REGULATORY BACKGROUND

The Capital Requirements Directive ('the Directive') of the European Union came into effect on 1 January 2007. It details the regulatory capital adequacy standards and associated supervisory framework across the European Union.

In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority ('FCA') through the General Prudential Sourcebook ('GENPRU'), and section 11 of the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

The prudential framework for investment management firms consists of three 'Pillars':

- Pillar1sets out the minimum capital requirements for the Investment Manager, incorporating credit, market and operational risk capital requirements.
- Pillar 2 deals with the Internal Capital Adequacy Assessment Process ("ICAAP"), and the Supervisory Review and Evaluation Process through which the investment manager and the regulator satisfy themselves as to the adequacy of capital.
- Pillar 3 is designed to encourage market discipline by requiring the disclosure of specified information in relation underlying risk management controls and capital resources.

This Pillar 3 disclosure document has been prepared by Markham Rae LLP ("the Firm") in accordance with the requirements of BIPRU 11, and is verified by the Board of Partners. The disclosures in this document do not apply to the funds managed by the Firm, which are exposed to different risks. Unless otherwise stated, all figures refer to 31 March 2016.

BACKGROUND TO THE FIRM

The Firm is regulated by the FCA as an investment management firm, receiving authorisation on 22 November 2010. It is a BIPRU Euro 125,000 limited license firm, without retail clients, which is not authorized to hold client money or take proprietary trading positions. The Firm reference number is 526161. The Firm is not a member of a group and so is not required to prepare consolidated reporting for prudential purposes.

Enshrined in the European remuneration provisions is the principle of proportionality. The FCA has sought to apply proportionality in the first instance by instituting two tests. First, a firm that is significant in terms of its size must disclose quantitative information referred to in BIPRU 11.5.18R at the level of senior personnel. Second, that a firm must make disclosure that is appropriate to the size, internal organisation and the nature, scope and complexity of their activities. The firm is not 'significant' and so makes this disclosure in accordance with the second test (BIPRU 11.5.20R(2)).

MATERIALITY

BIPRU Pillar 3 rules (BIPRU 11.3.5R and BIPRU 11.4.1R) provide that disclosures are only required where the information would be considered material to a user relying on that information for the purpose of making economic decisions about the firm.

BIPRU Pillar 3 rules (BIPRU 11.3.6R and BIPRU 11.3.7R) provide that firms may omit required disclosures where the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties.

RISK MANAGEMENT OBJECTIVES AND POLICIES

Corporate Governance Framework

The aim of the Markham Rae LLP Corporate Governance infrastructure is to create an effective organisation, which facilitates good decision making, and timely execution of those decisions.

The Firm is a Limited Liability Partnership, with a Board of Partners as its governing body.

The Board has overall responsibility for the management and control of the business and the affairs of the partnership. The Board meets to discuss strategic business planning, and priorities, management accounts, profitability, cash-flows, regulatory capital management, liquidity risk management, staffing and staff compensation.

The Board delegates oversight of certain governance, risk management and control responsibilities to the following committees: Risk Committee, Operations Committee, Compliance Committee and the Business Development Committee.

The aim of the Risk Committee is to ensure that as far possible, all the risks taken by the strategy are known, acceptable and consistent with stated guidelines and investment objectives.

The aim of the Operations Committee is to ensure that secure, scalable and robust systems, technology, data and processes are developed in order to implement the highest possible standards of trade and reconciliation, valuation, risk management and fund operations.

The aim of the Compliance Committee is to ensure that the partners and employees of Markham Rae LLP understand the laws and regulations under a compliance culture which adheres to the highest possible standards of market and professional conduct, with governance to prevent financial crimes, such as anti-money laundering and prevention of market abuse and controls to prevent misappropriation of client moneys.

SUMMARY OF MATERIAL RISKS

The Firm's material risks are operational and business related. The Firm acts as a trading adviser but does not invest its own capital in those strategies which it advises, and therefore is not materially exposed to either credit, market or liquidity risks. The Firm is however, exposed to the strategy's investment performance. The Firm believes that the risk management framework is appropriate for the size and complexity of its business, and that it's capital is adequate to meet the assessed risks, but it can not guarantee that this will be the case in the event that any particular risk materialises.

Business Risk

The firm's revenue is reliant on the performance of the existing funds under management and its ability to raise further funds under management. As such, the primary risk posed to the firm relates to underperformance of the funds under management, resulting in a decline in revenue and ultimately the risk of redemptions. Other business risks facing the Firm include reputational damage, and a changing regulatory environment.

Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The more significant operational risks include risk of catastrophic systems failure, unavailability of business premises, key man risk, and breaches of regulatory requirements. The firm seeks to minimise operational risk through the operational procedures and controls framework.

Credit risk

The firm is exposed to credit risk in respect of fees payable under the investment management agreements. Management fees are drawn monthly, and performance fees annually, from the funds managed and the Firm considers the risk of default by its clients as low.

The Firm also has credit risk exposure on the cash it holds on deposit. Counterparty risk is low as the cash is held on deposit with large institutions with good credit ratings.

Given the nature of the firm's exposures, no specific policy for hedging and mitigating credit risk is in place. The firm uses the relevant BIPRU sections of the FSA Handbook when calculating risk weighted exposures.

Credit risk summary, as at 31 March 2018

Credit risk exposure	**Risk weighting**	**Risk weighted exposure**
Cash in the bank (BIPRU 3.4.39)	20%	£208,056
Investment Management Fee Debtor (BIPRU 3.4.52)	100%	£664,716
Pre-Payments	100%	£7,487
Total Credit Risk Capital		£880,259
Risk Weighting	8%	£70,421

Equity exposure

The firm does not invest capital retained in the business, which is not required for working capital purposes, in any equity positions, and therefore does not have any equity exposure.

Market risk

The firm takes no market risk other than foreign exchange risk in respect of its accounts receivable and cash balances held in currencies other than GBP.

Hedging strategies are used from time to time to mitigate against potential foreign exchange losses and these are monitored by the Chief Operating Officer. Losses arising on foreign exchange movements are monitored on a regular basis and reported to senior management via the monthly management accounts.

The firm calculates its foreign exchange risk by reference to the rules in BIPRU 7.5.1 of the FSA Handbook and applies an 8% risk factor to its foreign exchange exposure.

Market risk summary, as at 31 March 2018

Market risk exposure	Risk weighting	Risk weighted exposure
Foreign currency assets and liabilities	8%	£ 125,310

Liquidity risk

The firm is required to maintain sufficient liquidity to ensure that there is no significant risk that its liabilities cannot be met as they fall due, or that financial resources can only be secured at excessive cost.

The Firm retains an amount it considers suitable for providing sufficient liquidity to meet it's working capital requirements under normal business conditions. The firm has always had sufficient liquidity within the business to meet its obligations and there are no perceived threats to this, given the cash deposits. Additionally, it has historically been the case that all management fee debtors are settled promptly, thus ensuring further liquidity resources are available to the firm on a timely basis. The Chief Operating Officer monitors the cash position of the firm, and reports the cash position to the Board of Partners weekly.

The Firm maintains a Liquidity risk policy which formalises this approach.

Regulatory capital

The Firm is a Limited Liability Partnership and its capital arrangements are established in its Partnership deed. The main features of the Firm's capital resources for regulatory purposes are as follows:

	31 March 2018 £
Total Capital	1,242,000
Deductions	0
Total capital resources	1,242,000

The Firm's market risk is limited to foreign exchange risk on its accounts receivable in foreign currency, and credit risk from management and performance fees receivable from the funds under its management. The Firm follows the standardised approach to market risk and the simplified standard approach to credit risk. The Firm is subject to the Fixed Overhead Requirement and is not required to calculate an operational risk capital charge although it considers this as part of its process to identify the level of risk based capital required.

As discussed above the firm is a limited licence firm and as such its capital requirements are the greater of:

- Its base capital requirement of €125,000; or
- The sum of its market and credit risk requirements; or
- Its Fixed Overhead Requirement ("FOR"), and the Professional Indemnity Insurance Requirement.

We have not identified credit risk exposure classes or the minimum capital requirements for market risk as we believe that they are immaterial.

It is the Firm's experience that the FOR establishes its capital requirements.

Capital requirement

The Firm's Pillar 1 capital requirement has been determined by reference to the firm's FOR and calculated in accordance with the FCA's General Prudential Sourcebook ("GENPRU") at GENPRU 2.1.53. The requirement is based on the FOR since this exceeds the total of the credit and market risk capital requirements it faces and also exceeds its base capital requirement of €125,000.

The FOR is based on annual expenses net of variable costs deducted, which exclude discretionary bonuses paid to staff. 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.

This is monitored by the Chief Compliance Officer and reported to senior management on a monthly basis.

Giles McClelland
Chief Operating Officer
Markham Rae LLP

25 May 2018