Velanne Asset Management Limited
(FRN 800409)
Pillar 3 Disclosure Statement
15th June 2018

Introduction

The Financial Conduct Authority ("**FCA**") has set out its regulatory capital requirements in its Handbook of Rules and Guidance for regulated firms. The regulatory framework has three "pillars":

- Pillar 1 sets out the minimum capital requirements for credit, market and operational risk and includes consideration of AUM and professional negligence risks;
- Pillar 2 requires regulated firms, and the FCA, to take a view on whether additional capital should be held against capital risks not covered adequately or at all by Pillar 1; and,
- Pillar 3 requires regulated firms to publish certain information on their risk management objectives and policies and on their capital resources.

These disclosures are made in respect of Velanne Asset Management Limited ("**Velanne**") in compliance with the rules and guidance set out in the FCA Handbook and Velanne's disclosure policy[1]. The information contained herein has been prepared on an unconsolidated basis.

The Firm

Velanne is a private limited company with regulatory permissions to provide discretionary investment management services primarily to institutional clients through commingled funds and/or permanent separate account arrangements.

Silchester International Investors LLP ("**Silchester**") is currently the discretionary investment manager for all accounts included in the Velanne Global Equity Program. Silchester and Velanne have agreed that, effective approximately 1st October 2018, Silchester will resign as discretionary investment manager and Velanne will be appointed as the discretionary investment manager to the Velanne accounts. On or around that day, all staff that are dedicated to supporting the Velanne Global Equity Programme will resign as Silchester employees and will be employed by Velanne and/or its wholly owned US subsidiary, Velanne Asset Management, Inc. ("VAM Inc."). There are no current or foreseen material, practical or legal impediments to transfers of capital between Velanne and VAM Inc.

Risk Management

The FCA requires that a regulated firm manage a number of different categories of risk.

- ***Credit Risk.*** *The potential risk that arises from clients or counterparties failing to meet their obligations as they fall due.* Velanne has adopted a standardized approach to credit risk. Velanne's credit risk is primarily limited to that arising in respect of unpaid investment management fees, fund investments, cash deposits and prepaid expenses. Investment management fees are calculated on an ad valorem basis in arrears and are normally paid within four business days of each month end. Velanne's cash deposits are primarily held in current accounts offered by major banking

[1] FCA rules provide that required disclosures may be omitted if the information is believed to be immaterial or where it is regarded as proprietary or confidential. Materiality is based on the criteria that the omission or misstatement could change or influence the assessment or decision of a user relying on that information. Information is regarded as proprietary if sharing that information with the public would undermine a firm's competitive position. Information is regarded as confidential where the firm is bound by conditions of confidentiality. Where a disclosure is considered to be immaterial, proprietary or confidential, this has been described.

institution(s). No provisions have to date been required in respect of asset impairment or non-recovery. Credit risk arising in relation to prepaid expenses is not material.

- ***Market Risk.*** *The risk that the value of, or income arising from, assets and liabilities varies as a result of changes in interest rates, exchange rates or other market prices.* Velanne has no trading book and does not invest in commodities. Market risk under Pillar 1 is therefore limited to foreign exchange fluctuations where Velanne's assets and liabilities are denominated in currencies other than GBP. Velanne regularly assesses its foreign exchange needs and exposures and does not actively seek foreign exchange exposures via forward currency hedging activities.

- ***Liquidity Risk.*** *The risk that a firm may have insufficient liquid resources to cover cash flow shortfalls or fluctuations in funding and be unable to meet its obligations as they fall due.* Velanne has no borrowing and is not dependent on external financing. Velanne benefits from an operational subsidy payable by Silchester Partners Limited ("**SPL**") in the early years of its business operations. SP Ltd is a private company with significant financial resources. Given this, Velanne is not exposed to funding liquidity risk. Velanne has some exposure in the event that a banking counterparty suffers severe financial distress and is unable to return some or all of Velanne's cash deposits. Velanne maintains sufficient assets in liquid form to meet its obligations as they arise and in practice the business has little liquidity risk.

- ***Business Risk.*** *The risk that a firm may not be able to carry out its business plan and/or desired strategy.* The principal business risks facing Velanne are:

    - ***Operational Risk.*** *The risk of loss, or breach of contractual requirements, resulting from inadequate or failed internal processes, people or systems; human error; or, external events*. This includes the risk of loss or breach arising from the inadequate supervision of third party service providers. Velanne seeks to mitigate these risks by (i) keeping its business simple; (ii) taking advantage of technology solutions; (iii) identifying and managing sources of risk, stress testing those risks and maintaining insurance or other capital to offset financial losses; (iv) documenting procedures; and (v) reviewing the operations of material business operations on a periodic basis. Velanne is not required to calculate an operational risk requirement.

    - ***Concentration Risk.*** *The risk that exposures to specific sectors or asset concentration could result in losses*. Velanne invests client assets principally in publicly traded non-US equity securities. Velanne's business could suffer (i) from a decline in its investment performance, (ii) a change of sentiment on the part of institutional investors away from publicly traded international equity securities and/or a shift of their asset allocations to private equity, hedge funds, commodities or other types of investments, or (iii) a sharp appreciation of the US dollar.

    - ***Insurance Risk***. *The risk of a failure of insurance cover.* Velanne maintains fiduciary liability (e.g., professional indemnity) and crime (e.g., errors and omissions) and will, to the extent required by law, ERISA insurance at a level and with a deductible that Velanne considers appropriate for the business. Velanne seeks to obtain insurance only from well capitalized insurance firms to minimize the risk of loss arising from insurance risk.

    - ***Interest Rate Risk***. *The risk that significant changes in interest rates may have an adverse impact on the business.* Velanne does not engage in or run a trading book and has no borrowings. Given its cash balances, Velanne would expect to benefit from increases in interest rates as a result of increased interest income.

Velanne's Board of Directors is responsible for determining Velanne's risk strategy, setting its risk appetite and ensuring that risk is monitored and controlled effectively. The Board of Directors consults the Compliance Group and Operational Risk Management Group before deciding to make (i) material investments, loans or capital expenditures; (ii) significant investments; (iii) material changes in its cost structure, base salaries or the level of member drawings; or (iv) material repayments or distributions of member capital. Velanne's operational risk management framework is updated when needed to reflect material changes in Velanne's business, capital obligations or resource requirements. Velanne's operational risk appetite is regularly reviewed. Velanne aims to ensure that staff remain focused on compliance with applicable regulations, improving procedures, minimizing risk and establishing a robust risk, capital and performance structure.

Capital Resources and Regulatory Obligations

Velanne must maintain capital equal to the higher of (i) its base capital requirement (€50,000), (ii) its fixed overhead requirement, (iii) the sum of its credit and market risk capital requirements and (iv) the sum of its funds under management and professional negligence capital requirements.

	Projection (First Year of Operation)
Core Capital	1,000,000
Revaluation Reserve	-
Total Regulatory Capital	1,000,000
Capital requirement (FOR and Professional Negligence)	380,000
Excess capital before stress test	620,000
Add'l capital from stress test	-
Excess capital after stress test	**620,000**

Velanne has prepared an assessment of capital adequacy (Internal Capital Adequacy Assessment Process document or "**ICAAP**") in accordance with CRD Pillar 2 requirements set out in BIPRU 2.2 of the FCA Handbook. The ICAAP takes account of the principal risks and uncertainties set out above. As a long only asset manager that invests client assets primarily in publicly traded global equity securities, Velanne is exposed principally to operational risk; however there is some small exposure both to business risk and credit risk. These exposures are regarded as typical for an asset management business. Velanne's Chief Compliance Officer, who is independent of the investment function, acts as operational risk manager and monitors and manages risk exposures with input from Velanne's business groups. In assessing operational risk appetite, consideration has been given to identifying the material risks facing Velanne's business. The ICAAP process involves separate consideration of risks to firm capital combined with stress testing using scenario analysis and consideration of the financial resources required in a wind down situation. The ICAAP is updated formally on an annual basis and in the interim should a material change occur in the risk or business profile of the firm.

Remuneration Code Provisions

For the purposes of these disclosures, Velanne Asset Management Limited is referred to as "**Velanne**".

- Link between pay and performance: In order to ensure alignment between Velanne's employees and shareholders, the Articles that govern Velanne's business specifies the ratio of profits less direct costs (internally referred to as profits before remuneration and tax or "**PBRT**"). These start by allocating 100% of PBRT to Velanne employees in the early years of its business. This then reduces to 60% over time with the remaining balance being allocable to shareholders as distributable earnings. The PBRT sharing model governs Velanne's business arrangements and is set out in both the Articles and the Shareholders Agreement. Establishing these ratios ensures that both employees and shareholders are focused on growing Velanne's business in a profitable and efficient manner. While in the longer term, 60% of PBRT is distributed to employees as remuneration, the split is determined by the Remuneration Group. The use of a PBRT model ensures that the aggregate spend on variable remuneration directly reflects Velanne's overall performance. Fixed remuneration is comprised principally of salaries but also includes employee benefits.

- Decision-making process for determining remuneration: Responsibility for determining variable remuneration rests with the Remuneration Group which seeks to obtain feedback on the performance and contribution of each individual employee or member. Remuneration and partnership distributions are not based on the profitability of any specific investment recommendation, the implementation of a given trade(s) or the growth/retention of any particular investor. Broad parameters have been established to reward individuals having regard to contribution and ownership of responsibility, reliability and total remuneration. Market levels are also taken into account. Variable remuneration payments are primarily made in the form of cash bonuses. Bonuses and discretionary drawings are only paid after Velanne ensures that FCA capital and liquidity requirements are satisfied and fees are collected.

- Policy on Alignment and Co-Investment: On or before April 2022, once base remuneration levels have normalized, Velanne intends introduce the following remuneration policy. Velanne anticipates that all staff will be required to hold at least 50% of their total gross annualized remuneration in the global equity program or in VAM Ltd shares at all times that they maintain a working relationship with Velanne. Staff will be allowed a number of years to reach this threshold. Once they reach that 50% threshold, all staff will be likely to be required to make additional investments of at least 10% of gross remuneration each year. This policy will help ensure a base level investment and a continuous co-investment commitment to clients, and follows our beliefs that investment alongside clients helps ensure a focus on the long term, and that the program is a credible long term savings vehicle for personal assets.

- Code Staff Criteria: Given the size of the organization all permanent Velanne employees and working members are considered to be Code Staff.

- Quantitative Remuneration Disclosures: The year ending 31st March 2019 will be the first in which Remuneration Code Staff are remunerated by Velanne.