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# PILLAR 3 DISCLOSURE

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## 1. Introduction

The Capital Requirements Directive (CRD) of the European Union created a revised regulatory capital framework across Europe governing how much capital financial services firms must hold. In the United Kingdom this is implemented and enforced by the Financial Conduct Authority (FCA) with rules and guidance within the General Prudential Sourcebook (GENPRU) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU). The framework is structured around three 'pillars'.

- **Pillar I:** Sets out the minimum regulatory capital requirements a firm must adhere to. A BIPRU firm must maintain capital resources which are at least equal to the base capital resources requirement. A firm must also meet the variable capital requirement which is the higher of a) the capital required to cover a firm's credit, market and operational risk or b) the firm's fixed overhead requirements. The base capital can be used to meet the variable capital requirement.
- **Pillar II:** Requires a firm to regularly assess the amount of internal capital it considers adequate to cover all of the risks to which it is exposed, within the context of its overall risk management framework. The process, known as the Internal Capital Adequacy Assessment Process (ICAAP) is the firm's responsibility and is the key document reviewed by the FCA as part of their Supervisory Review and Evaluation Process (SREP).
- **Pillar III:** Requires firms to make disclosures to the market for the benefit of the market. The aim is to encourage market discipline by developing a set of disclosure requirements, both generic and accounting specific, which will allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes.

The rules in the FCA Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") set out the provision for Pillar 3 disclosure. This document is designed to meet our Pillar 3 disclosure obligations.

## 2. Frequency of disclosure

Disclosures will be issued on an annual basis.

## 3. Verification

These disclosures have been prepared and set out in order to comply with the FCA's regulatory requirements and provide information on the firm's risk management policies and certain capital requirements. They do not constitute financial statements and are based on unaudited financial positions and should not be relied upon in isolation when making judgements about the firm.

## 4. Scope

Cape Wrath Capital is the Designation Investment Manager to the following Non-UCITS Retail Scheme (NURS):

The investment objective of VT Cape Wrath Focus Fund is to generate capital growth over the long term. The company will aim to meet its objective by typically investing at least 70% in a concentrated portfolio of UK listed equities. Cape Wrath Capital does not deal on its own account but acts as Designated Investment Manager to an authorised fund operated by a third party.

## **5. Risk Management Objectives and Policies**

Risk management is focused on reducing operational risk and maintaining sufficient capital to allow an adequate buffer against these risks as identified in the company's Internal Capital Adequacy Assessment Procedure (ICAAP). Risk management is the responsibility of the shareholders and is led by Cape Wrath Capital's Compliance Officer.

Operational Risks include the following:

- Technology (systems failure) and information security risk.
- Process failure risk.
- The firm is defrauded.
- Regulatory, legal and tax risk.
- Third party service provider issue.
- Business disruption and disaster recovery.
- Cybercrime.

Risk management is a fundamental part of the day-to-day management of the firm. This applies to our implementation of operational procedures to ensure that the risks associated with the provision of investment management services are mitigated by appropriate controls and processes and to our considered approach to stock selection and daily management of the investment portfolios managed for clients.

The shareholders meet routinely quarterly, or as and when necessary, and has primary responsibility for governance and oversight of the firm. The Compliance Officer provides oversight of risk management process and controls and has overseen the development of the internal Compliance and Risk regime.

Operational, market, credit and regulatory risks are reviewed regularly by the Compliance Officer.

## **6. Capital adequacy and ICAAP**

Cape Wrath Capital's overall approach to assessing the adequacy of its internal capital is detailed in the Internal Capital Adequacy Assessment Process ("ICAAP") document. The ICAAP process includes an assessment of all considered material risks faced by the firm and looks at the controls in place to

identify, manage and mitigate those risks. The ICAAP is then stressed-tested against various scenarios to determine the level of capital that should be held.

Whilst the ICAAP is formally reviewed by the Shareholders once a year, Senior Management review risks and the required capital more frequently as part of their routine controls work. It will also undertake a review when there is a planned change to operating practice which could impact risks and capital or when changes are expected in the business environment which may impact the ability to generate income.

## 7. Capital resources

The capital requirements of the firm are monitored on an ongoing basis to ensure that at any time there is always sufficient capital in place. As at end September 2021 Cape Wrath Capital's capital resources, for FCA purposes, were as follows:

<b>Capital</b>	GBP
Tier 1 Capital	367,000
Tier 2 Capital	
Tier 3 Capital	
<b>Total Capital before deductions</b>	<b>367,000</b>

Cape Wrath Capital had £367,000 of regulatory capital after deductions in place as at end September 2021, compared with an ICAAP capital requirement of £50,000, resulting in a £317,000 surplus.

## 8. Approach to Capital Adequacy

The ICAAP process must be proportionate to the nature, scale and complexity of the business. The shareholders believe it has addressed all relevant risks and has a robust, well-organised infrastructure which is appropriate for its current operations and committed plans.

The Shareholders regard risk management as an integral part of Cape Wrath Capital's business activities and have adopted policies and procedures consistent with Cape Wrath Capital's nature, scale and complexity. Cape Wrath Capital's management practices are intended to provide comprehensive controls and ongoing management of its major risks.

Mitigation of these risks is primarily the responsibility of the Shareholders, and the consideration of risk is a daily process in all dealings, internally and externally.

After consideration of Cape Wrath Capital's planning horizon, profit distribution policies and the impact of potential risk areas the Shareholders believe Cape Wrath Capital's Pillar 1 capital resource requirement to be the capital requirement of Cape Wrath Capital.

## **9. Current Capital Resources**

In September 2021, Cape Wrath Capital had Tier 1 capital resources of £367,000. It has no Tier 2 or 3 capital. The minimum capital required was assessed as being £50,000 (increased to £75,000 1 January 2022). Cape Wrath Capital therefore has capital of £317,000 more than the minimum. This is deemed sufficient to support current and future activities.

## **10. Remuneration Policy**

Cape Wrath Capital is required to disclose the key policies used in determining remuneration for staff whose professional activities have a material impact on the firm's risk profile along with key quantitative information. These staff members are defined by the firm as authorised individuals who are in significant management, control, or risk functions. Remuneration policy is the responsibility of the Directors.

Cape Wrath Capital currently has two staff members.