PILLAR 3 DISCLOSURES

ALDER INVESTMENT MANAGEMENT LTD [AIM]

FCA REFERENCE NUMBER: 122428

DATED: 28 MARCH 2019

Contents

1. Overview

The disclosure requirements for Pillar 3 aim to complement the minimum capital requirements of Pillar 1 and the supervisory review process from Pillar 2 and encourage market discipline by allowing market participants to assess key pieces of information on risk exposures and the risk assessment processes of the firm.

Alder Investment Management Limited (AIM) is a Capital Requirements Directive (CRD) firm and is, therefore, required to make a Pillar 3 disclosure to comply with Basel II.

The Pillar 3 rules state that firms can omit one or more required disclosures where it believes that the information is immaterial; this also includes the definition of materiality. The Board of Directors of AIM have decided not to omit any of the required disclosures.

AIM is also permitted to omit one or more of the required disclosures where it believes that the information is regarded as proprietary or confidential. The Board of Directors have decided not to omit any disclosures.

The Board of Directors confirm that the disclosures in this document are in accordance with Part Eight of the CRR (Articles 431 – 455).

2. Frequency of disclosure

The Pillar 3 rules state that disclosure should be reported at least annually. The Board of Directors have decided that an annual disclosure is sufficient for the type and size of the company.

The disclosures will be based on the company's financial year end of 31 December and the information in this document is based on the position as at 31 December 2018.

3. Location and verification

A note in the annual financial statements of the company will advise that this document is available on AIM's website.

The Board of Directors have reviewed the information disclosed in this document and feel it gives a true and fair reflection of the position as at 31 December 2018. This view is based on a review of the financial statements and the information which has been disclosed in Pillar 1 and 2.

4. Scope of application

AIM is authorised and regulated by the FCA and is an IFPRU Euro 125k / Limited Licence firm. AIM is a wholly-owned subsidiary of Alder Asset Management Ltd (AAM). AAM is not deemed to be a Financial Holding Company in terms of the CRD and accordingly AIM is not subject to consolidated reporting within the EU with other entities.

5. Risk management

5.1 Statement of risk appetite

The Board of Directors are responsible for determining the level of risk that is acceptable in running the company (i.e. the company's risk appetite). Risks are mitigated through the application of limits and controls and a monitoring process at operational level.

The following risks have been identified and listed below with a brief description. The Board of Directors assesses the risks and the controls that mitigate these risks.

On a regular basis, the Board of Directors, meet to review the assessment and consider whether the level of risk that the company is running (i.e. the company's risk appetite) is acceptable.

On a daily basis the responsibility for risk assessment rests with the Compliance Officer/MLRO. The Compliance Officer/MLRO considers the operations of the business, key impacts on the firm's business and the regulatory environment. To provide additional veracity to the process, external compliance consultants are employed to review the firm's continuing compliance with its regulatory requirements.

5.2 Business/Strategy Risk

Business Risk

To reduce the risk of the loss of a major client, the company continues to provide a highly personalised service at a very competitive price, helped by a low turnover of staff, with sound long term investment performance. In addition, as the company's management charges are well below the market rate, the company has the ability to increase fees to other clients to offset the loss of one or more major clients.

Reputational risk

As AIM is a private company which does not seek non-Vestey family clients, the only reputational risk is likely to be connected with regulatory risk as discussed below.

5.3 Investment Risk

Performance risk

Poor investment performance may lead to both customer and staff disaffection. To counter this risk, AIM utilises long established contacts with leading firms of stockbrokers and has contracts in place to receive research material covering the major stock markets, whilst ultimately relying on its own research and analysis to justify investments and seek suitable new investments. The investment team meets regularly to decide overall investment strategy, resulting in action lists that ensure a consistent and clear approach.

Market risk

Approximately half of the funds under management are subject to a fixed fee, with any changes agreed with the client at the beginning of each calendar year. Accordingly, income is less subject to the considerable variations faced by investment managers that charge a fee based on the market value of assets under their control.

Transaction risk

1. There is the risk of failure to exercise conversion or subscription rights for a client. To reduce this risk, AIM maintains a list of such stocks and checks this regularly.

2. Investments may be made which are outside the guidelines allowed by the Trust Deed or agreed with the client. To reduce this risk, the Investment Managers check the guidelines on the clients' files before dealing. Breaches and errors indicate that this is a rare event and it would not be practical to implement an automated system to minimise this risk further. AIM's Product Governance (Distributing) policy also demonstrates that it understands the financial instruments it distributes to clients, assesses the compatibility of the financial instruments with the needs of the clients, takes into account the manufacturer's identified target market of end clients, and ensures that financial instruments are distributed only when this is in the best interests of the client.

3. The failure to give the necessary instructions to custodians or others by the due date may result in a loss to clients. To reduce this risk, the investment administration department produce a holding list for each corporate action and include thereon the final dates instructions are required by relevant custodian for each category of client and advise the investment management staff of these deadlines. The investment administration department then monitor the list daily to ensure instructions are given prior to deadlines. It is not considered that any capital provision could reduce this risk further.

Counterparty risk

The failure of our custodians, which are currently HSBC Securities Services and RBC Investor & Treasury Services, our bankers, Lloyds Bank, National Westminster Bank, Barclays Bank or any of the brokers we use. To reduce these risks an annual assessment of the custodians is carried out, including a review of the credit rating and review of the ISAE3402 (where available) report on their business carried out by external auditors. As investors in and users of services of HSBC, RBC, Lloyds Bank, Barclays Bank and Royal Bank of Scotland, their financial and operational performance is constantly under review. AIM maintains a list of approved brokers and external fund providers. The majority of transactions are delivery against payment, there is therefore limited risk of a loss in our dealings in investments.

5.4 Compliance Risk

Regulatory risk

Failure to observe the rules of the FCA may result in a penalty or removal of regulatory approval of staff or the firm to carry out its business. AIM has a comprehensive and regularly updated Compliance Manual and written procedures with which all investment staff must comply at all times. The Compliance Officer carries out regular checks to ensure compliance. The risk management process has identified some potential improvements in the Compliance regime and these have been addressed by using the resources of external consultants.

Legal risk

Company law and other relevant legislation and requirements pose risks to the business. The company maintains up to date procedures manuals and employs suitably experienced personnel, providing proper training where necessary. Where appropriate, the company utilises external advisors on some issues such as health and safety and staff matters generally.

5.5 Operational Risk

Key Personnel

The loss of key personnel would require appropriately high level replacements. However, whilst there maybe a period of time when a replacement has not been found, staff are trained to cover other roles so, staff would be able to cover whilst a replacement is found.

Remuneration

A remuneration committee comprising of the non-executive chairman and one of the non-executive directors has been set up. The company does not operate any reward schemes.

Information Technology risk

The risk exists of unauthorised access and data corruption. However, all computers are password protected whilst only some authorised, users are able to effect changes to the information on the computer. Data is backed up each day and stored off-site. The company has maintenance contracts for both hardware and software. Additional capital provision would not mitigate this risk and no additional measures could practically be taken to minimise occurrence.

Catastrophe risk

To counter the risk of fires, floods or other disasters, all current records are kept on the computer network with an online daily backup and data cartridges being copied weekly and kept off-site, thus enabling records to be quickly accessed if existing equipment is destroyed or out of action. The company also carries the normal fire and office contents insurance cover in order to minimise the consequence of this risk.

Financial Crime risk

The potential theft or fraud of clients' monies or assets or the failure to report suspicions relating to money laundering is reduced as the company has written procedures to follow and all movements of assets or cash require two authorised signatories. Movements are reconciled daily and it is our policy that we should achieve nil balances on all client capital accounts at the end of each business day. All employees are fully aware of their responsibilities regarding money laundering.

Systems and Operations risk

The company has a computer network which has a number of servers and PC's. All servers are connected to a fibre line for internet/email access. There is also an ISDN backup line.

The servers currently use Microsoft 2008 or 2012 server as its operating system and the PC's use Windows 7, 8 or 10. All Servers and PCs are password protected and these are changed on a regular basis.

There are 2 main software packages used, one of which is a bespoke accounting, administration and back end investment management package and the other is a front end investment package. Each user has a password to access the packages, which is changed on a regular basis.

The company uses anti virus packages, together with a spam filtering system for emails. All these packages have a 12 month rolling contract.

A daily backup of all data is taken each night and this is then taken off site each day.

Systems and Operations risk (cont.)

In case of a disaster, we have an offsite server and a contract with our major software supplier, who will provide us with a desk and PC to connect to the server. The offsite server is updated daily with data from our servers. They will also provide us with a telephone and fax. As the majority of users have PCs and broadband at home they can connect to the offsite server to access data. Email is accessed through 'Cloud' technology and all users can access their email accounts from any internet connection. The email accounts are password protected.

The telephone system is capable of being re-routed to users home phones and mobiles and the calls will still be recorded. Additional capital would not reduce the risk or provide any assistance in recreating the data lost.

5.6 Liquidity risk

As AIM charges clients a fixed fee (except in the case of the Smithfield Funds) the income is relatively reliable and less susceptible to considerable variations. Costs can usually be forecast with a relatively high degree of accuracy. Quarterly management accounts are presented to the board which compare actual results with the budget. The company has substantial reserves, the majority of which are maintained in cash, a cash fund or short term debtors.

5.7 Pension obligation risk

While most staff receive pension benefit through a Deferred Contribution arrangement, there is also a Defined Benefit obligation in place for one director where the quantification of the liability is calculated by a qualified actuary and provided for in full in the accounts in accordance with FRS102.

5.8 Market risk

AIM does not act in a Principal capacity and does not deal on its own account. Accordingly the company has no trading book and no market risk exposure. The company has no non-trading book exposures to equities or foreign currency exposures and the company does not undertake securitisation.

5.9 Credit risk

Since AIM has only incidental credit exposures, it applies the simplified method of calculating credit risk. Credit risk exposures, which are represented by debtors and prepayments, are assessed as past due and impaired after non-settlement within the company's Terms of Business (30 days). At 31 December 2018, there were no overdue exposures. Principally, exposures relate to investment management fees due from the company's clients the majority of which are based within the EU.

6. Capital resources position as at 31 December 2018:

AIM is subject to a Fixed Overhead Requirement ("FOR") and is not required to calculate an operational risk capital charge under Pillar 1. The FOR is greater than the base capital requirement (Euro 125k) and also the sum of its market and credit risk requirements. Accordingly, the FOR (£973K) constitutes the company's minimum capital requirement. The company's capital position is set out below.

	Pillar 1	ICAAP
	Minimum capital (£000)	Pillar 2 capital (£000)
Tier 1 capital less innovative tier 1 capital	2,734	-
Total tier 2, innovative tier 1 and tier 3 capital	-	-
Deductions from tier 1 and tier 2	Nil	-
Total capital resources net of deductions	**2,734**	**2,734**
Base requirement (€125,000)	113	n/a
Credit risk	32	n/a
Market risk	-	n/a
Operational risk	n/a	n/a
Fixed overhead requirement (FOR)	973	n/a
Pillar 1 total	**973**	**n/a**
Pillar 2 operational risk	n/a	
Pillar 2 business risk	n/a	25
Pillar 2 legal and reputational risk	n/a	
Additional capital to cover stress testing / scenario analysis	n/a	25
ICAAP capital requirement	**973**	**1,023**
Capital resources	2,734	2,734
Surplus (= total capital less ICAAP capital)	**1,761**	**1,711**

7. Business strategy

The company is of such a scale that the business model is not complex and the risks inherent in the business are effectively managed. Turnover is comprised of fees that are fixed in advance and those which are market value related. The fixed fees provide a more certain source of income since they are not subject to investment market movements. Where fees are a function of market values, these are calculated monthly to reduce the effect of any short term fluctuations. In addition substantial reserves have been established to absorb the consequences of more sustained periods of reduced levels of income from such market value related income. Costs largely derive from property and payroll, which can usually be forecast with a relatively high degree of accuracy.

The company's financial forecast policy is based on a 12 month period starting from 1 January each year, which is the start of the financial year. This forecast is presented to the board for their approval. The forecast is updated on a quarterly basis with management accounts being presented to the board showing an actual versus budget position. A report is also presented to the board explaining any variances.

As already mentioned, AIM and its parent undertaking are owned by the Vestey family. The sole purpose of the company is to supply investment management and other ancillary services to the family and their business interests.

8. Remuneration policy

AIM has a remuneration committee which consists of the Non-Executive Chairman and one of the Non-Executive Directors. Remuneration is based on market conditions and no reward schemes are operated.

Remuneration decisions are made annually by the remuneration committee and remuneration code staff earn less than €500k.

9. Contacts

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