Pillar 3 Disclosure

Thesis Unit Trust Management Limited and TUTMAN LLP

Period Ending 30 April 2020

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1. Purpose and Background

Scope

This document sets out the Pillar 3 disclosures for Thesis Unit Trust Management Limited ("Tutman") and its subsidiary, Tutman LLP ("LLP"). It fulfils the regulatory disclosure requirements on risk management and capital adequacy of the European Union Capital Requirements Regulation ("CRR") and the Capital Requirements Directive ("CRD"), collectively referred to as CRD IV.

Additional capital requirements were introduced by the European Union in two further pieces of legislation, the Alternative Investment Fund Management Directive ("AIFMD") and the Undertakings for Collective Investment in Transferable Securities ("UCITS").

CRD IV created a revised regulatory capital framework consisting of three 'pillars'.

- Pillar 1 specifies the minimum capital requirements that a firm is required to hold to cover the risks arising from credit, market and operational risk;
- Pillar 2 requires an assessment to be made of whether additional capital should be held against risks not captured by Pillar 1. The process for conducting this assessment is set out in the Individual Capital Adequacy Assessment Process rules ("ICAAP") and summarised in a document of the same name;
- Pillar 3 requires the disclosure of specific information about the risk management processes and the capital position of the firm.

This Pillar 3 disclosure has been prepared in accordance with the requirements of the CRR, as set out in Part Eight, articles 431-451.

This disclosure has been subject to internal review by senior management of Tutman and includes information drawn from its ICAAP, audited financial statements as at 30 April 2020 and remuneration details. This disclosure has not been audited by the firm's external auditors.

Structure

Information included in this document relates to Tutman and its subsidiary, Tutman LLP, in which it has a 99% interest. The parent entity is Thesis Holdings Limited, a company incorporated in Jersey.

Tutman (FRN 186886) and LLP (FRN 612721) are authorised and regulated by the FCA and have the permissions to operate, establish or wind up collective investment schemes under both UCITS and AIFMD.

The entities are categorised under the FCA rules as Collective Portfolio Management Investment Firms ("CPMI"). In practice neither firm has used the permissions it holds to conduct designated investment business and both are considered to have operations that are simple and primarily not credit related.

The Pillar 3 disclosures have been prepared on a consolidated basis.

Frequency of Disclosure

The information within the scope of these disclosures is published on an annual basis and made available as near to the approval date of the annual accounts as possible. The group has an accounting reference date of 30 April.

2. Risk Management

Governance

The Board of Directors is ultimately responsible and accountable for the strategic, financial and operational and compliance arrangements of the organisation, including the design and establishment of robust internal controls and oversight programs for the monitoring of third parties.

Specific responsibilities have been assigned to directors and senior managers as expected under SMCR.

Committees

The business operates an open architecture model, with specialist businesses appointed as fund accountant, transfer agent and investment advisor. The role of Tutman and LLP is fundamentally one of risk management and the firm has constituted a number of committees through which it coordinates this work.

The Operating Committee has delegated authority from the Board. It meets quarterly to review the performance of the business and to receive reports from other committees.

The committees in the structure include:

- Product Governance Committee
- Fund Risk Committee
- Pricing Committee
- Fair Value Pricing Committee
- Investment Committee
- CASS Governance Committee
- Value Assessment Committee
- New Business and Fund Activity Committee

Risk Management

Central the group's approach to risk management is the articulation of risk appetite statements. The primary objective at all times is to ensure that the risk that the group's actions or behaviours disadvantage investors (Conduct Risk) is managed effectively.

Risk management relating to the funds is sub-delegated to the committee running the front line business, managing risks at a fund level day to day. Tutman's Risk Management Policy document has been shared with the four depositories charged with the safe-keeping of assets within the funds.

Risk Appetite

The group has developed risk appetite statements for its material risks. These set out clearly the amount of risk exposure that the group is prepared to accept.

The business classifies its risk appetite qualitatively in the range "low" to "high". These labels are defined as:

High	The firm purposely seeks and accepts the risk in order to deliver its strategic goals, with appropriate controls.
Medium	The firms accepts that the risk as necessary in connection with its business activities, with appropriate controls.
Low	The firm actively seeks to avoid the risk and where this is not possible takes steps actively to minimise the risk.

Overall, when viewed against the above definitions, the business characterises its appetite for risk as medium. It is willing to accept a level of risk to meet its strategic objectives but does not undertake business it is unable to deliver or manage successfully. The business would consider a loss of £100,000 or more in a single year to be beyond its risk appetite.

Risk Identification

The business manages risk through all phases of its business process. The risks can be understood in terms of:

- **New Business Acceptance**

  Considerable effort is expended at the outset of a relationship in order to understand the fund sponsor's requirements and objectives. Opportunities are regularly declined where the proposed fund is too speculative or the sponsor is deemed to increase the risk profile.
- **Product Design**

  The fund specialists in Tutman will spend time early in the process to understand the target market and will work with the sponsor and legal advisors to identify the most appropriate fund solution and vehicle.
- **Oversight**

  Day to day operation of the funds is conducted by Tutman's appointed delegates, oversight of whose operations forms the bulk of the work conducted by Tutman's specialist teams.
- **Central Support Functions**

  Tutman's business operations are supported within the Thesis Group by Thesis Services Limited, which provides the staff, network and other functions necessary to operate.

The Board of Tutman has identified the risks to which it is exposed. These have been cross-referenced to the categories listed in the FCA Handbook and to industry data to ensure completeness.

Market Risk

This is the risk that the value of assets will decrease due to a change in value. The firm does not trade such assets on its balance sheet and therefore the risk is considered to be low.

Credit Risk

This is the risk that the firm's debtors fail to meet their obligations. Credit risk is limited to two areas of the business: commercial banking arrangements and the receipt of monthly fund management fees, which are approved by the fund depository and paid by the custodian. The business has a policy of appointing, or working with, only large, well-capitalised entities in these areas and has no history of defaults. This risk is considered to be low.

Liquidity Risk

This is the risk that the business does not have sufficient liquid assets to meet its obligations as they fall due. The business has a policy of maintaining significant financial resources and holds large cash balances with systemically important UK banks. Regular cash and capital forecasts are prepared to anticipate the requirements of the business as it grows.

Operational Risk
This is a key focus within the business on a day to day basis and arises from failed internal processes or inadequate oversight of third parties.

The business is exposed to the following key risks: systems failure, serious regulatory breaches, key person risk and the failure of third party providers. When outsourcing a service, the business has a policy to work only with highly-capitalised global banks. The risks are further mitigated through an extensive set of documented controls and operational procedures which are viewed and updated regularly. Appropriate professional indemnity and key man insurance policies are in place together with a full business continuity plan and a full oversight program to monitor the activities of all delegates.

Business Risk
This is the risk that the business cannot meet its strategic objectives. The business is reliant on the value of the funds it operates to generate its revenue. It is inherently exposed, therefore, to the general business and economic conditions which affect asset values. This risk is mitigated by the high regulatory capital surplus and cash balances and the conservative approach taken to managing the business.

Concentration Risk
The business operates over 130 funds for a wide range of fund sponsors. It is not overly reliant on the revenue from any one of these and considers this risk to be low.

Regulatory Risk
This is the risk of financial, reputational or litigation damage to the business as a result of a failure to recognise or to meet its regulatory obligations. All internal policies and procedures are designed to mitigate this risk. All staff receive regular training throughout the year on developments and the specific requirements relating to their roles. An independent compliance team, reporting to non-executive directors, helps to mitigate this risk further by providing advice to the business and conducting an extensive monitoring program.

The key risks to which the business is exposed have been analysed to quantify the capital required to mitigate the risk. This requires some subjective assessment but has been informed by a review of the firm's loss experiences and a consideration of the controls and available management actions.

3. Capital Resources

The consolidated capital resources of Tutman and LLP are shown in the table below. The figures are taken from the financial statements as at 30 April 2020 which were approved in August 2020.

	£'000
Financial Resources	
Share Capital	5,673
Audited Reserves	10,080
Intangibles/goodwill	(3,656)
Tier 1 Capital	**12,098**
Total Capital	**12,098**

Tutman does not pay dividends to its parent and, accordingly, expects its capital resources to increase each year. The business is targeting significant growth in the future and has shareholders who are willing and able to inject additional funds should this be required.

4. Capital Adequacy

Capital Management
The group's policy is to maintain its capital resources at a level above its calculated minimum levels to enhance investor and market confidence and to ensure it has sufficient working capital at all times for its operations.

Capital Requirement
The capital requirement for Tutman and LLP is to hold capital in excess of the highest of its pillar 1, pillar 2 and wind down requirement. These are detailed below.

Pillar 1
Tutman and LLP are classified both as collective portfolio management investment firms and, by virtue of their MiFID permissions, as IFPRU limited license firms.

For CPMI firms, the primary pillar 1 capital requirement is set out in the IPRU-INV rule book, chapter 11. The requirement is to hold financial resources in excess of the higher of:

- Base capital of €125,000;
- The funds under management requirement, calculated as the base capital plus 0.02% of funds under management in excess of €250million;
- The fixed overhead requirement, calculated as 25% of the fixed overhead costs of the business taken from the latest audited accounts.

An additional requirement arises in connection with funds managed under AIFMD. This requires either that the firm holds qualifying professional indemnity insurance or additional capital equal to 0.01% of AIFs managed. The business has chosen to hold the additional capital, although it does routinely hold insurance cover for commercial purposes.

As at 30 April 2020, the calculation was as follows:

Capital Requirement		**£'000**
A	Base capital requirement	112
B	Funds under management requirement	3,196
C	Fixed Overhead Requirement	1,036
D	Professional negligence requirement	600
	Pillar 1 Calculation (higher of A, B or C, plus D)	**3,796**

Pillar 2
Under pillar 2, an assessment is performed of the specific risks facing the business and the controls and other mitigation available in order to identify any additional capital that should be held in addition to pillar 1.

Tutman performs it pillar 2 assessment at least annually as part of its Internal Capital Adequacy Assessment Process ("ICAAP"). This process considers all the risks identified in the business and, after review of the controls and other mitigation available, those against which it considers it necessary or prudent to hold additional capital.

This review encompasses the full range of risks set out in IFPRU 2.2.7.

The latest review indicated a capital requirement of £4.835m. This is greater than the pillar 1 calculation and is, therefore, used as the capital requirement for the business.

Wind Down Planning

Under Pillar 2, the firm is also required to maintain a plan for the orderly wind down of the business and to assess the level of capital required to achieve this.

This plan is reviewed annually by senior management and the key assumptions are reconfirmed. The primarily uncertainty in the plan is the length of time that would be required for each of the firm's funds to migrate to a new fund operator. It is assumed that this would take more than 12 months to complete.

The latest review indicates that the cost of winding down the business is lower than that under the main pillar 2 test.

5. Remuneration

This disclosure is provided in accordance with article 450 of the CRR.

Decision Making Process

The Board of Thesis Holdings, the parent company, has delegated authority for remuneration to a remuneration committee. This committee is comprised entirely of non-executive directors, including 3 who sit on the Board of Tutman. It meets twice a year or more frequently as events dictate.

The committee has adopted a policy on remuneration which aims to provide a fair reward to staff for their performance and to achieve a sustainable balance between fixed and variable remuneration.

The remuneration policy is also designed to ensure the business complies with the regulatory principles on sound remuneration, such that it:

- Promotes sound and effective risk management;
- Does not encourage behaviours that are inconsistent with the risk profiles of the funds the business operates;
- Aligns the interests of staff with those of its clients and the investors in its funds;

Link to Performance

As CPMI firms, Tutman and LLP are required to comply with three separate remuneration codes (IFPRU, UCITS and AIFMD) each of which are set out in the SYSC handbook, chapter 19. In practice, as neither firm uses its MiFID permissions, the IFPRU rules have limited application.

Staff bonus schemes are operated so as to generate rewards which reflect both the performance of the individual and the performance of the business and allow for higher rewards to be paid to staff whose performance merits such recognition. The performance of individuals is assessed primarily by reference to non-financial criteria, especially the effectiveness of their oversight monitoring of delegates appointed to perform investment advisory or fund administration services for the funds.

The Remuneration committee approves bonus awards each year at the same time as the annual pay review and takes into account the projected performance of the business when approving such awards.

Design Considerations

The remuneration committee has identified the staff members whose professional activities are considered to have a material impact on the firm's risk profile and who fall to be classified as Material Risk Takers ("MRTs") under the regulatory codes. This classification is reviewed annually and the individuals are notified of their classification.

The regulations specify additional factors to be taken into account when awarding and vesting variable remuneration for MRTs. These are referred to as the Pay-Out Proposal rules ("POPR").

In practice, these do not apply to anybody within the business since, although the POPR do apply to the business at the entity level, individuals are exempted if their aggregate remuneration remains below €500,000 and their variable remuneration is less than 33% of the total. No individual exceeds these levels.

Quantitative Disclosures

A number of staff work exclusively for Tutman and are employed directly. Other individuals in the group employed by a related entity, Thesis Services Limited ("Services"), spend a proportion of their time providing services to Tutman or LLP.

The total remuneration of these individuals, whether employed directly or by Services, is set out below.

	MRTs	Other Staff	Total
Headcount	20	26	46
Fixed Remuneration	2,011,030	1,042,716	3,053,746
Variable Remuneration	240,807	42,960	283,767
Total Remuneration	**2,251,837**	**1,085,675**	**3,337,512**