

H2O Asset Management LLP

Capital Requirements Directive

Pillar 3 Disclosure 2020

1. Introduction

H2O Asset Management LLP (“H2O”) is authorised and regulated by the Financial Conduct Authority (“FCA”). FCA is responsible in the United Kingdom for the implementation of the Capital Requirements Directive of the European Union, which created a new regulatory capital framework for the financial services industry.

These Pillar 3 disclosures as set out below are required by FCA’s Prudential sourcebook for banks, building societies and investment firms (“BIPRU”).

Confidentially disclosures are made in this document in compliance with BIPRU 11 unless that disclosure is regarded as immaterial or proprietary / confidential. Information is regarded 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 less valuable. The firm will regard any information as confidential if there are obligations to customers or other counterparty relationships which bind the firm to confidentiality.

Form of Disclosures.

The firm will make Pillar 3 disclosures annually at its last accounting reference date which will be published on the firm’s website at www.h2o-am.com.

The information contained in the firm’s Pillar 3 disclosures has not been audited by the firm’s external auditors, does not constitute any form of financial statement and must not be relied upon in making any judgement on the firm.

2. Summary

FCA’s regulatory capital framework consists of three pillars:-

1. Pillar 1 specifies the minimum capital levels of the business required to carry the risk to its business.
2. Pillar 2 sets out the internal capital adequacy process (“ICAAP”) taken by the firm together with the supervisory review process both by the firm and FCA to determine whether additional capital should be maintained against any risks not adequately covered by Pillar 1.
3. Pillar 3 specifies the disclosure requirements which businesses are required to make of its capital, risk exposures and risk assessment processes. The regulatory aim of this disclosure is to improve market discipline.

H2O is a United Kingdom Limited Liability Partnership which is authorised and regulated by the FSA as an investment management and advisory firm.

The firm's activities mean that it is categorised under FCA rules as a BIPRU EUR 50k limited licence, discretionary investment management.

Risk Management

As a major investment manager H2O is mainly exposed to operational risk, though there is additional exposure both to business risk and credit risk. All of these exposures are regarded as typical for a business engaged in investment management activity. The firm is required to disclose its risk management objectives and policies for each separate category of risk which includes the strategies and processes to manage those risks; the structure/organisation of the relevant risk management function or other appropriate arrangement; scope and nature of risk reporting and management systems; and the policies for hedging and mitigating risk.

The firm has assessed business and operational risks in its ICAAP and has set up appropriate actions to manage them. The firm has a risk framework in place to mitigate risk including operational, credit and market risk.

3. Risk management objectives and policies

The firm is governed by its senior management who determines its business strategy and risk appetite. They also establish and maintain the firm's governance arrangements, design and implement a risk management framework that recognises the risks that the business faces and assess how those risks may be mitigated in the arrangements to do so.

Senior management meet on a monthly basis to discuss current projections for profitability and cash flow, regulatory capital management and business planning and risk management. They manage the firm through a defined and transparent risk management framework policies and procedures having regard to relevant law, standards, principles and rules, which are updated as required.

Annually senior management review formally their risks, controls and risk mitigation arrangements and assess effectiveness. Where senior management identify material risk they consider the financial impact of these risks as part of the business planning and capital management process and decide if the amount of regulatory capital is adequate. In assessing the risk appetite in the business, consideration has been given to identifying the key risk indicator applicable. This has been identified as loss of value which can be related at both client level and the management entity level as leading to loss of revenue, loss of assets and/or higher costs.

In defining the risk appetite both the likelihood of an occurrence of an event and the impact level of the event have been considered. The risk appetite The firm's risk appetite is low. The firm has developed certain statements which collectively make up its risk appetite as follows:

Operational risk is the main focus of management attention and covers the full range of exposures from risk of clerical errors to risk of breach of the firm's investment objectives. It is our policy to ensure that more than one person is involved in any activity in order to reduce these risks to acceptable levels.

Business risk is relevant in terms of the risk of loss of reputation following adverse publicity or where confidential information enters the public domain or in the event of a severe economic down-turn. The business has documented specific policies and procedures to cover such exposures and has

modelled the effect of a drastic fall in revenue and has set out actions to ensure the firm has adequate regulatory capital.

Credit risk is the risk that advisory and/or management fees cannot be collected. Specific procedures cover the management of this exposure. Market risk is limited to foreign exchange risk on accounts receivable in foreign currency. The firm has in place specific procedures to cover the management of market risk.

Liquidity risk is the risk that the firm will not have sufficient liquidity to meet foreseeable requirements. The firm has implemented policies to ensure it maintains liquid resources which are adequate both to amount and quality so there is no significant risk that liabilities cannot be met as they fall due.

4. Capital resources

As a limited licence firm, the firm's minimum capital requirement and Pillar 1 is the greater of:-

1. The base capital requirement of €125,000;
2. The sum of market and credit risk requirements and
3. Its fixed overhead requirement.

The firm's minimum capital requirement under pillar 1 = £6,025,489

Limited licence firms are not required to calculate an operational risk charge for their Pillar 1 requirement.

For H2O AM LLP, the largest capital requirement is based on the market and credit risk requirements which have been calculated using the standardised approach by reference to the Group's balance sheet as at 31st December 2020 and is equal to £13,736,290.

The company assesses the adequacy of its capital of its own internal capital adequacy risk assessment process. As part of this process the company assesses all known risks including operational and business risks and performs stress and scenario tests to determine whether the level of capital that the firm holds is adequate to support its current and future activities.

The firm's regulatory capital consists of the following:

Tier 1 capital	125,512,774
Tier 2 and 3 capital	-
Deductions from Tiers 1 and 2 capital	-
Total capital resources net of deductions.	<u>125,512,774</u>