

BEACH HORIZON LLP - PILLAR 3 RISK DISCLOSURE

Overview

The European Capital Requirements Directive (“the Directive”) establishes a revised regulatory capital framework across Europe governing the amount and nature of capital which credit institutions and investment firms must maintain. In the United Kingdom, the Directive has been implemented by the FSA in its Handbook of rules and guidance, including in particular in the *General Prudential Sourcebook* (‘GENPRU’) and the *Prudential Sourcebook for Banks, Building Societies and Investment Firms* (‘BIPRU’).

The Directive’s framework consists of three ‘Pillars’:

- **Pillar 1**
This sets out the minimum capital amount that meets the firm’s credit, market and operational risk.
- **Pillar 2**
Requires the firm to assess whether its capital is adequate to meet its risks that are not covered by Pillar 1 and is subject to review by the FSA.
- **Pillar 3**
Requires public disclosure of qualitative and quantitative information about the underlying risk management controls and capital position of a firm.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet Beach Horizon LLP’s (“Beach Horizon”) Pillar 3 obligations by setting out the company’s risk management objectives and policies.

We are permitted to omit required disclosures if we believe that the information is immaterial such that its omission or misstatement would not be likely to change or influence the assessment or decision of a reader relying on that information for the purpose of making economic decisions.

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 with the public, 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 proprietary or confidential.

Frequency and location of disclosure

Future disclosures will be issued on an annual basis, at a minimum, and will be made available on Beach Horizon’s website.

Scope and application of the requirements

Beach Horizon is authorised and regulated for investment management activities in the UK, by the FSA, and as such is subject to minimum regulatory capital requirements. Beach Horizon is categorised as a *BIPRU €50k limited licence firm* by the FSA for capital purposes. It is an investment management firm and as such has no trading book exposures.

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

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Risk management

Beach Horizon's Partners determine the business strategy and risk appetite of the company, together with the design and implementation of a defined and transparent risk management framework, having regard to relevant laws and regulatory rules.

The Partners meet on a regular basis to discuss all key business issues, including current projections for profitability, cash flow, regulatory capital management, and business planning and risk management. As new risks arise or as new business activities are entered into, the risk management framework is updated accordingly.

The Individual Capital Adequacy Assessment Process ("ICAAP") is an integral part of Beach Horizon's risk management framework and is reviewed and updated no less frequently than annually. The ICAAP identifies the sources of risk to the firm and then rates the potential impact of each risk to the firm's business, offsetting this against the systems and controls which have been put in place to mitigate against those risks.

Reasonable steps are taken by Beach Horizon to reduce the probability of any risk crystallising. Furthermore additional capital resources, correlated to the potential impact, are maintained for risks where the probability is not fully mitigated and which Beach Horizon does not wish to bear.

The Partners have identified the main risks to which the Firm is exposed. They are as follows:

- **Operational Risk**

This is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

Beach Horizon seeks to mitigate all operational risks to acceptable levels, in accordance with its risk appetite, by maintaining a strong control environment, ensuring that staff have appropriate skills and training and establishing an efficient and effective management structure.

- **Business Risk**

The most significant business risk faced by the Firm is that of a substantial and sustained reduction in Funds under Management, caused by adverse market conditions or investor redemptions, resulting in a loss of management fee income.

Ongoing stress testing is conducted by the Partners in order to assess and evaluate the ongoing potential impact of the various stress events on the performance of the Firm's funds.

- **Market Risk**

Beach Horizon has limited exposure to market risk. It does not have a trading book and as such, market risk is limited to exposure to foreign exchange fluctuations, due to the management fee income being denominated in US\$. This is generally hedged however.

- **Credit Risk**

This is the risk that a third party will default on a financial obligation. Beach Horizon is exposed to credit risk from:

- Fund management and performance fees due from the investment vehicles which Beach Horizon manages; and
- The cash deposits which are held by authorised banks on behalf of Beach Horizon.

This risk is deemed to be minimal.

Having assessed all possible risks to the Firm through the ICAAP review, the largest risk in capital terms is that of performing an orderly wind down of the business. Accordingly, Beach Horizon's Pillar 2 figure is that of an orderly wind down.

Beach Horizon deems its risk exposure to be typical for a business of its size and nature.

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Regulatory capital

Beach Horizon is a Limited Liability Partnership and its capital arrangements are established in its Partnership deed.

Beach Horizon considers itself to be small with a relatively simple operational infrastructure. Its market risk is limited to foreign exchange risk on its accounts receivable in foreign currency, and credit risk from: (i) management and performance fees receivable from the funds under its management; and (ii) bank deposits.

Beach Horizon follows the standardised approach to market risk and the simplified standard approach to credit risk. Beach Horizon is subject to the Fixed Overhead Requirement and is not required to calculate an operational risk capital charge though it considers this as part of its process to identify the level of risk-based capital required.

As above, Beach Horizon is a limited licence firm and as such its Pillar 1 capital requirements are the greater of:

- Its base capital requirement of €50,000; or
- The sum of its market and credit risk requirements; or
- Its Fixed Overheads Requirement.

It is Beach Horizon's experience that market and credit risks generally sum to less than the Fixed Overheads Requirement, which therefore establishes the minimum capital requirement of £381,401. At certain points during the accounting year, receipt of performance fees leads to the sum of credit risk and market risk being greater than the Fixed Overhead Requirement. The maximum this is expected to be at any one time is £450,000.

Such large exposure breaches are common in the alternative investment management industry due to its fee structures and are notified to the FSA in accordance with the FSA rules.

Beach Horizon's minimum capital requirement consists of the higher of the Pillar 1 and the ICAAP Assessment Pillar 2 figure. No additional capital is required as a result of Beach Horizon's ICAAP assessment and therefore, Beach Horizon is required to maintain a minimum capital of £450,000.

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

Capital item	£'000
Total Tier 1 capital less innovative tier 1 capital	2,015
Total tier 2, innovative tier 1 and tier 3 capital	0
Deductions from tier 1 and tier 2 capital	0
Total capital resources, net of deductions	2,015
Higher of Fixed Overheads and Variable Capital Requirement	450
Additional Capital Required for Pillar II	Nil