have defined ourselves as a Proportionality Tier Four investment firm (“Tier Four Firm”) and adopted a proportioned approach to our remuneration policy. We have considered our individual needs on an ongoing basis and where appropriate disapplied certain provisions in accordance with FSA and CEBS/EBA guidance. The Managing Board will review any provisions which have been disapplied on at least an annual basis, to ensure that it continues to be appropriate.

Information concerning the decision-making process

Due to the size of the Firm, we do not consider it appropriate to have a separate remuneration committee. Instead this function is undertaken by the Managing Board. This will be kept under review and should the need arise, the Firm will consider amending this arrangement to provide greater independent review.

The CIO is a Member of the Managing Board and also has a majority voting interest in the Firm. He is conscious of the importance of aligning the interests of the partnership with that of the funds managed and is a significant investor in the AKO Funds.

The Managing Board of AKO Capital LLP is responsible for ensuring that the remuneration policy is developed to align with its risk tolerance. No external consultants assisted in this review. Any person with a question regarding the policy or disclosures made under this policy should refer to the CFO who is a Member of the Managing Board.

Information on the link between pay and performance

A key objective in utilising the LLP structure was to align the interests of the individual partners with the overall goal of achieving the best performance over the long-term for the AKO Funds. To this end the AKO Funds are managed as a single entity and the profits of the Firm are treated as a single pool. This alignment of interests is also facilitated by the operation of performance fees, which are a key driver of the profits of the Firm, and which are only paid each year when the Funds’ NAV exceeds the previous year’s high water mark.

Partners receive a fixed pre-agreed percentage of the profits of AKO Capital reflecting their ownership interest in AKO Capital LLP. This percentage is reviewed annually, although typically will only be adjusted every two years. Adjustment can be both down as well as up and is made by the Managing Board which considers the individual's performance and contribution to the Firm.

The Partners' profit share is paid from profits after ensuring FSA capital and liquidity requirements and the working capital needs of the Firm have been considered, thereby ensuring the Firm is financially viable going forward.

As well as Partners, the Firm, via its corporate member, has a number of employees who are salaried personnel and who are entitled to a discretionary bonus determined by the Firm's Managing Board. Again, these remuneration arrangements are considered in accordance with the FSA's Remuneration Principles, but the total remuneration quantum paid to such employees is relatively modest and individual sums would fall well below the FSA's threshold limits for "Code staff".

Aggregate Value of Partners' Profit Share for year to 28 February 2011

Based on the profile of the Firm we consider we have one business area, investment management and all Partners, as Code Staff, have responsibilities that typically fall within job titles FSA guidance indicated would suggest they are senior personnel whose role impacts the risk profile of the Firm.

As such, to comply with the FSA disclosure requirement [BIRPU 11.5.18 R \(6\) and \(7\)](#), we disclose, as per the audited accounts of the Firm, the total Partners' profit allocation, which, for the year to 28 February 2011 was £73,652,715.