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 FCA'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 FCA'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 FCA 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 a Full Scope UK AIFM of non-EEA AIFs. We also retain our MiFID permissions which allow us to also undertake certain additional investment management activities. As such we are classified as a BIPRU CPMI firm. A key protection to our customers, the AKO Funds, is provided through the appointment, by the Funds, of an independent Administrator, independent Prime Brokers and an independent Custodian.

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 and mitigate them.

Market risk

As an Investment Management Firm, we do not have a trading book. Our potential exposures are non-trading book exposures to £sterling 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 Firm.

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 instructing the payment of the management fees (and if necessary, performance fees) due. Historically the management and performance fees have been settled promptly and in practice this risk is considered minimal.

The Firm holds all cash with an AA2 rated bank.

Business risk

By its nature an AIFM and MiFID Firm has a higher business risk than some other types of businesses. However, within this context the Firm again has a conservative business risk appetite.

Currently the Firm employs two investment strategies; European equity and Global equity and the main business risk is the loss of assets under management which could arise if the Boards of Directors of the AKO Funds terminate the investment management agreements with the Firm, or, whilst the mandate is not terminated, investors choose to redeem. This could arise for a number of reasons including poor investment performance or due to the departure from the firm of one or more key staff members.

European strategy-

The Hedge Fund has a track record of over 15 years and based on historic performance we consider it unlikely the Board would 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.

In January 2012 we launched a Long-only Fund whose investment strategy is to invest in the long positions of the Hedge Fund in companies whose market capitalisation is >US$7.5 billion, and to be circa 100% invested at all times. This has the same Board of Directors and service providers as the Hedge Fund. Again, based on the track record of this Fund since launch we also consider it unlikely the Board will seek to cancel the mandate.

Global strategy-

The Global long-short strategy has a 7 year- track record, although it has only been open to external investors since March 2016. The strategy is available via a plain-vanilla Cayman structure and an Irish regulated UCITS ICAV structure. The latter fund has weekly liquidity.

In June 2018 and September 2018 we launched a Global Long-only Cayman fund and a UCITS sub-fund, respectively.

The Global funds carry greater redemption risk as they are newer funds with a shorter track record. The assets under management provide greater risk diversification and the assets under management on their own would be sufficient to allow the Firm to continue operations without any change.

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 and Custodian 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 disaster 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 simple, relatively plain-vanilla investment strategies (long/short and long-only European equity investing in listed stocks and long/short and long-only Global equity investing in listed stocks) managed via a total of eight fund vehicles.

We have a policy for the prevention of facilitation of tax evasion.

Background to the Firm

Background

The Firm is incorporated in the UK and is authorised and regulated by the FCA as an AIFM of non-EEA AIFs. In addition, the Firm utilises its MiFID permissions as discretionary investment manager to the AKO UCITS ICAV and its two sub-funds. As such the Firm is classified as a 'BIPRU CPMI Firm'. The Firm's activities give it the BIPRU categorisation of a "BIPRU €125K" firm.

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

BIPRU 11.5.1 R

Disclosure: Risk Management Objectives and Policies

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

The CEO, COO and CO, make up the Managing Board of AKO Capital LLP which is its Governing Body. The Board meets formally on a quarterly basis.

The CEO, COO and CO, have the daily management and oversight responsibility for the Firm. They work closely together and discuss and address operational matters in the normal course of the business day, as well as at the quarterly Managing Board 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 predominantly through the following:

- Regular meetings of the Managing Board;
- Regular Investment Policy Meetings of the investment team;
- A dedicated Compliance Officer who reports directly to the COO and Managing Board;
- A dedicated Risk Officer to review fund portfolio risk, who reports directly to the CIO and COO; 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).

Please note we have taken a prudent approach to calculating our Credit Risk exposure, including our AIFM and MiFID business, rather than only our MiFID business.

Credit Risk calculation @ 29 February 2020

Credit Risk Capital Requirement	Rule	Capital Component
Credit risk capital component	BIPRU 3.2	£2,119,557
Counterparty risk capital component	BIPRU 13 & 14	£0
Concentration risk capital component	BIPRU 10	£0
Total		**£2,119,557**

	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	£60,198,561	20%	£12,039,712
Investment management fee Debtors	BIPRU 3.4.52	£14,454,747	100%	£14,454,747
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		**£74,653,308**		**£26,494,459**
Credit Risk Capital Component	8% of risk weighted exposure			**£2,119,557**

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 Values 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 AA2 rated bank.

See above (BIPRU 3) for calculation of credit risk as at 28 February 2021.

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 I Capital comprises of LLP Members' Capital and audited reserves.

Tier I Capital	£51,898,678
Deductions	£0
Tier 2 Capital	£0
Deductions	£0
Capital Resources	£0
Tier 3 Capital	£0
Deductions	£0
Total Capital	**£51,898,678**

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.

Operational Risk Requirement	GENPRU 2.1.53	£2,405,025

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

Introduction

AKO Capital is obliged to comply with the Remuneration Code, set out in FCA Rules SYSC 19B and in accordance with ESMA's Guidelines on sound remuneration policies.

The fundamental objectives of the AIFMD and FCA Remuneration Rules are to ensure a firm has remuneration policies applicable to AIFM Remuneration Code Staff that sustain market confidence and promote financial stability through removing the incentives for inappropriate risk-taking by firms and thereby to protect consumers.

We believe our Policy meets the underlying objectives of the FCA and covers all the requirements in SYSC 19B and related provisions.

Background to the Firm

The Firm is authorised by the FCA as a full-scope UK AIFM and manages non-EEA AIFs. The Firm also acts as discretionary investment manager to an Irish regulated UCITS ICAV.

The Firm's financial year-end is 28 February. The year-end of the Funds we manage is 31 December and any performance fees (if due) are paid in the following January.

As an investment manager AKO Capital does not trade or book profits from holding proprietary positions but instead receives fee income (management and performance fees) from the Funds it manages. There is therefore no uncertainty as to its income as, unlike profits booked as a result of marking to market proprietary positions, fees do not reverse and there are no provisions for their repayment.

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 partnership 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 FCA capital requirements at all times.

As AKO Capital is a CPMI Firm we are subject to the Remuneration Code contained at SYSC 19B for our AIFM business and SYSC 19C for our non-AIFM business. Due to the similarities in both sets of rules and the fact that all code staff are captured for both our AIFMD and MiFID regulated business, our remuneration policy is designed to be fully compliant and is applicable to all Partners (code staff).

Application

The AIFMD and FCA SYSC 19B.1.4 and SYSC 19C.3.3 permit an AIFM to comply with the detailed rules in a way and to the extent that is appropriate to the AIFM's size, internal organisation, nature, scope and complexity of its activities.

This proportionality allows a firm to determine whether it should disapply the "Pay-out Process Rules". These rules are:-

a. Retained units, shares or other instruments (SYSC 19B.1.17.R/Principle 5(e));
b. Deferral and vesting (SYSC 19B.1.1.18.R/Principle 5(f)); and
c. Performance adjustment (SYSC 19B.1.19.R and 19B.1.20.R/Principle 5(g))

The Firm has considered all these elements in line with the FCA Guidance.

In summary, whilst certain proportionality criteria would indicate AKO Capital should not disapply the "Pay-out Process" Rules, other elements of these criteria could be used to argue to disapply these rules. However, AKO Capital takes its regulatory responsibilities seriously and also believes that incorporating a period of deferral and payment in part in Fund shares in its remuneration policy has real commercial benefits for AKO Capital (it acts as a useful retention and incentivisation scheme). It has therefore decided to comply with what it believes is the spirit of the regulations and not to disapply any of the Pay-out Process Rules.

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 Managing Board of AKO Capital LLP is responsible for ensuring that the remuneration policy is developed to align with its risk tolerance. Any person with a question regarding the policy or disclosures made under this policy should refer to the COO 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 a Fund's NAV exceeds the previous year's high water mark.

Partners receive a fixed pre-agreed percentage of the profits of AKO Capital reflecting their 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 FCA capital and liquidity requirements and the working capital needs of the Firm have been considered, thereby ensuring the Firm is financially viable going forward.

In 2014 the Firm introduced a new deferral plan to comply with the Alternative Investment Fund Managers' Directive ("AIFMD"). This means that a portion of a Partner's profit share is considered variable and a portion of that variable amount is deferred over a three year period. Payment of the deferred portion is performance based and paid out as a mix of cash and AKO Fund shares.

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 FCA's Remuneration Principles, but the total remuneration quantum paid to such employees is relatively modest and individual sums would fall well below the FCA's threshold limits for "Code staff".

Aggregate Value of Partners' Profit Share for year to 28 February 2021

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 FCA guidance indicated would suggest they are senior personnel whose role impacts the risk profile of the Firm.

As such, to comply with the FCA disclosure requirement BIRPU 11.5.18 R (6) and (7), we disclose, as per the audited accounts of the Firm, the total of the Partners' profit allocation and distributions under the deferral plan, which, for the year to 28 February 2021, was £499,297,524