EDISTON INVESTMENT SERVICES LIMITED

Pillar 3 Disclosures

FRN: 706655

As at 31 December 2021

I. Background

Ediston Investment Services Limited (the "**Firm**") is authorised and regulated in the UK by the Financial Conduct Authority (the "**FCA**") and is classified as a Collective Portfolio Management Investment Firm ("**CPMI**") and a BIPRU firm.

The Pillar 3 disclosure requirement stems from the UK's implementation of the Capital Requirements Directive ("**CRD**") which represents the European Union's application of the Basel Capital Accord. The CRD introduced consistent capital adequacy standards and an associated supervisory framework in the EU. The CRD is implemented in the UK by the FCA and consists of three 'pillars':

- **Pillar 1** - This specifies the minimum capital requirements which the Firm is required to hold to cover business (credit, market and operational) risks.
- **Pillar 2** - This sets out the supervisory review process to be used to assess whether additional capital should be held against risks not covered by Pillar 1.
- **Pillar 3** - This specifies the disclosure requirements which the Firm is required to make and is designed to promote market discipline by providing market participants with key information on a firm's risk exposures and risk management processes.

The Firm is a Full Scope UK Alternative Investment Fund Manager ("**AIFM**") pursuant to the Alternative Investment Fund Managers Directive (as implemented into the UK) ("**AIFMD**") and the FCA's adopting legislation. The Firm also undertakes additional activities which result in the Firm being a BIPRU firm. The Firm is also required to meet AIFMD capital requirements and disclosure obligations.

The disclosures below are the required Pillar 3 disclosures for the Firm. The disclosures do not apply to the funds managed by the Firm, which are exposed to different risks.

This disclosure is prepared on the basis that the Firm is a BIPRU firm subject to the FCA regulations for the disclosures required under Pillar 3 contained in the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"), although as noted above, the Firm is primarily a CPMI. Further information on BIPRU can be found on the FCA website (www.fca.gov.uk). These rules allow each firm to exclude disclosures where the information is regarded as immaterial, proprietary or confidential. Disclosures have been made in this document in compliance with BIPRU 11 unless that disclosure has been regarded by the Firm as being immaterial, proprietary or confidential. Additional information is available from Neelum Yousaf, the Firm's compliance officer.

II. Risk management objectives and policies

The Firm maintains a clear delineation between portfolio management and risk management teams which are functionally and hierarchically separated. The members of the risk function consider the Firm's risk appetite to ensure that the Firm's risk management framework is appropriately designed and implemented. The Firm’s risk function meet on a regular basis to discuss and identify any potential risks that the Firm faces and will report periodically to the full board.

The risk management procedures for the Firm reflect the business and regulatory requirement to manage a number of different categories of risk. These risks include operational, business, market, credit, insurance and liquidity risk. In respect of this disclosure the first four of these risks are most relevant and further information on these is below.

Operational Risk

Operational risk is overseen by the risk function. The Firm maintains a detailed risk map that identifies the key risks faced by the Firm and the mitigating factors and controls that address these risks. Each risk is assigned a level of impact and probability of either high, medium or low. The Firm aims to ensure that there are sufficient mitigating factors and controls to ensure that the net probability of each risk is low. The risks map is reviewed and approved by the Firm’s risk committee regularly.

Business Risk

The Firm has identified the key business risks as principally taking the form of a fall in the assets under management or the loss of key staff which may reduce the fee income earned and hinder its ability to meet its expenses. To mitigate business risks, the Firm periodically models various different economic scenarios to assess the potential impact that these would have on the Firm’s financial position. The exposure to these business risks is to some extent mitigated by having (i) sourcing different income streams (ii) appropriate staff retention policies and (iii) maintaining a high quality service.

Market Risk

Market risk is limited and not material although as an asset management business, the portfolios managed are subject to market risk. The Firm's fees are linked to assets under management and revenues may be affected by rises and falls in markets. Ongoing review and analysis of the market allows the firm to be prepared for any sudden movements. There is a focus on cost control and operational expenses are kept low.

The Firm holds some shares in Ediston Property Investment Company plc, which is an AIF of the Firm. Whilst the value of its holding may fluctuate, this is not expected to impact on the operation of the Firm's business (and such investment is designed to align its interest with that of its client).

Credit Risk

The Firm’s exposure to credit risk is principally the risk that investment management fees cannot be collected and the exposure to banks where collected fees are deposited.

III. Capital resources

The Firm is not required to calculate an operational risk charge for its Pillar 1 requirement under applicable exemptions. In terms of BIPRU the Firm’s minimum capital requirement under Pillar 1 would be the greatest of:

- the base capital requirement of €50,000;

- the sum of its market and credit risk requirements; and

- its fixed overhead requirement.

In practice, the fixed overhead requirement would be the greatest and therefore would establish the Firm's minimum capital requirement under Pillar 1. **However, the Firm is also required to meet AIFMD capital requirements and disclosure obligations as applicable to an AIFM under IPRU(INV). As the AIFMD capital requirements are greater than the BIPRU requirements, these are the capital requirements which the Firm must adhere to**.

The basic requirement is that as an AIFM the Firm must have an initial capital of at least the higher of (i) €125,000 plus 0.02 per cent of the portfolio of relevant AIFs under management over €250m (subject to a cap of €10 million) and (ii) one quarter of the firm's relevant fixed expenditure. AIFMs must further either have professional indemnity insurance or have additional own funds appropriate to cover risks arising from professional negligence.

The Firm has assessed its capital requirement as being £152,000. As at 31 December 2021 the Firm has capital as follows

Capital item	**£'000**
Tier 1 capital	6,619
Total capital resources, net of deductions	**6,619**

The Firm assesses the adequacy of its capital through its Internal Capital Adequacy Assessment Process. As part of this process, the Firm assesses all known risks, including operational and business risks, and performs stress and scenario tests to determine whether the level of capital that the Firm holds is adequate to support its current and future activities. Following this analysis, it is the Firm's opinion that no additional capital is currently required. As at 31 December 2020 the Firm had audited net assets of £5,209,282.

Save as noted above in respect of shares in Ediston Property Investment Company plc, the Firm does not hold any equities, other than those considered immaterial. The Firm does not undertake any form of securitisation.

IV. Remuneration

As an AIFM, the Firm is required to comply with the AIFM remuneration code set out in SYSC 19B. Full AIFMD related remuneration disclosures will be included in the annual report and accounts of the fund which the Firm is the AIFM of as required.

The Firm acknowledges the following general principles:

- Remuneration policies and practices should be consistent with, and promote, sound and effective risk management and not encourage risk-taking which is inconsistent with the risk profile of the funds the Firm manages.
- Remuneration policy should be in line with the business strategy, objectives, values and interests of the Firm and the funds it managers (or the investors in such funds), and include measures to avoid conflicts of interest.
- The Firm's total variable remuneration should not limit the Firm's ability to strengthen its capital base.

- Where the Firm's financial performance is subdued or negative, total variable remuneration should generally be considerably contracted, taking into account both current remuneration and reductions in pay-outs of amounts previously earned.

The Firm's performance appraisal process includes an assessment of both financial and non-financial performance metrics.

Discretionary bonuses will be as determined by the Board.

Based on the Firm's profile, senior management consider that it has one business area, namely portfolio management. The Firm was authorised by the FCA and commenced operations as a regulated business in February 2016. It delegates certain of its portfolio management responsibilities and therefore remuneration costs are somewhat reduced.