

SECTOR INVESTMENT MANAGERS LTD

Devonshire House, One Mayfair Place, London W1J 8AJ

United Kingdom

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Pillar 3 Disclosures

20 January 2020

Registered under No. 5119560 of the Companies House of England & Wales.

Authorised and regulated by the Financial Conduct Authority - No 400908

A list of Directors is available at the registered office address: Devonshire House, One Mayfair Place, London W1J 8AJ

1. Overview

The Capital Requirements Directive consists of three pillars:

- | | |
|----------|---|
| Pillar 1 | sets out the minimum capital requirements for credit, market and operational risks |
| Pillar 2 | requires that regulated firms and the FSA take a view on whether a firm should hold additional capital against risks not yet covered by Pillar 1; and |
| Pillar 3 | requires firms to publish certain details of their risks, capital and risk management process. |

The Financial Services Authority has set out its minimum disclosure requirements in the handbook under BIPRU 11. The information set out below represents Sector Investment Managers Ltd's Pillar 3 disclosures.

BIPRU 11 requires that a firm subject to the provisions of the Directive must disclose, as appropriate, the relevant information required under Pillar 3. This must be done in accordance with a formal disclosure policy which sets out our policies for assessing the appropriateness of our disclosures, including their verification and frequency. The rules provide that we may omit one or more of the required disclosures if we believe that the information is immaterial. Materiality is based on the criteria that the omission or misstatement of material information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions. Where we have considered a disclosure to be immaterial, we have stated this in the relevant section. We are also permitted to omit one or more of the required disclosures where we believe that the information is regarded as proprietary or confidential. 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 and counterparties. Where we have omitted information for either of these two reasons we have stated this in the relevant section and the reasons for this. Where appropriate, we have published more general information on the subject matter of the required disclosure.

2. Frequency of Disclosure

It is the intention of Sector Investment Managers to update its Pillar 3 disclosure on an annual basis, unless circumstances warrant update on a more frequent basis. Sector Investment Managers makes its Pillar 3 disclosure via its website www.sectorinvestments.com

3. Regulated Structure

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Sector Investment Managers is authorized and regulated by the Financial Services Authority and as such is subject to minimum capital requirements of €50,000 as it is a limited license firm. The registered office is Level 1, Devonshire House, One Mayfair Place, London W1J 8AJ

4. Risk Management

Sector Investment Managers has a risk committee which consists of the Chief Executive and the Managing Director. They meet monthly to discuss and identify the risks that the company may face. Risk procedures are appropriately documented and there is a transparent risk management framework. The risk management includes portfolio risk, liquidity risk, concentration risk, performance, operational risk, business risk and financial risk.

Sector Investment Managers's appetite for risk is low. The firm is owned by the senior management and six large investors who wish to see the firm grow without the need for unnecessary risk.

- The firm's primary business is investment advice.
- It does not undertake any proprietary trading.
- The firm does not hold client money.
- The firm does not hold client assets.
- The firm will always maintain sufficient capital to manage its risks

The firm undertakes its Individual Capital Adequacy Assessment Process (ICAAP) on an annual basis. The directors are however mindful of the changing conditions. The firm's ICAAP is produced by the Board of Directors who have taken account of the following:

- Assessment of current risks
- Assessment of future risk in the business
- Assessment of terminal risk.

Having considered the review and the regulation requirements, the Directors have concluded no additional Pillar 2 capital is required as the company's Pillar 1 capital is sufficient to meet the company's needs.

Sector Investment Managers is a simple business with an operational infrastructure to match. Its main risk is that it is heavily dependent on key personnel. The loss of its key staff could adversely affect the management of its assets and could cause its clients to not renew mandates.

5. Compliance with BIPRU 3,4,6,7 and 10 (BIPRU 11.5.4)

Sector Investment Managers is a small company with a simple operational infrastructure. It carries no foreign exchange risk and little credit risk. Sector Investment Managers follows the standard approach for the assessment of both market risk and credit risk, using a simplified approach to calculate risk weights for credit risk exposures.

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Sector Investment Managers's exposure to credit risk relates principally to debts due from clients, principally the Authorised Corporate Directors of the funds it advises who pay its fees on a monthly basis.

Operational risk results from failed internal processes, people and systems or external events. It includes legal and financial crime risks but does not include strategic, reputational and business risks. In assessing operational risk under Pillar 2, consideration was given to each of the areas where risk arises, which comprise financial crime, control failures in the settlement function, potential for regulatory sanctions and the risk arising from inadequate business continuity planning. The likelihood of a risk crystallizing is assessed, taking into account Sector Investment Managers's past experience. The amount of capital needed to protect it from operational risks is assessed and is regularly reviewed by senior management.

The adequacy of Sector Investment Managers's internal capital to support current and future activities is contained in the Internal Capital Adequacy Assessment Process. The fixed overhead requirements under Pillar 1 are deemed by the company to be sufficient capital to meet its current needs. All known risks have been assessed and appropriate stress tests and scenario analyses have been undertaken to determine any additional capital required under Pillar 2. No additional capital is currently required for Pillar 2.

Capital Resources and Risk Requirements (all figures in £'000)

	Pillar 1	Pillar 2	Total
Market risk	0	0	0
Credit risk	5	0	5
Operational risk	0	0	0
Liquidity risk	0	0	0
Insurance risk	0	0	0
Pension risk	0	0	0
Concentration risk	0	0	0
Residual risk	0	0	0
Business risk	0	50	50
Interest rate risk	0	0	0
Other	0	0	0
	5	50	55

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Capital 100 100 firm has sufficient capital

Credit risk has been calculated using the standardized approach as the carrying value adjusted as required for appropriate risk weighting as follows:

Tangible fixed assets	0	8%	0
Seed investments	0	8%	0
Gilts	0		0
Cash	139	2%	5
Debtors	30	8%	<u>4</u>
			9

Market risk: SIM does not have any investments other than money market term deposits. It does not hold any debt instruments. Consequently, SIM does not have a market risk.

Operational risk: SIM is a limited licence firm and is exempt from operational risk at Pillar 1 and is not required to calculate an operational charge. Operational risk relates to the failure of people, process or systems within the business and/or external events. The Board considers the operational risk of the company based on historical data and forward-looking judgements coupled with common sense.

Liquidity risk: SIM maintains sufficient cash resources to meet its obligations as they fall due and all cash deposits are repayable on demand.

Securitisation risk: SIM is not involved in this.

Insurance risk: SIM is insured via a Professional Indemnity and Directors & Officers Liability insurance policy undertaken via Howden Insurance Brokers

Pension Obligation risk: SIM operates a defined contribution scheme and is not open to the risks of a defined benefit scheme.

Concentration risk: N/A

Residual risk: N/A

Business risk: £50,000. SIM is a limited licence firm. The firms requirements are the greater of €50,000 or 3 months overhead. Per the latest accounts the firms fixed overhead requirement is: £50,000

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Interest rate risk: N/A

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