

Veritas Asset Management LLP ('VAM LLP')

Pillar 3 Disclosure

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

The FCA 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. This process is carried out via the Internal Capital Adequacy Assessment Process ('ICAAP'); and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position to enable clients, counterparties, service providers and other interested parties to assess this key information.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet the Pillar 3 obligations. BIPRU 11 permits certain disclosures to be omitted if the information is immaterial, regarded as proprietary or confidential and that such omission would not be likely to change or influence the decision of a reader relying on that information. Where information has been omitted, justification has been provided in this disclosure.

With effect from 1 January 2022, VAM LLP has become subject to the new Investment Firms Prudential Regime ('IFPR') and MIFIDPRU and is categorised as a Non-Small and Non-interconnected Investment firm ('Non-SNI'). The Firm's annual ICAAP will be replaced by the new Internal Capital Adequacy and Risk Assessment process ('ICARA'). The Firm has performed an assessment on how the IFPR will affect its regulatory capital requirements and have determined that the IFPR will not have a material impact the Firm's capital requirement. The ICARA process is similar to the ICAAP process and is designed to supplement the Firm's own funds and liquidity requirements and allow the Firm to identify, monitor, and, if relevant, mitigate all material potential harms that could result from the ongoing operation or winding down of its business. As a result, for the year of assessment 2021, the Firm has prepared an ICARA.

The new disclosure requirements for MIFIDPRU firms under IFPR, which are set out in MIFIDPRU 8, will replace the Pillar 3 requirements of BIPRU 11. This will therefore be the final Pillar 3 Disclosure Statement by VAM LLP and is made as soon as practicable after the publication of the annual report. The Partnership will reassess the need to publish some or all of the disclosures in light of any significant changes.

Scope and Application of the Requirements

Veritas Asset Management LLP and its subsidiary, Veritas Asset Management (Asia) Limited, (the 'Partnership') has been in existence since 31st October 2014 and arose following the acquisition of the Partnership's previous ultimate holding company, Veritas Asset Partners Ltd by Affiliated Managers Group Inc. ('AMG'). AMG is the ultimate corporate member of the Partnership and owns approximately 68% of the partnership through a UK holding company, VAM Bidco Limited, with the remaining 32% held by the managing partners and operating partners of the Partnership. The entities covered by this disclosure are as follows:

- Veritas Asset Management LLP ('VAM LLP') - A BIPRU limited licence investment management firm regulated by the Financial Conduct Authority ('FCA') licence number 627407. VAM LLP is also registered as an investment adviser in the U.S. by the Securities and Exchange Commission ('SEC') and regulated and authorised in South Africa by the Financial Sector Conduct Authority ('FSCA'). The entity is exempt from the requirement to hold an Australian financial services licence ('AFSL') under the Corporations Act 2001 (Cwlth) in respect of financial services, in reliance on Class Order 03/1099. The entity relies upon the International Dealer and International Adviser registration exemptions in Ontario, Canada and relies upon the international adviser registration exemption in Québec and Saskatchewan. VAM LLP is approved to manage Irish Funds by the CBI; and
- Veritas Asset Management (Asia) Limited ('VAM Asia') - investment management company regulated by the Securities and Futures Commission ('SFC') licence number AXP737.

The Partnership is consolidated under VAM Bidco Limited, a UK registered entity. The ICAAP focuses on the risks faced by the main regulated entities, VAM LLP and VAM Asia. There is no current or foreseen material, practical or legal impediment to the prompt transfer of capital resources or repayment of liabilities within the Partnership.

Governance Framework

The Partnership is governed by the Managing Partners Board ('MPB') who determines the business strategy and risk appetite. The MPB is also responsible for establishing and maintaining the Partnership's governance arrangements along with designing and implementing a risk management framework that recognises the risks of the business.

The MPB has delegated day-to-day management of the business to the Management Committee ('MC') which is chaired by the Chief Operating Officer ('COO').

The Partnership maintains a clear organisational structure and has organised itself in such a way as to maximise independence of functions and reduce internal conflicts by means of segregation of duties and reporting lines and/or by implementation of appropriate policies and procedures.

To assist the MC in managing the business, a corporate governance structure has been established with the following key committees:

- **Operating Committee** – meets monthly, chaired by the COO. Oversees the operating platform, identifies and monitors key operational risks of the Partnership;
- **Investment Committee** – weekly meetings held to discuss the investment strategy and decisions;
- **Investment Risk Committee** – quarterly meetings with a focus on analysing and monitoring portfolio risk for the investment strategies and provides the fund managers with additional risk analysis; and
- **Fair Value Pricing Committee** – convenes as and when required to ensure the trading function is operating effectively and fair pricing is determined where required.

The MPB and MC are satisfied that the corporate governance structure is designed to identify and monitor the key risks within the Partnership.

Risk Management

Sound risk management and control is an integral part of creating a sustainable business and delivering ongoing value for stakeholders. One of the foundations of a sound risk management and control framework is having an executive management team that distils a sound risk culture.

The MPB has adopted a control framework in keeping with its objective of having a structure in place to establish strong internal controls that minimise risk, promote efficient and effective work practices, and comply with the law and regulations.

A policy framework has been established to steer actions and decisions within the context of the risk framework. A suite of established policies aims to ensure the safe and sound conduct and control of the business.

In addition, on an annual basis, the Partnership commissions an independent firm of accountants to carry out a review of the processes, procedures and controls within the firm in accordance with the ICAEW Audit and Assurance Faculty Report on Internal Controls (AAFO1/20). This report is used for internal purposes and is also made available to clients of the Partnership.

Risk Appetite

The risk appetite for the Partnership is set annually by the MPB. All executives on the MPB are either portfolio managers or are involved in the day-to-day management of the business and take a prudent approach to risk management, which is reflected in how the business and client portfolios are managed.

Primary Risks

The MC and MPB assess the risks of the Partnership as part of the ICAAP process. The risks and harms have been determined assessed with potential risks identified, mitigating factors considered and residual risks assessed as follows:

Operational Risk – this is defined as the risk resulting from inadequate or failed internal processes, people and systems, or from external causes (deliberate, accidental or natural). The MC has put in place a number of policies and procedures to ensure that operational risk is mitigated and managed appropriately. The Operating Committee is core to the monitoring and management of these risks;

Credit Risk – Credit Risk represents the potential loss arising from an obligator's failure to meet the terms of any contract or otherwise perform as agreed. The risk depends upon the probability of a counterparty defaulting, the size of the exposure when the default occurs and the potential recovery amount. Clients are predominately large corporations, regulated funds and local government pension schemes and as such are not considered a high credit risk therefore this risk is minimal for the Partnership;

Market Risk - Market risk is the risk of loss arising from movements in market variables. Specifically to the Partnership, the market variables which may impact the capital position are foreign exchange risk from billed fees in currencies other than Sterling. The Partnership receives fees in Australian dollars, Canadian dollars, Euros and US dollars and as such is exposed to market fluctuations in the exchange rate. The Partnership does not participate in market speculation or long-term holdings in foreign currencies and has a robust process in place to ensure foreign currency balances are transferred into Sterling on an ongoing basis;

Liquidity Risk - The Partnership must comply with BIPRU 12 which states, amongst other things, that a firm must at all times maintain liquid resources which are adequate, both as to amount and quality, to ensure there is no significant risk that its liabilities cannot be met as they fall due. The Partnership holds the majority of assets as cash held at a reputable high street bank which is readily available with no prior notice required for withdrawals. Cash flow analysis is performed by the COO at regular intervals to assess liquidity needs; and

Business Risk – Similar to other small asset managers the business faces key man risk in particular with the managing partners who manage the portfolios. The MPB is aware of this risk and are addressing ways to mitigate the risk with succession planning and appropriate long-term incentive plans.

Other risks including legal risk and regulatory risk were discussed by the MC and were not considered material. Furthermore, insurance risk, residual risk, pension obligation risk, securitisation risk, concentration risk, group risk and risk of excessive leverage were also discussed by the MC and were not considered applicable.

Under the ICARA process, the risks and harms have been assessed considering the harm to clients (RtC), firm (RtF) and the market (RtM) with potential risks identified, mitigating factors considered and residual risks assessed as follows:

Risk to clients (RtC) - RtC covers risks carried by an investment firm during its services, actions or responsibilities, which could negatively impact its clients. For many investment firms, failure to carry out its services or operations correctly will be the most important risks they need to manage. The negative impact this failure could have on the Firm's clients may be substantial. The key RtC for VAM LLP is managing investments for segregated clients and pooled vehicles. Under the ICARA process the K-factor relevant to VAM LLP is K-AUM Assets under Management (K-AUM). The Firm adequately meets the capital requirements of K-AUM, which will be disclosed under the requirements of MIFIDPRU 8 in 2023. Operational Risk has been identified as RtC.

Risk to firm (RtF) -RtF is intended to capture risks to an investment firm's solvency from its trading activity and market participation. The key RtF for VAM LLP as boutique asset manager is Business Risk (in particular, key man risk). Other RtF is credit risk, market risk and liquidity risk.

Risk to market (RtM) - RtM covers the risk associated with the impact an investment firm could have on the markets in which it operates, and on trading counterparties. For example, if an investment firm exits a trading venue or an over-the-counter market in a disorderly way, the functioning of that market and its participants could be negatively affected. RtM is managed through Best Execution processes – to date, there have been no instances where trading activities of VAM LLP have impacted the market.

Internal Capital Adequacy Assessment Process / Internal Capital Adequacy and Risk Assessment Process

The ICAAP/ICARA is embedded into the day-to-day management of the Partnership. On an annual basis the assessment is documented and the capital adequacy of the Partnership is formally reviewed and approved by the MC and MPB.

A number of factors have been considered in the capital assessment. The current business plan has been reviewed in conjunction with the risks faced by the business and the risk framework designed to manage those risks. The MPB has also reviewed the results of a number of stress testing scenarios to ensure the business plan is robust and could withstand a number of market fluctuations.

Further, the Partnership has undertaken a reverse stress test to explore where the business model may be vulnerable under extreme circumstances and in doing so has considered a wide range of potential threats across all risk types which may make the business unviable.

Dovetailing with the reverse stress testing, a wind-down assessment has been appraised to understand the requirements should such a situation occur.

Capital Adequacy

The ICAAP assessment for the Partnership indicates a capital requirement of £4.0m which is the sum of credit and market risk calculated under Pillar 1. The capital requirement is the higher of Pillar 1, Pillar 2 and the orderly wind-down assessment as shown in Table 1.1.

The capital assessment is compared with the available regulatory capital resources as of 31st December 2021 and results in a capital surplus of £3.9m.

Pillar 1 Capital Requirement

The calculation for Pillar 1 capital is prescribed by the FCA and denotes the minimum capital requirement for a UK regulated firm. Pillar 1 is the higher of i) base own funds requirement; ii) the sum of market and credit risk capital requirement; or iii) the Fixed Overhead Requirement ('FOR').

For the Partnership, the largest capital requirement under Pillar 1 is the sum of market and credit risk.

Pillar 2 Capital Requirement

Pillar 2 capital requirement is an internal assessment of the risks facing the business and the effectiveness of the systems and controls to manage those risks. Capital is held to ensure the Partnership can withstand any losses identified through the robust process. The Pillar 2 capital assessment was documented during the third quarter of 2022 however is an ongoing process to assess the risks faced by the Partnership.

For the Partnership, Pillar 2 represents market risk, credit risk and operational risk however the internal assessment resulted in a lower capital requirement when compared with Pillar 1 therefore the Pillar 1 capital requirement was adopted.

The capital resources as at 31st December 2021 are £7.9m. The Partnership is adequately capitalised and meets the minimum capital requirements under Pillar 1 for a BIPRU limited licence firm.

	GBP m
Capital Resources	
Tier 1 Capital (Partnership Interests)	7.9
Total Capital	7.9
Capital Assessment	
Pillar 1 - Higher of:	
Base Capital Requirement*	0.0
Credit Risk & Market Risk	4.0
Fixed Overhead Requirement	2.8
Pillar 2 Capital Requirement	2.3
Credit Risk & Market Risk	2.2
Operational Risk	0.1
Regulatory / Business / Other	0.0
Wind-down Assessment	2.5
Total Capital Required	4.0
Capital Resources	7.9
Surplus Capital	3.9
*EUR 50k at year end FX rate	
Table 1.1	

Remuneration

Veritas Asset Management LLP is classified as a Proportionality Level 3 firm in accordance with the FCA Remuneration Code ('Remuneration Code'). The Partnership has constituted a Remuneration Committee which is responsible for setting the Remuneration Policy Statement ('RPS') and overall remuneration philosophy and objectives of the Partnership.

The Remuneration Committee comprises of members of the MPB and is chaired by the Non-Executive Chairman. The Head of HR attends the Remuneration Committee as an adviser. The Remuneration Committee formally meets three times per year. Ad-hoc meetings of the Remuneration Committee can be convened throughout the year.

Our policy is designed to ensure that we comply with the Remuneration Code and our compensation arrangements:

- Are consistent with and promotes sound and effective risk management;
- Do not encourage excessive risk taking;
- Include measures to avoid conflicts of interest; and
- Are in line with the Partnership's business strategy, objectives, values and long-term interests.

The Partnership has identified its Code Staff for the financial year ended 31 December 2021 comprising those fulfilling controlled functions, those who are deemed risk takers, senior management and those who earn more than EUR 500,000 in a financial year (to the extent they are not covered under controlled functions, senior manager or risk takers). The total remuneration costs (including salary, pension costs, discretionary/contractual bonuses and partnership profit share) for Code Staff for the year ended 31 December 2021 represented over 90% of total remuneration. The disclosure of further information on remuneration costs is limited by the provisions set out in BIPRU 11.5.20R. The philosophy that the Partnership follows is to pay its staff competitive fixed salaries and benefits, with variable remuneration being linked to the performance of the individual (via a documented appraisal process) and the Partnership. Portfolio managers have formulaic contractual arrangements which are linked to the net profit and loss of the Partnership.