

# **Chilton Investment Company Limited Pillar 3 Disclosure and Policy**

## **Introduction**

The Capital Requirements Directive (‘the Directive’) of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital that credit institutions and investment firms must maintain. In the United Kingdom, the Directive has been implemented by the Financial Services Authority (‘FSA’) in its regulations through the General Prudential Sourcebook (‘GENPRU’) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (‘BIPRU’).

The FSA framework consists of three ‘Pillars’:

- Pillar 1 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 Pillar 1 capital is adequate to meet its risks and is subject to annual review by the FSA; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position.

The rules in BIPRU 11 govern the Pillar 3 disclosure requirements. This document is designed to meet the Pillar 3 obligations.

Chilton Investment Company Limited (‘We’ or the ‘Firm’) is permitted to omit required disclosures if we believe the information is immaterial. In addition, we may omit required disclosures where we believe the information is regarded as proprietary or confidential. In our view, proprietary information is information 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, such as with our customers, suppliers and counterparties.

We have made no omissions on the grounds that any information is immaterial, proprietary or confidential.

## **Scope and Application of the Requirements**

We are authorised and regulated by the Financial Services Authority and, as such, are subject to minimum regulatory capital requirements. The Firm is categorised as a limited licence firm by the FSA for capital purposes. We are an investment management firm and as such have no trading book exposures.

The Firm is an investment manager based in the UK managing one hedge fund that comprises the trading vehicle for the Chilton European Equities Strategy (the ‘Funds’). We are owned by Chilton Investment Company, LLC (‘Chilton’), our parent company headquartered in the U.S. Our regulated activities include:

- Advising on investments
- Making arrangements with a view to transactions in investments and arranging deals in investments;

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- Dealing in investments as agent; and
- Managing investments.

The Firm does not hold client money.

The Firm is not a member of a group and is not required to prepare consolidated reporting for prudential purposes.

### Risk Management

The Firm has assessed its business and operational risks in its [Internal Capital Adequacy Assessment Process \(“ICAAP”\)](#) and set forth appropriate actions to manage them. As such, our ICAAP considers the following risks in detail:

- Market Risk;
- Credit Risk;
- Liquidity Risk
- Operational Risk; and
- Business Risk.

The potential risks that our Firm will be exposed to have been identified and discussed by the Board of Directors of the Firm. We consider the following to be material risks to our Firm:

- ***Loss of key staff***– likely to lead to potentially significant levels of redemptions in the Funds.
- ***Poor investment performance of the Funds*** - the future health of our business is dependent upon good investment performance and the ability to raise the Funds’ assets under management. If (for whatever reason) assets do not increase then this could jeopardize the future of our business.
- ***Damage to reputation*** – maintaining a good reputation with investors is essential to the success of the business. Any loss in reputation is likely to be very detrimental to the business and lead to redemptions in the Funds.

The Directors of our Firm are aware of the above key risks, which are discussed on a regular basis. The Board members have a long track record in business management, are cognizant of material risks faced by the business and have sufficient experience to manage the risks appropriately. The Board has discussed the business and operational risks and considers the magnitude of the above risks to be within their tolerance limits.

We have a straightforward business model that is similar to many other investment fund managers. Accordingly we are able to rely on third parties to supply operating support to our business.

We believe that we have an effective financial and operational control infrastructure. We hire highly talented and experienced investment professionals who have a good understanding of markets and operational obligations. The Funds have the support of a professional third party administrator and experienced prime brokers. We reconcile our

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positions with these third parties regularly to ensure the integrity of our records. We produce regular management accounts and budgets and have controls over approval of expenditure, including writing of checks. Our book-keeping and regulatory reporting is performed by Chilton.

Our Firm has also engaged a third party compliance consultant that provides regular compliance monitoring and offers recommendations as to enhancements, which are actioned as appropriate.

### **Firm Governance**

The Firm is governed by its Directors and senior management of Chilton (the “Principals”) who determine its business strategy and risk appetite. They are also responsible for establishing and maintaining the Firm’s governance arrangements, along with designing and implementing a risk management framework that recognises the risks that the business faces.

The Principals also determine how the risks our business faces may be mitigated and assess on an ongoing basis the arrangements we use to manage those risks. The Principals meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, and business planning and risk management. The Principals manage the Firm’s risks through a framework of policies and procedures concerning relevant laws, standards, principles and rules (including FSA principles and rules). These policies and procedures are updated as required.

The Principals have determined that business, liquidity, operational, market and credit risks are the main areas of risk to which the Firm is exposed. Annually the Principals formally review the Firm’s risks, controls and other risk mitigation arrangements and assess their effectiveness. Where the Principals identify material risks, they consider the potential financial impact of these risks as part of our business planning and capital management and conclude whether the amount of regulatory capital is adequate.

### **Regulatory Capital**

The Firm is a Private Limited Company and its capital arrangements are established in its Memorandum and Articles of Association.

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

<b>Capital item</b>	<b>£’000</b>
Tier 1 capital less innovative tier 1 capital	529
Total tier 2, innovative tier 1 and tier 3 capital	-
Deductions from tier 1 and tier 2 capital	-
<b>Total capital resources, net of deductions</b>	<b>529</b>

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. It has credit risk from the 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. The Firm is subject to the Fixed Overhead

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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 discussed above, the Firm is a limited licence firm and as such its 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 Overhead Requirement.

We have not identified credit risk exposure classes or the minimum capital requirements for market risk, as we believe that they are immaterial.

It is the Firm's experience that the Fixed Overhead Requirement establishes its capital requirements and hence market and credit risks are considered not to be material.

### **Remuneration**

The Firm has adopted a remuneration policy that complies with the requirements of chapter 19A of the FSA's Senior Management Arrangements, Systems and Controls Sourcebook ("SYSC"), as interpreted in accordance with the FSA's guidance publication entitled "General Guidance on Proportionality: The Remuneration Code (SYSC 19A) & Pillar 3 Disclosures on Remuneration (BIPRU 11)" and subsequent items of guidance issued by the FSA, including its document entitled "Frequently Asked Questions on the Remuneration Code".

As a BIPRU limited licence firm, the Firm falls within proportionality tier 4. The Firm has concluded, on the basis of its size and the nature scale and complexity of its legal structure and business that it does not need to appoint a remuneration committee. Additionally, the Firm has not utilized any remuneration consultants. Instead, the Compensation Committee of Chilton (the "Committee"), sets, and oversees compliance with, the Firm's remuneration policy including reviewing the terms of the policy at least annually.

The Committee is currently comprised of six senior management members – Richard Chilton, Chairman, CEO and Chief Investment Officer, Michael Clark, President, Chief Operating Officer and Chief Risk Officer, Daniel Szemis, Portfolio Manager, Patricia Mallon, Head of Business Development, Jennifer Foster, Director of Research, and Laura Cappiello, Director of Human Resources. The Committee meets periodically throughout the year to discuss employee compensation and related matters. The Committee's mandate is to determine the compensation for the Firm's employees in an equitable manner, which promotes sound and effective risk management, is consistent with the Firm's annual performance, taking into account the qualitative and quantitative contributions of each employee, and the investment management market for talent. The Compensation Committee approved the Remuneration Policy at its meeting on 27 July 2011.

The Committee requests from the Firm's Department Heads and Regional Office Heads recommendations to the Committee of annual discretionary compensation for the employees in each department and office. The Committee reviews all recommendations,

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along with the written performance evaluations completed for each employee by his/her manager, and determines, in accordance with the parameters outlined above, whether the recommended discretionary compensation is equitable and meets all of the Policy requirements. In 2010, Frederic Gautier, CEO of the Firm, provided compensation recommendations to the Committee for each of the U.K.-based employees. The Committee reviewed, adjusted (where appropriate) and approved the compensation for each of these employees.

As permitted for firms falling within proportionality tier 4, the Firm takes into account the specific nature of its own activities (including the fee based nature of its revenues) in conducting any ex-ante risk adjustments to awards of variable remuneration.

The Firm only has one "business area", namely its investment management business. All of the Firm's Code Staff fall into the "senior management" category of Code Staff (rather than the "risk taker" category) for the purposes of the Remuneration Code. The aggregate "remuneration" (as defined in the FSA Rules) awarded to the Firm's Code Staff during the financial year ending on the accounting reference date of 31 December was £845,000.