The Capital Requirements Directive ('CRD') and Alternative Investment Fund Management Directive ('AIFMD') of the European Union establish a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain.

In the United Kingdom, the CRD and AIFMD have been implemented by the Financial Conduct Authority ('FCA') in its regulations through the General Prudential Sourcebook ('GENPRU'), the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU') and the Investment Funds Sourcebook ('FUND').

The FCA framework for the CRD consists of three 'Pillars':

- Pillar 1 sets out the minimum capital amount that meets the firm's credit, market and operational risk capital requirement;
- Pillar 2 requires the firm to assess whether its capital reserves, processes, strategies and systems are adequate to meet pillar 1 requirements and further determine whether it should apply additional capital , processes, strategies or systems to cover any other risks that it may be exposed to; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position to encourage market discipline.

The AIFMD adds further capital requirements based on the Alternative Investment Fund ('AIF') assets under management and professional liability risks.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet our Pillar 3 obligations.

The Pillar 3 disclosure document has been prepared by Butler Investment Managers Limited ('The Firm') in accordance with the requirements of BIPRU 11 and is verified by the senior management. Unless otherwise stated, all figures are as at the 31 December 2019 financial year-end.

Pillar 3 disclosures will be issued on an annual basis after the year end and published as soon as practical.

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.

Scope and application of the requirements

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 Collective Portfolio Management Investment Firm ('CPMI') Firm' by the FCA for capital purposes.

It is an investment management firm and as such has no trading book exposures. Although part of a group, the Firm is managed on a "stand-alone" for liquidity purposes.

Risk management

The Firm has established a risk management process in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. The risk management process is overseen the Chief Operating Officer, with the Senior Management team taking overall responsibility for this process and the fundamental risk appetite of the firm. The COO supported by the operations team has responsibility for the implementation and enforcement of the Firm's risk principles.

Senior Management meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, business planning and risk management. Senior Management engage in the Firm's risks though a framework of policy and procedures having regard to the relevant laws, standards, principles and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required.

The Senior Management team has identified that business, operational, market and credit are the main areas of risk to which the Firm is exposed. Annually the Senior Management team formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness.

An update on operational matters is provided to the Senior Management team on a regular basis. Management accounts demonstrate continued adequacy of the firm's regulatory capital are reviewed on a regular basis.

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

Business Risks

The Firm's revenue is reliant on the level of existing assets under management and its ability to launch new funds/obtain new mandates. As such, the risk posed to the firm relates to underperformance resulting in a decline in revenue and adverse market conditions hindering the launch of new funds and ultimately the risk of redemptions from the funds managed by the firm. This risk is mitigated by the continued support of the firm by its parent and significant levels of capital held by the firm which will continue to cover all the expenses of the business.

Operational risk

The Firm places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities in this respect.

The Firm has identified a number of key operational risks to manage. These relate to systems failure, failure of a third-party provider, key man, potential for serious regulatory breaches, market abuse risk. Appropriate polices are in place to mitigate against these risks, which includes taking out adequate professional indemnity insurance.

Credit risk

The Firm is exposed to credit risk in respect of its debtors, commissions, 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 drawn regularly from the funds managed and performance fees are drawn quarterly or annually where 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.

Market risk

The Firm takes no market risk other than foreign exchange risk in respect of its accounts receivable and cash balances held in currencies other than GBP. The Firm's foreign exchange risk therefore would only arise in respect of its accounts receivable and cash balances held in currencies other than GBP. No specific strategies are adopted in order to mitigate the risk of currency fluctuations.

Professional liability risk

The Firm has a legal responsibility for risks in relation to investors, products & business practices including, but not limited to; loss of documents evidencing title of assets of the AIF; misrepresentations and misleading statements made to the AIF or its investors; acts, errors or omissions; failure by the senior management to establish, implement and maintain appropriate procedures to prevent dishonest, fraudulent or malicious acts; improper valuation of assets and calculation of unit/share prices; and risks in relation to business disruption, system failures, process management. The Firm is aware of, and monitors, a wide range of risks within its business operations and towards its investors. The Firm has in place appropriate internal operational risk policies and procedures to monitor and detect these risks. These procedures and risks are documented, demonstrating how the Firm aims to mitigate these risks. This is review annually.

The firm has appropriate professional indemnity insurance in place.

Liquidity risk

The Firm is required to maintain sufficient liquidity to ensure that there is no significant risk that its liabilities cannot be met as they fall due or to ensure that it can secure additional financial resources in the event of a stress scenario.

The Firm retains an amount it considers suitable for providing sufficient liquidity to meet the working capital requirements under normal business conditions. The firm has always had sufficient liquidity within the business to meet its obligations and there are no perceived threats to this given the cash deposits its holds and support it receives from the parent company. Additionally, it has historically been the case that all management fee debtors are settled promptly, thus ensuring further liquidity resources are available to the firm on a timely basis. The cash position of the firm is monitored by the Chief Operating Officer and Group financial Controller on a monthly basis, and the Firm would be able to call on the parent for support as required.

Regulatory capital

The Firm is a Limited Liability Company and its capital arrangements are established in its Articles. Its capital is summarised as follows:

The main features of the Firm's capital resources for regulatory purposes are as follows:

	31 Dec 2019 **£000**
Tier 1 capital*	1,815
Tier 2 capital	3,913
Tier 3 capital**	
Deductions from Tiers 1 and 2	1,994
Total capital resources	**3,733**
*No hybrid tier one capital is held **Note: Tier 3 capital is to be removed under the CRD IV	

Our Firm is small with a simple operational infrastructure. Its market risk is limited to foreign exchange risk on its accounts receivable in foreign currency, and credit risk from management and performance fees receivable from the funds under its management. The Firm follows the standardised approach to market risk and the simplified standard approach to credit risk.

As discussed above the firm is a CPMI Firm and as such its capital requirements are the higher of:

- €125,000 + 0.02% of AIF AUM; and
- The sum of the market & credit risk requirements; or
- The fixed overheads requirement ('FOR') which is essentially 25% of the firm's operating expenses less certain variable costs.

AIF AUM 0.02% is taken on the absolute value of all assets of all funds managed by the firm, including assets acquired through the use of leverage, whereby derivative instruments shall be valued at their market value, including funds where it the firm has delegated the management function but excluding funds that it is managing as a delegate. The FOR is calculated, in accordance with FCA rules, based on the firm’s previous years audited expenditure. The firm has adopted the [simplified] standardised approach to credit and market risk and the above figures have been produced on that basis. The firm is not subject to an operational risk requirement.

On the basis of the above calculation, the Firm exceeds is capital requirements by a comfortable margin.