HILLTOP FUND MANAGEMENT LLP

DISCLOUSRE IN RESPECT OF PILLAR 3, UK STEWARDSHIP CODE AND REMUNERATION FOR THE YEAR ENDED 31 MARCH 2017

PILLAR 3 RISK

Introduction

The firm is required by the Financial Conduct Authority ("**FCA**") to disclose information relating to the capital it holds and each material category of risk it faces in order to assist users of its accounts and to encourage market discipline. These disclosures aim to provide information on the risk exposures faced by the firm and the risk assessment process it has in place to monitor these. Known as "Pillar 3" disclosures, they are required to be made under Chapter 11 of the FCA's Prudential Sourcebook for Banks, Building Societies and Investment Firms ("**BIPRU**") and are seen as complimentary to the firm's minimum capital requirement calculation ("Pillar 1") and the internal review of its capital adequacy ("Pillar 2").

The firm is a BIPRU firm under the rules of the FCA. BIPRU firms are subject to the European Capital Adequacy Directive ("CRD"). BIPRU firms are effectively subject to CRD III and are not subject to the rules of CRD IV which were implemented on 1 January 2014.

The CRD created a regulatory capital framework consisting of three 'pillars' namely:

- Pillar 1 – which sets out the minimum capital requirements that firms are required to meet for;
- Pillar 2 – which requires firms to take a view on whether additional capital should be held against capital risks not covered by Pillar 1; and
- Pillar 3 - which requires firms to publish certain details of its risks, capital and risk management process.

The firm is an asset manager and does not risk its' own capital in the financial markets. The firm does not have regulatory permission to take proprietary trading risk and does not take such risk. Accordingly, the risks that the firm faces are more limited in scope than for other types of regulated firms. The risks and controls detailed below are, in accordance with the BIPRU rules, risks that the firm faces in respect of its own activities. The risk management processes and controls for monies managed by the firm are not part of these disclosures.

Unless stated as otherwise, all figures contained in this disclosure are based on the Firm's audited annual reports for the year ending 31 March 2017.

We are permitted to omit required disclosures if we believe that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions about the firm. In addition, we may omit required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, 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, suppliers and counterparties. We have made no omissions on the grounds that it is immaterial, proprietary or confidential.

Capital

The Firm is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. The Firm is categorised as a BIPRU Firm by the FCA for capital purposes.

The capital of the firm is in the form of LLP capital. The amounts disclosed as members' capital in these Pillar 3 disclosures meet the criteria for eligibility of members' capital under the rules of the FCA GENPRU 2.2.94.

The Firm is not a member of a group and so is not required to prepare consolidated reporting for prudential purposes.

Risk management

The Firm’s risk management policy reflects the FCA requirement that the Firm must manage a number of different categories of risk. These include: liquidity, credit, market, interest rate, business and operational risks. All activities of the firm are under the control of the two designated members and the Chief Executive Officer, subject to oversight of the governance board, who ensure that there are effective systems and controls in place to identify, monitor and manage risks arising in the business. Management accounts demonstrating the adequacy of the firm’s regulatory capital are prepared on a monthly basis.

Appropriate action is taken where risks are identified which fall outside of the firm’s risk tolerance levels or where the need for remedial action is required in respect of identified weaknesses in the firm’s mitigating controls.

Specific risks applicable to the firm come under the headings of business, operational, credit and market risks.

Business risk

The firm’s revenue is reliant on the performance and retention of the existing funds under management and its ability to raise new investments and maintain management fee levels. The firm has sought to mitigate this risk by modelling expected revenue scenarios and engaging with members concerning the potential provision of additional permanent capital, in addition to developing additional business lines and actively seeking further investment into existing fund products and services.

Operational risk

The firm places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and uses outsource providers where appropriate.

Credit risk

The firm is exposed to credit risk in respect of investment management fees billed and cash held on deposit.

The number of credit exposures relating to the firm's investment management clients is limited. Management fees are accrued monthly and payable monthly from the funds managed and performance fees are drawn periodically as applicable. The firm considers that there is little risk of default by its clients. All bank accounts are held with large international credit institutions.

Given the nature of the firm's exposures, no specific policy for hedging and mitigating credit risk is in place. The firm uses the simplified standardised approach detailed in BIPRU 3.5.5 of the FCA Handbook when calculating risk weighted exposures in respect of its debtors. This amounts to 8% of the total balance due. All bank balances are subject to a risk weighted exposure of 1.6% in accordance with BIPRU 2.4 of the FCA handbook.

Credit risk exposure	Risk weighting	Risk weighted exposure
Fixed assets	100%	£5,518
Cash in the bank	1.6% or 8% subject to institution and FCA rules	£3,451
Inter-company	8%	£nil
Trade Debtor	8%	£4,615
Prepayments and Accruals	8%	£11,693
Other debtors (<1 year)	8%	£1,450
Other debtors (>1 year)	8%	£nil
Other assets	100%	£12,500

Market risk

The firm takes no market risk other than foreign exchange risk in respect of its accounts receivable in currencies other than GBP. Such risk is considered to be minimal and, other than the prompt conversion of the majority of received non-GBP income into GBP, no specific strategies are adopted in order to mitigate the risk of currency fluctuations.

The firm calculates its foreign exchange risk by reference to the rules in BIPRU 7.5.1 of the FCA Handbook and applies an 8% risk factor to its foreign exchange exposure.

Market risk exposure	Risk weighting	Risk weighted exposure
Foreign currency assets and liabilities	8%	£14,216

Remuneration risk

As a €50,000 Limited Licence firm, Hilltop Fund Management LLP falls within Tier 3 of the proportionality guidance notes issued by the Financial Conduct Authority. The firm has applied the principles of proportionality in the disclosures made within this statement.

All decisions in relation to remuneration are made by the two founding designated members and the Chief Executive Officer of the firm subject to oversight by the governance board. Remuneration is based on the performance of the firm as a whole and not on a single investment strategy. The firm is comprised of one business area: investment management. For the year ended 31st March 2017, the firm did not provide performance related variable remuneration for any Code Staff (senior managers and staff whose actions could have a material impact on the risk profile of the firm). The firm is comprised of five members who participate in the profits of the firm after all known liabilities have been accounted for and the current and projected capital resources requirement of the firm has been calculated.

Capital adequacy

Capital resources

As at 31 March 2017 the firm held regulatory capital resources of £268,202. This comprised solely of core Tier 1 capital (eligible members LLP capital less retained losses).

Capital requirement

As at 31 March 2017, the firm's Pillar 1 capital requirement was £191,995. This has been determined by reference to the firm's Fixed Overheads Requirement ("**FOR**"), which is currently greater than the firm's base capital requirement. The FOR is calculated in accordance with the FCA's General Prudential Sourcebook ("**GENPRU**") at GENPRU 2.1.53 and is based on annual expenses net of variable costs deducted. The firm monitors its expenditure on a monthly basis and takes into account any material fluctuations in order to determine whether the FOR remains appropriate to the size and nature of the business or whether any adjustment needs to be made intra-year.

Satisfaction of capital requirements

Additional permanent capital is expected to be provided in order to assist the firm to develop its business over the coming year.

REMUNERATION DISCLOSURES

Enshrined in the European remuneration provisions is the principle of proportionality. The FCA has sought to apply proportionality in the first instance by instituting two tests. Firstly, a firm that is significant in terms of its size must disclose quantitative information referred to in BIPRU 11.5.18R at the level of senior personnel. Secondly, that a firm must make disclosure that is appropriate to the size, internal organisation and the nature, scope and complexity of their activities. The firm is not 'significant' as it has relevant total assets of <£50bn based on the average of total assets per the last three accounting dates, and therefore makes this disclosure in accordance with the second test (BIPRU 11.5.20R(2)).

As at 30 June 2017 the firm had four Code Staff each of whom were in a "significant influence function". The firm currently has no risk takers who do not also occupy a "significant influence function". The firm has only one business area which is its investment management business.

The Decision Making Process

The firm has concluded that, on the basis of its size, the nature, scale and complexity of its legal structure and business and the nature of the risks that it takes on behalf of clients, it does not need to appoint a remuneration committee. The firm believes that its' Remuneration Policy appropriately addresses potential remuneration-related conflicts of interest and that the firm's authorised persons are not rewarded for taking inappropriate levels of risk. The policy is reviewed at least annually and will be amended, as and when required due to changes in regulation as well as the firm's own decision making process.

The link between pay and performance

The firm sets the variable remuneration of its Code Staff primarily based on the performance of the firm however adjustments may be made depending on the performance of the individual. This policy is consistent with the way in which the firm generates its income.

Quantitative remuneration data

We are required to disclose the following quantitative data:

- BIPRU 11.5.18R(6) (aggregate quantitative information on remuneration, broken down by business area)

- BIPRU 11.5.18R(7) (aggregate quantitative information, broken down by senior management and members of staff whose actions have material impact on the risk of the firm).

The firm has only one business area. The total annualised amounts allocated to Code Staff amounted to £441,000.

We may omit required disclosures where we believe that the information could be regarded as prejudicial to the UK or other national transposition of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data. We have made no omissions on the grounds of data protection.

STEWARDSHIP DISCLOURE

Under Rule 2.2.3R of the FCA's Conduct of Business Sourcebook, the Firm is required to include on this website a disclosure about the nature of its commitment to the UK Financial Reporting Council's Stewardship Code (the ‘Code’) or, where it does not commit to the Code, its alternative investment strategy.

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The Firm on behalf of its clients generally pursues investment strategies that involve investing in hedge funds that typically are most unlikely to be listed in the UK and has no interaction with the management of any companies in which such hedge funds might have a holding; additionally, the Firm does not make direct investments in companies (UK listed or otherwise). For these reasons the Code is therefore not believed to be relevant to the Firm's activities. Consequently, while the Firm supports the objectives that underlie the Code, the provisions of the Code are not relevant to the type of trading currently undertaken by the Firm If the Firm investment strategy changes in such a manner that the provisions of the Code become relevant, the Firm will amend this disclosure accordingly.

Trevor Simon
COO, Hilltop Fund Management LLP
11/AUG/2017