HENDERSON ROWE

Pillar 3 Disclosures

1. Background

1.1 Introduction

This document presents the Pillar 3 disclosures of Henderson Rowe Limited ("Henderson Rowe", "the Firm") as at 31 December 2019. It sets out the Firm's risk management controls, capital position and remuneration arrangements for the code staff.

These disclosures have been prepared in accordance with the Capital Requirements Directive ("CRD") and the Capital Requirements Regulation ("CRR"), together form the Capital Requirements Directive IV ("CRD IV").

Given its type of business and regulatory permissions, the Firm is classified as a BIPRU €50K Limited Licence Firm ("BIRPU 50k Firm"). The capital adequacy framework for BIPRU 50k Firm is set out in the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") Sourcebook of the Financial Conduct Authority ("FCA") Handbook. The framework consists of the following three pillars of regulation:

- **Pillar 1**: sets out the minimum regulatory capital calculated for credit risk, operational risk and market risk;
- **Pillar 2**: requires firms and their regulators to identify and evaluate the risks which are not covered in Pillar 1 to determine whether higher levels of capital than the minimum requirement should be held; and
- **Pillar 3**: sets out the disclosure requirements relating to firms' capital resources, risk exposures and risk management procedures.

1.2 Basis of Disclosure

This document covers the period between 1 January 2019 and 31 December 2019. Financial data used for the compilation of this document is based on the audited Annual Report and Financial Statements for the period ending 31 December 2019.

The Firm's financial year ends on 31 December of each calendar year.

1.3 Frequency of Disclosure

The Firm is committed to publish the Pillar 3 Disclosures on an annual basis, as soon as practicable upon finalisation of the audited Annual Report and Financial Statements and approval of the ICCAP by the Board, or when there is a significant change in its activities or risk profile.

1.4 Means of Disclosure

The Pillar 3 Disclosure will be made available on the website of Henderson Rowe via www.hendersonrowe.com.

2. Scope

The Firm is a wholly owned subsidiary of Rayliant Global Advisers with its operation in Hong Kong. Despite this ownership, the Firm's financial accounts are independent from its parent company.

The Firm is a solo regulated entity for the purposes of the Internal Capital Adequacy Assessment Process ("ICAAP"). These disclosures are made on an unconsolidated basis.

3. Risk Management Arrangements

3.1 Risk Management Framework

The Firm's risk management framework and governance is supported by its Board. The role of the Board is to:

- develop policies and procedures around the risks that are consistent with the Firm's business strategy and risk appetite;
- follow up on the implementation of risk management policies and procedures;
- seek assurance that the risk management policies and procedures are effective;
- promote risk awareness within the Firm; and
- ensure that risk management forms a part of the Firm's culture.

The purpose of the Firm's risk management framework is to ensure that the processes and procedures to manage the risks within the Firm are robust and effective. The Board recognises that risk management is central to the Firm's business processes and culture.

The Firm has processes in place to identify, assess and manage its risks at both a top-down Board level and a bottom-up business level. The processes of risk management is overseen and reviewed by the Risk Management Committee.

3.2 Risk Management Objectives and Policies

The Board of the Firm is ultimately responsible for setting and delivering the risk management policies and objectives, including its risk appetite and the level of risk acceptance, which form part of its business strategy. The Board has, in turn, delegated the implementation of the risk management policies and objectives to an Operations Risk Committee ("the Committee"). The Committee meets on an annual basis and covers the Firm's overall business, in particular, it is responsible for:

- identifying key risks which could affect one or different business areas of the Firm;
- recording potential risks on the risk matrix, providing a detailed description of each risk, the business areas involved and the likelihood of occurrence and magnitude;
- assessing each risk, agreeing on the risk owner who will be responsible for providing different solutions to the management team of the Firm;
- agreeing with the management team of the Firm on the most viable solution and translate it into specific actions to be completed before the following meeting;

- following up on each individual risk in subsequent meetings and evaluate the progress of each action; and
- discussing and applying controls to obtain continuous feedback.

3.3 Risks faced by the Firm

As detailed in the Firm's ICAAP for the year ended 31 December 2019, it has identified the main risks which it faces as follows:

3.3.1 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal process, people or systems or from external events. The Firm's main operational risk includes risks arising from its employees and personnel, events which lead to its reputation and competitiveness in the market, outsourcing arrangements, clients' complaints and failure to comply with the relevant legal and compliance requirements.

The Firm's operational risks are managed via a risk management framework which is regularly reviewed and updated by the Committee and approved by the Board. The Firm's risk management framework aims to identify the inherent and potential risks which are embedded in the business and its strategy and put in processes and procedures to manage and monitor those risks during its day-to-day activities.

The Firm adopts a range of controls to manage and monitor its operational risk which include operational policies and procedures, segregation of duties between its business areas, robust recruitment and employee screening process, complaints handling process and procedure, system performance reviews and capacity testing and regular employees training.

3.3.2 Business Risk

The Firm's main business risk occurs where it fails to meet its business strategy in order to generate revenue. The Firm's revenue is mainly reliant on the performance of its asset under management and its ability to obtain new clients for both its investment management business and the regulated collective investment scheme. As such, the business risk posed to the Firm relates to adverse economic climate and market conditions and redemptions from the collective investment scheme managed by the Firm. As part of its risk management framework, the Firm's business risk can be managed via the Board' expertise and decision and direction towards a clearly defined business strategy, a well-defined and practical marketing strategies and a strong and diversified client base.

3.3.3 Credit Risk

The Firm is not exposed to a significant amount of credit risk as it neither holds client money nor provides credit facilities to its clients. The Firm's main revenue is generated via the annual management fee charged on the portfolios managed by it. The annual management fees are usually deducted directly from clients' portfolios; hence it considers that the risk of default of its clients is minimal.

The Firm's credit risk relates to its debtors and cash at bank. Its debtors include Platform Securities, the Firm's custodian, and the tax rebate due from HM Revenue & Customs. Its cash at bank relates to the cash balances held with on deposits with two reputable and major banks in the UK. The Firm has a policy in place to utilise those debtors and financial institutions which have high credit ratings in order to minimise the risk of default.

As at 31 December 2019, the Firm's exposure to credit risk was £116,000. The Firm adopts the simplified standardised approach detailed set out in BIPRU 3.5: Simplified method of calculating risk weights of the FCA Handbook. Its credit risk exposure is therefore calculated using risk weighted exposures of 1.6% (cash at bank) and 8% for its other assets.

3.3.4 Market Risk

Given the Firm does not undertake principal trading and its assets and cash balances are Sterling-based, its only exposure to market risk relates to the annual management fees which are impacted by the asset under management. It is the view of the Firm that the variation of annual management fees due to market movements is negligible. The Firm therefore considers that its exposure to market risk is minimal.

3.3.5 Insurance Risk

The Firm has in place professional liability insurance which is covered under the same insurance company and policy as its parent company. The professional liability insurance covers mainly the Firm's investment management business. Insurance risk exists where the insurer refuses the insurance claim on the policy or does not pay out the full amount of the claim.

The Firm, together with its parent company, reviews the insurance policy on an annual basis. Currently, the Firm believes that the insurance cover is appropriate and adequate for its business.

3.3.6 Liquidity Risk

The Firm is exposed to liquidity risks in relation to its contractual obligations, as well as clients' portfolios. Where the Firm's liquidity is low or inadequate, there is a risk that it is unable to meet its contractual payment obligations to employees and third-parties in a timely manner. Under extreme market conditions, there is a risk that investments in the clients' portfolios cannot be sold or liquidated at their full value. This could affect the Firm's liquidity in order to meet large clients' withdrawals. As at 31 December 2019, the Firm maintains a cash balance of £885,656 which is deposited in credible financial institutions.

4. Capital Requirements

4.1 ICAAP

The Firm has a regulatory obligation to produce an ICAAP which sets out its capital adequacy requirement and assessment. The ICAAP is updated on an annual basis and is reviewed, challenged and approved by the governing. It includes:

- an assessment of the adequacy of the capital resources that it considers adequate to meet the level of risks to which it may be exposed;
- an assessment of the risks which could arise from the operations of the Firm and the additional capital the Firm should hold should they materialise ("Pillar 2 Assessment")
- an assessment of the adequacy of the Firm's capital resources for the next three years based on its projections; and
- an analysis of the cost incurred and the time it takes should the Firm was to winddown its business.

4.2 Pillar 1: Minimum Capital Requirement

As at 31 December 2019, the Firm's minimum capital requirement was £790,000 (circa). It was determined by its Fixed Overhead Requirement which was the higher of the sum of its credit risk and market risk exposures. The ICAAP confirmed that the Firm had adequate capital to cover its minimum capital requirement.

4.3 Pillar 2 Assessment

As part of the ICAAP, the Firm has conducted a detailed internal assessment of the risks and the additional capital it has allocated to cover these risks. The monetary amount assigned to each risk was based on the occurrence of the actual events during the period of the ICAAP. The ICAAP confirmed that the Firm had adequate capital to cover the risks identified.

4.4 Capital Resources Requirement

The Firm's capital resources requirement as at 31 December 2019 was £871,000 (circa) which was the winddown requirement. The ICAAP confirmed that the Firm's winddown requirement was the higher of the Pillar 1 minimum capital requirement and Pillar 2 assessment.

5. Tier 1 Capital Resources

The Firm's Tier 1 capital resources represent its primary source of funding which mainly consists of shareholders' capital and retained earnings. The Firm does not currently have Tier 2 and Tier 3 capital; hence the Tier 1 capital formed the Firm's regulatory capital.

	to the nearest £ '000
Called up share capital	5
Share premium account	488
Capital redemption value	6
Profit and account	991
Total Tier 1 capital	**1,490**
Tier 2 capital	0
Tier 3 capital	0
Capital resource requirement (winddown requirement)	**871**
Excess Capital	**619**

6. Remuneration Arrangements

6.1 Remuneration Code

The Board of the Firm is responsible for reviewing and implementing the Remuneration Code which is required by the FCA. A Remuneration Policy has been put in place which details the regulatory requirements.

6.2 Decision Making Process

Given the size and proportion of the Firm, it has not implemented an independent Remuneration Committee. The Board has the ultimate responsibility for the Remuneration Policy and the requirements set out under the Remuneration Code.

Currently, all employees, regardless of Code Staff, are remunerated by fixed basic salaries and discretionary bonuses, which are performance related. Salaries and bonuses are reviewed and approved by the Board on a regular basis.

6.3 Code Staff

Code Staff are those staff to whom the BIPRU Remuneration Code applies. These include:

- Senior management, including executive and non-executive directors;
- Risk takers;
- Staff engaged in controlled functions; and
- Any employee whose remuneration package takes them into the same bracket as senior management or risk taker, but only if their professional activities have a material impact on the Firm's risk profile.

6.4 Pay, Performance and Code Staff

Code Staff are remunerated in accordance to their individual remuneration packages agreed between them and the Board of the Firm. These include a combination of a fixed basic salary, profit sharing and/or discretionary bonus.

Performance used to calculate variable remuneration includes adjustment of all risks as detailed in the ICAAP. The Firm has processes in place to ensure that bonuses form part of the capital adequacy requirements and they do not affect its capital adequacy requirements.

6.5 Remuneration of Code Staff

As at 31 December 2019, the Firm has identified 19 Code Staff. The aggregated remuneration, including employment and retired benefit, amounted to £2,358,971.94.