

## **Pillar 3 Disclosures & Remuneration Policy**

### **Pillar 3 Disclosures**

#### **Introduction**

Cerno Capital Partners LLP (“Cerno Capital”) is authorised and regulated in the UK by the Financial Conduct Authority (“FCA”) and is therefore subject to the FCA’s Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”), specifically BIPRU 11.3.3 R. This follows the introduction of the Capital Requirements Directive (“CRD”), which came into force on 1st January 2007. The CRD rules were designed to generally, increase investor protection throughout the market and these rules require Cerno to assess the adequacy of its capital resources given its risks.

#### **The CRD requirements have three pillars:**

- Pillar 1 establishes the minimum capital requirements given the credit, market and operational risks;
- Pillar 2 requires Cerno and the FCA to take a view on whether Cerno needs to hold additional capital to cover firm-specific risks not covered by the Pillar 1 minimum requirements; and
- Pillar 3 requires Cerno to publish certain details about its risks and risk management process.

Cerno’s Pillar 3 disclosures provide transparency about its capital requirements, risk exposures and risk assessment processes and are made for the benefit of Cerno’s clients.

The FCA generally requests that firms address specific risks pertinent to its business (i.e.: market, credit, liquidity, operational, business, concentration and any residual risks), and these items are addressed below.

The rules in BIPRU 11 require a Pillar 3 disclosure. This document satisfies our obligation and Cerno will provide its Pillar 3 disclosure annually, covering the previous financial year.

#### **Location**

The Pillar 3 Disclosure will be published on Cerno’s website.

#### **Materiality**

Information is generally viewed as material if its omission or misstatement could change or influence the assessment or decision of someone relying on that information for the purpose of making economic decisions. If a certain disclosure is omitted from this statement, we viewed the disclosure to be immaterial or inapplicable to us.

#### **Confidentiality**

Information is generally viewed as proprietary if sharing that information with the public would undermine a competitive position. Proprietary information may include information on products or systems that, if shared with competitors, would render Cerno’s investments therein less valuable. Further, Cerno must regard information as confidential if there are obligations to customers or other counterparty relationships binding Cerno to confidentiality. In the event that any such information is omitted, Cerno shall disclose such and explain the grounds why it has not been disclosed.

#### **Background Information**

Cerno provides bespoke investment management and investment advisory services to individuals, family offices, educational endowments and charities. It also manages several funds.

### **Risk Management Objectives and Policies**

Cerno's general risk management objective is to develop systems and controls that mitigate risk to a level that does not require the allocation of Pillar 2 capital. Cerno's 2018 Internal Capital Adequacy Assessment Process ("ICAAP") did not identify any internal or external risks that resulted in Cerno having to increase its capital levels. Accordingly, Cerno's business and operational risks are limited in scope and Cerno believes that it has a minimal risk profile.

### **Governance and Risk Framework**

Cerno oversees and manages its risks through a combination of a Compliance Manual, routine monitoring of policies and procedures, a Business Continuity Plan, an annual independent audit and reporting process, and the use of an independent UK compliance consultant. Cerno's policies, procedures and financial controls are regularly reviewed and revised as needed. Changes to Cerno's policies for 2018 include adoption of a Remuneration Policy to address the recently expanded scope of the Remuneration Code.

### **Disclosures**

#### **Market Risk**

Market risk is the risk that the value of, or income arising from, the LLP's assets and liabilities varies as a result of changes in the market price of financial assets, changes exchange rates or changes in interest rates. Cerno does not take proprietary trading risk. The firm's risk management activities are on behalf of client as the LLP's own money is not at risk. The only market risk that the firm faces is currency risk, and the members do not consider this to be significant as very little income and expenditure is denominated in currencies other than sterling

#### **Credit Risk**

Credit risk refers to the potential risk that customers fail to meet their obligations as they fall due. The principal credit risk that the LLP faces is in respect of customers for fees earned but not received. Fees are usually received promptly after the calculation of the relevant Net Asset Value ("NAV"). The LLP also has credit exposure to its bankers but considers this risk to be minimal.

#### **Liquidity Risk**

Cerno's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in fees received/receivable. The firm maintains sufficient cash balances with its banking partners to cover liquidity risk. Furthermore, Cerno continuously monitors income and expenditure levels and adjusts plans accordingly.

#### **Operational Risk**

Operational risk is the risk of loss arising from failed or inadequate internal processes or systems, human error or other factors. The risk is managed by the members who have responsibility for putting in place appropriate controls for the business. The LLP makes use of outside consultants where necessary to monitor the effectiveness of the controls.

#### **Business Risk**

Business risk is the risk that the LLP may not be able to carry out its business plan and could therefore suffer losses if income falls. This is a risk that all businesses face. The members continually monitor income and expenditure levels and adjust their plans accordingly.

### **Concentration Risk**

Concentration risk is the risk that the firm is overly dependent upon any one customer or any group of connected customers either in terms of income dependency or in terms of credit risk. The members actively monitor and seek to diversify concentration risk.

### **Residual Risk**

Cerno does not consider there are any residual risks, or any other material risks mentioned above, would require Cerno to increase its capital levels.

### **Capital Resources**

Cerno is designated as a BIPRU Limited Licence Firm (base capital requirement is €50,000) and is subject to an expenditure requirement. The firm is also subject to an expenditure requirement which is one quarter of the relevant expenditure for the previous financial year. Cerno has additionally undertaken an internal capital adequacy assessment process ("ICAAP") The ICAAP has identified risks for which additional capital is required. The LLP currently has capital resources consideration excess of the regulator's minimum capital requirements.

### **Remuneration Disclosures**

The FCA has amended the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU), and specifically BIPRU 11, to now include a requirement for disclosure of Cerno's approach to linking remuneration to risk. Cerno has a Remuneration Policy which appropriately addresses potential conflicts of interest and that Cerno's authorised persons are not rewarded for taking inappropriate levels of risk. Under the Remuneration Code, the firm is classified as a Tier Four firm, which allows it to disapply many of the technical requirements of the Code and proportionately apply the Code's rules and principles in establishing Cerno's policy. Cerno is satisfied that the policies in place are appropriate to its size, internal organisation and the nature, the scope and the complexity of its activities.

### **The Decision-Making Process**

Cerno's Remuneration Policy is set by the members of the LLP. Cerno has assessed its members and staff and concludes that only two members qualify as Code Staff. Each year Cerno assesses the amount of capital it considers necessary to run its business and if necessary, uses some or all of the profits available to increase its capital resources. If sufficient profits are available, a percentage of profits is paid into a bonus pool which covers members and staff which is allocated based on the individual's contribution to the partnership.

### **The link between pay and performance**

Remuneration is based on competitive market-based wages that fairly compensate employees in view of skills provided, work performed, and responsibility undertaken. Overall remuneration includes an annual incentive compensation reflecting individual performance and responsibility, both short-term and long-term, as well as Cerno Capital's overall performance.

**Incentive Compensation**

The award of incentive compensation is a qualitative decision where employee and supervisory input are significant components and is currently not used.

**Code Staff: Investment Team Members**

Due to the size and complexity of Cerno's business the executive members of the LLP who make up the investment team are the only Code Staff.

**Quantitative Remuneration Data**

The aggregate remuneration of Code Staff was £531,000 for the year. This includes both fixed and variable elements of remuneration but excludes profit shares awarded to such individuals in respect of their partnership shares as owners of the business.