HANOVER
INVESTORS

# PILLAR 3 DISCLOSURE 2020

## OVERVIEW

The Basel II Accord provides for the application of a standard regulatory capital framework to the financial services industry in the EU.

Pillar 1 outlines the minimum capital that a firm is required to hold, calculated for credit, market and operational risk.

Pillar 2 expands the risks assessed, requiring firms to consider risks not captured in Pillar 1.

Pillar 3 requires firms to publish information on their approach to risk management.

## SCOPE OF APPLICATION

Hanover Investors Management LLP ("Hanover") is authorised and regulated by the Financial Conduct Authority (the "FCA") as an investment management firm. It is categorized as a BIPRU 50k limited licence firm and is not required to prepare consolidated reporting for prudential purposes. In accordance with Chapter 11 of the FCA's Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU), the Firm is required to disclose Pillar 3 information.

## DISCLOSURE POLICY

The information within the scope of Pillar 3 will be published on an annual basis on the Firm's website, www.hanoverinvestors.com. Disclosure will be based on the position as at the Accounting Reference Date (31st December) and be published as soon as practicable after the year end and updated once the signed financial statements are available. The information included within the Pillar 3 disclosure will not be audited by Hanover's external auditors and does not constitute any form of financial statement.

The Firm is permitted to omit information deemed immaterial. Materiality is based on the criterion that omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. Accordingly, where the Firm considers an item to be immaterial, it has not been disclosed.

The Firm is also permitted to omit one or more of the required disclosures where it regards that information as proprietary or confidential. Proprietary information may include information on products or systems which, if shared with competitors, would render a firm's investments therein less valuable, or which if shared with the public would undermine its competitive position. Information is regarded as confidential if there are obligations to customers or other counterparty relationships binding the firm to confidentiality. Where information is omitted for either of these reasons, this is stated in the relevant section of the disclosure, along with the reason for the disclosure.

## RISK MANAGEMENT OBJECTIVES AND POLICIES (BIPRU 11.5.1 R)

The members of the partnership determine the business strategy and risk appetite and implement policies and procedures to identify and manage risks to the business. Operational responsibilities are clearly defined and documented. Risk appetite is considered to be low, with the terms of the Firm's authorisation excluding proprietary trading and custody of client assets or money.

An independent risk management function is not currently deemed proportionate in light of the nature, scale and complexity of the firm. This is reviewed on an ongoing basis and if any of these factors were to change significantly, the necessary steps would be taken to introduce such a function.

Identified risks are: business risk, market risk, credit risk and operational risk.

### Business Risk

A significant decrease in assets under management would pose a risk to the financial viability of the firm. To manage this risk, detailed financial reports are circulated to management on a timely basis, in addition to a comprehensive budgeting process that includes monthly variance analysis and scenario testing. Ongoing marketing focuses on growing assets under management in order to diversify the investor base. Capital resources in excess of the Firm's Fixed Overhead Requirement ("FOR") ensure that in the event of a prolonged downturn, capital would be available to meet all obligations arising or to finance an orderly wind-down.

### Market Risk

Under Pillar 1, Hanover's market risk is limited to that arising from foreign exchange movements in respect of accounts receivable and foreign currency cash balances held. Management monitor exchange rates and cash balances regularly to ensure that working capital requirements in sterling are met and exchange transactions are made at optimal rates. Market risk is not considered to be material.

### Credit Risk

Credit risk is the risk that counterparties will fail to meet their obligations to repay outstanding balances as they fall due. The largest debtors are typically the fund vehicles managed by the Firm. Cash balances are deposited with mainstream UK banks. Overall credit risk is not considered to be material.

### Operational Risk

As a limited licence firm Hanover is not required to hold capital under the standardised approach to operational risk included in Pillar 1. However, operational risk is considered under Pillar 2. A number of processes are in place to reduce operational risk to acceptable residual levels, such as clearly documented procedures and reporting lines, recruitment of skilled personnel and specialist external advisors, and regular review of service providers. There is no significant history of operational risk that would result in unexpected costs being incurred. The most significant risk considered was risk of being sued for damages in the context of the firm's role as investment advisor. However, the Hanover Group has appropriate operational insurance and professional indemnity insurance.

## CAPITAL RESOURCES (BIPRU 11.5.3R)

Hanover's capital resources comprise of core tier one capital only. The total of members' capital plus reserves as at 31st December 2019 is £807,879 (2018 - £307,236). There are no deductions and no Tier 2 or Tier 3 capital is held.

## COMPLIANCE WITH BIPRU 3,4,6,7,10 AND THE OVERALL PILLAR 2 RULE (BIPRU 11.5.4R)

### BIPRU 3 (Standardised Credit Risk)

Hanover has adopted the standardised approach to the calculation of the credit risk capital component of the Capital Resources Requirement (*BIPRU 3, Standardised credit risk*), being 8% of the total of its risk weighted exposure amounts for exposures falling into BIPRU 3.1.6R (exposures on a firm's non-trading book that have not been deducted from the firm's capital resources under GENPRU 2.2). The firm does not run a trading book. As at 31st December 2019, no exposures were past due or considered impaired.

| **Credit Risk Capital Component @ 8% *(£000's)*** | **298** |
|---|---|
| **Counterparty Risk** | 0 |
| **Concentration Risk** | 0 |
| **Total Credit Risk** | 298 |

| **Credit Risk Capital Component** | **Risk weighting** | **Risk weighted exposure (£000's)** |
|---|---|---|
| **Debtors and prepayments** | 100% | 2,744 |
| **Short term deposits with commercial banks** | 20% | 95 |
| **Fixed Assets** | 100% | 891 |
| | | **3,730** |

As at 31st December 2019, under Pillar 1, Hanover's minimum regulatory capital requirement is equal to the Fixed Overheads requirement of £412,954.

### BIPRU 4 (The IRB Approach)

BIPRU 4 is not applicable to the Firm as the Internal Ratings Based approach has not been adopted in the calculation of Credit Risk.

### BIPRU 6 (Operational Risk)

Whilst operational risk is considered within the Pillar 2 process, as a limited licence firm Hanover is not required to calculate an operational risk capital requirement under BIPRU 6.

### BIPRU 7 (Market Risk)

The Firm has exposure to foreign currency risk in its non-trading book. As at 31st December 2019, this was not considered material.

### BIPRU 10 (Large Exposures Requirements)

As a limited licence firm, BIPRU 10 is not applicable to Hanover.

### Overall Pillar 2 Rule

In accordance with Pillar 2, the Firm undertakes an annual ICAAP review in order to identify specific risks and any applicable mitigating actions and controls, with additional capital being assigned to material residual risks. There were no additional capital requirements assessed under the Firm's ICAAP (February 2020). The total capital requirement is therefore £412,954.

## REMUNERATION DISCLOSURE

As a BIPRU limited licence firm, Hanover is within scope of the FCA's Remuneration Code (the "Code"), which governs the application of remuneration policies and practices within the firm in order to promote sound and effective risk management. The Firm is classified as a Tier 4 firm, which allows for a proportional approach to be taken in the application of the Code. In addition, Hanover is required to make certain remuneration disclosures under the Basel Pillar 3 framework, as encapsulated in BIPRU 11.

Whilst appreciating the contribution that can be made by a remuneration committee, Hanover considers that such a body would not be proportionate to the size and complexity of the business. The role of setting remuneration policy (the "Policy") is undertaken instead by Hanover's governing body, with input and the monitoring of the application of the policy provided by the firm's Compliance Officer. The Policy is reviewed at least annually by the governing body, using all available information, for example risk metrics and financial performance reports.

Remuneration for Code Staff consists of fixed ('salary') and variable ('bonus') components. Salary is set in line with market rates in order to retain and if necessary, attract appropriately skilled staff. Bonus awards are performance related, taking into consideration both success in meeting individual targets, and the overall results of the firm, especially the accrual of success- related fee income. Individual targets will not relate solely to financial criteria, but will also look at skills acquisition, compliance with regulatory obligations, and adherence to effective risk management over both the short- and long-term time horizon. Bonuses will generally include a proportion to be deferred for later payment subject to certain conditions being met.

As awards will reflect the financial performance of the firm as a whole, based on profits rather than revenue or turnover, variable remuneration may be contracted where subdued or negative financial performance occurs in the time period in question. Hanover will not ordinarily make any variable remuneration awards should the firm make a loss. In exceptional circumstances where such payments may need to be considered to reward outstanding individual performance, the governing body in conjunction with the Compliance Officer will consider and document whether such an award would be consistent with the underlying principles of the Remuneration Code as implemented through the firm's Policy.

Hanover's business falls within one business area (advisory) and aggregate remuneration data is provided on a firm-wide basis. For the financial year ended 31 December 2019, aggregate remuneration awarded to senior management within the advisory business area was less than £1 million.