CAPITAL REQUIREMENTS & RISK MANAGEMENT
PILLAR 3 DISCLOSURE POLICY

Part 1.	**Overview of the Disclosure requirements**

1.1 Introduction

The European Union Capital Requirements Directive (EU CRD) was introduced in January 2007 to ensure consistent capital adequacy standards and a supervisory framework in the EU. Murray Asset Management UK Limited (MAM) is subject to the EU CRD.

As part of the EU CRD requirements we are required to have in place a Pillar 3 Disclosure Policy detailing how we satisfy the Financial Conduct Authority (FCA) disclosure requirements that are applicable to our business. This disclosure is prepared in conjunction with the annual Statutory Accounts for MAM covering the financial year ended 31 March 2018.

1.2 Pillar 3 Disclosures

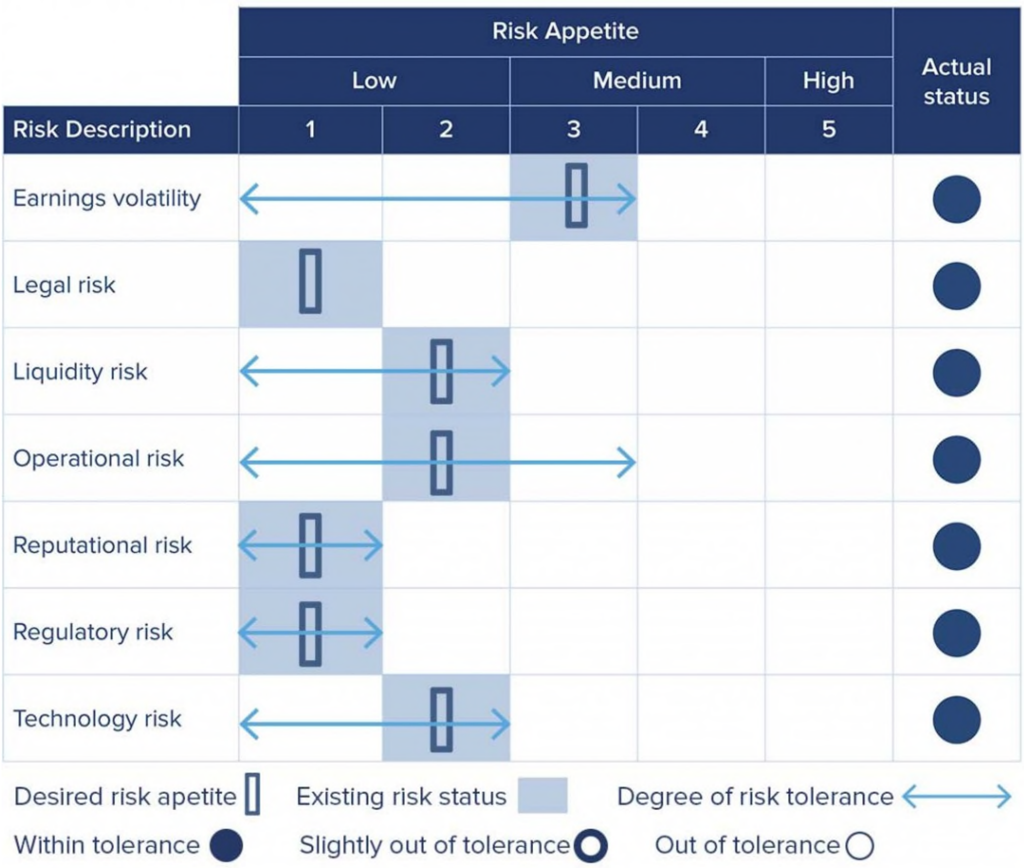
The format, content and basis of our disclosure is reviewed and ratified by the MAM Board and reviewed annually.

This full disclosure is not included in our Accounts but is available on our website www.murrayasset.co.uk

Part 2.	**Risk Management Objectives and Policies**

2.1 Risk Appetite

The MAM Board defines risk appetite as representing the amount of risk it is prepared to accept, tolerate or be exposed to at any point in time in the context of its business model and in the course of achieving its business objectives.



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2.2 Applicable Risks as defined by the FCA

Given the nature of our business model, we are not exposed to all of the defined risks which the FCA require to be reported in a firm's Pillar 3 Disclosure.

Operational Risk is relevant to our business model, objectives and strategy. Operational Risk is defined by the FCA as '*the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk*'.

Accordingly, risk tolerance thresholds are set for material and quantifiable operational losses for certain activities which are core to the achievement of our business objectives.

2.3 Overview of the integration of risk appetite into the business

Risk appetite is integrated into the business through our Risk Management Framework including the Internal Capital Adequacy Assessment and our Risk Universe processes. These enable the Board to set the parameters within which it requires the business to operate and how performance will be monitored. The process streams are illustrated below:

Board
Sets business objectives, budgets, targets and limits - taking into account management information from the three main processes below.

⇧ ⇧ ⇧

Business Planning Process	⇔	**Capital Planning Process**	⇔	**Risk Management Process**
Underpinned by key representatives from each business area contributing to business development.		Underpinned by financial monitoring and regular reporting.		Underpinned by a Risk Universe monitoring, measuring and managing all risks to the business.

2.4 Communication of the risk appetite to the business

As part of the business planning process, the risk appetite is communicated to senior managers by the Chief Executive annually. Measurements of earnings, capital adequacy and regulatory compliance and all relevant key performance indicators are included in the monthly report to the Management board.

The Chief Executive communicates the firm's business plan and previous year's performance to all staff annually.

Individual authorisations, limitations and responsibilities are set within the context of the firm's overall risk appetite and are clearly defined, documented and communicated to employees via appropriate policies. Any types of loss for with the firm has a zero tolerance are reported directly to the Chief Executive.

2.5 Measurement and reporting of risk

The firm has in place a global Risk Universe which identifies all risks to the business. Risks are broken down into defined groups, these being Operational, Regulatory, Client Assets, Financial and Reputational.

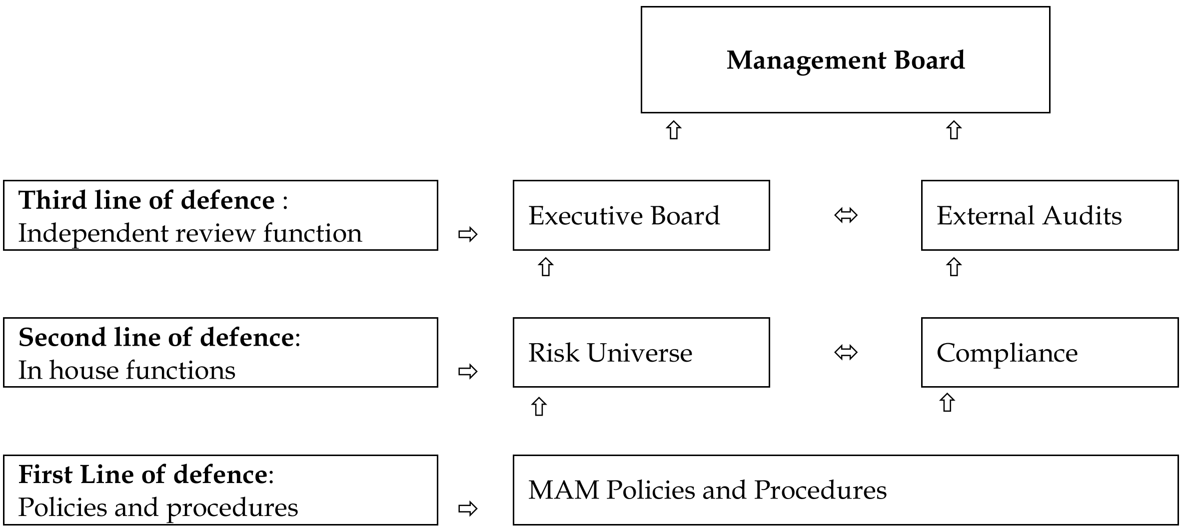
Risks are scored on the strength of controls that are in place and the likelihood of the risk materialising. They are monitored on a red, amber, green process with red and amber risks reported in the monthly Management Board papers.

The Risk Universe is broken down into specific business areas, each risk is allocated an owner, and provides the current status of all risks in order that these can be measured against the firm's risk appetite.

For quantifiable risks, key performance indicators are measured and reported monthly to the Management Board where absolute measurements of performance are shown against a pre-defined benchmark. Relative measurements are based on trend information to provide early warning indicators that the firm's risk appetite may be close to being breached.

2.6 Risk Management Framework

2.6.1 <u>Overview</u>
MAM operates the following risk governance structure which incorporates 'three lines of defence' to manage risks within the business.



The first line of defence is the responsibility of the Senior Management in each business area who have responsibility for identifying, monitoring, managing and reporting risks. To facilitate this, the firm has in place policies and procedures that are communicated as appropriate.

The second line of defence comprises the Risk Universe and Compliance.

The third line of defence comprises the Executive Board and external audits as undertaken from time to time. The Executive Board is comprised of the Compliance Officer/Chief Executive and three independent non- executive Directors. Reports are submitted quarterly to the Executive Board from the Compliance Director, Operations Director, Financial Planning Director and the Chief Investment Officer.

2.6.2 <u>The Executive Board and Management Board</u>
The Executive Board, which meets quarterly, is responsible for overseeing business progress and managing risk and comprises of 2 Executive Directors and 3 Non Executive Directors.

The Management Board, which meets monthly, is responsible for the day to day operations of the business and day to day risk management against the tolerances set by the Executive Board. The Management Board comprises the two Executive Directors of the firm and three senior managers.

2.6.3 <u>The Executive Board</u>
The Executive Board is chaired by the Compliance Officer and is responsible for oversight of operational risk management. The committee is responsible for the ongoing identification, monitoring, managing and reporting of risks documented in the Risk Universe or those specific to particular on going project work.

2.6.4 <u>External Audits</u>
Periodically the firm will engage focussed external audits to gain an external and independent measure of its risk management, policies and procedures. Annually the firm will engage an external audit of the firm's compliance with the FCA Client Assets rules.

2.6.5 <u>The Risk Universe</u>
The Risk Universe is broken down into specific business areas and is agreed between compliance and senior management within each business area.

2.6.6 Compliance

Compliance prepares an annual compliance report and plan in addition to performing routine compliance monitoring which is agreed with the Management Board in advance each year. This plan includes an assessment of the firm's systems and controls in order to ensure compliance with all FCA Rules that apply to the business. The firm maintains a compliance manual, a Treating Customers Fairly policy, and a conflicts policy and performs regular risk assessments against these.

2.6.7 Policies and Procedures

The firm has in place appropriate senior management arrangements, structures, reporting and monitoring systems together with the necessary financial, operational, HR, IT and commercial policies, procedures and systems. Operational policies and procedures are documented and communicated.
Adherence to relevant policies and procedures is inbuilt to the role profiles of all employees and monitored through the performance review process.

2.7 Risk Exposures

2.7.1 Credit risk

Credit risk is the risk that unexpected losses may arise as a result of the firm's clients or banks failing to meet their financial obligations. The business accepts that in times of financial downturns, clients may take longer to pay fees and there may be the possibility of default.

The firm deposits funds with the National Westminster Bank plc. The financial status of the Bank is routinely monitored and triggers have been established to alert the Management Board to any significant changes which may impact on our perceived risk of banking with them.

2.7.2 Market risk

Market risk is the risk of any impact on the firm's future cash flows due to significant market movements caused by market variables such as interest rates, share prices etc. MAM does not deal on its own account and, therefore, there is no Pillar 1 requirement placed on the firm for this risk.

However, a significant proportion of our fee income is dependent upon market values. Exceptional price falls and economic downturn affecting the financial markets may have a material impact on the firm's fee income. In such circumstances the firm has reserves and would also consider other avenues to reduce costs without impacting on its ability to provide services in a compliant manner.

2.7.3 Operational risk

Operational risk is the risk to the firm resulting from inadequate or failed internal processes or external events, for example, regulation. It also includes legal and fraud risks. All firms subject to the EU CAD are required to calculate under Pillar 1 their 'Fixed Overheads Requirement' (FOR). The firm's Pillar 1 operational risk is based upon its business plan for the following year and equates to one quarter of the firm's relevant annual expenditure. In addition to this, firms are required to assess the actual level of additional risk not covered by the FOR to determine whether additional capital should also be set aside.

In general, the firm seeks to mitigate operational risk by implementing robust controls in accordance with its risk appetite.

2.7.4 Liquidity risk

Liquidity risk is the risk that the firm will be unable to meet its financial commitments as they fall due. The main source of liquidity risk would be non payment of fees by clients as they fall due. The risk is managed by the recovery of fees directly from the portfolios being managed. The risk is also addressed by the firm holding its own assets mainly in cash and the option to maintain a stand-by bank overdraft facility. The firm monitors liquidity on a monthly basis and reports the position to the Management Board

2.7.5 Reputational risk

Reputational risk is the risk that the firm's reputation could be damaged. The firm's success depends upon maintaining the reputation it has earned over the years. Future development and expansion goes hand in hand with a commitment to provide a high quality, cost effective service using skilled and competent staff.

The firm has various controls in place such as a robust recruitment policy, a structured training and competence scheme and on going investment in up to date systems.

2.7.6 Business risk

Business risk is the exposure of the firm to prolonged economic downturn or significant financial loss arising from changes in the firm's business model or strategy, including the risk that the firm may not be able to carry out its business plan or strategy. The firm's long term business plan does not include any significant changes to its core business of investment management and financial planning. The firm believes it is well positioned in the marketplace to withstand any competitive pressures. This has been considered further as part of the firm's ICAAP.

2.7.7 Third party and outsourcing relationships

The firm has an outsourcing relationship with Murray Beith Murray for the provision of HR, IT and Cashroom services. Other relationships include the firm's banking arrangements. The firm conducts annual reviews of the service providers to assess their performance against agreed service levels.

Part 3. Scope of application and Capital Resources

MAM is the subject of these disclosures and submits reports for accounting and prudential purposes to the FCA on an unconsolidated basis.

3.1 Introduction

MAM measures its capital resources on both a regulatory and economic basis. Regulatory capital covers the total capital resources the firm is required to hold under the FOR requirement. Economic capital includes all other material risks that do not require the provision of regulatory capital (known as Pillar 2 risks) in addition to the total capital resources requirement. MAM has identified the material financial risks arising from its activities and has in place procedures to manage these in accordance with its risk appetite. This process is detailed in the firm's ICAAP, prepared in accordance with FCA requirements and it is reviewed and ratified annually (or more frequently if required) by the Management Board.

3.2 Total capital

MAM's capital falls within the definition of Tier 1, 2 and 3 capital in the FCA rules. The capital comprises issued share capital, retained profit and loss account and audited reserves.

3.3 Capital Requirements

The ICAAP applies to MAM as a IFPRU Limited Licence Firm subject to the FOR as part of its Pillar 1 capital requirement. The ICAAP takes the firm's FCA defined Pillar 1 capital requirement and adds to it for additional Pillar 2 elements where these remain material after risk mitigation. The firm ensures that a capital surplus is maintained at all times to satisfy the Management Board's requirements.

3.3.1 Key Person Risk

Key person risk is the risk that a senior management team member may leave unexpectedly, leaving the firm with a vacancy that it is unable to cover in a reasonable timescale. In such circumstances a suitable replacement would have to be hired on a high cost, temporary basis pending a permanent replacement. The firm has taken steps to mitigate this risk by putting in place detailed cover plans and competent deputies who would be capable of covering a vacancy on a temporary basis. The firm has allocated additional capital against this risk.

3.3.2 Operating Risk

Losses associated with operational issues are kept under constant review by the Management Board. The firm has calculated its tolerance levels for operational losses and maintains excess capital in the event that this tolerance level should be breached. In addition, the firm has assessed the costs of an orderly wind down of the business and excess capital has been allocated against this.

3.3.3 Residual Risk

Residual risk is the risk that the mitigation controls used by the firm are not as effective as expected. To date, the firm has no experience of material risks being realised and the Management Board considers the existing controls are sufficient.

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3.4 Summary Position

Throughout the year MAM has complied with the FCA capital requirements. The following table shows the breakdown of the total capital available for the firm as at 31/03/2018.

Breakdown of capital	**31 March 2018**
Core Tier 1 Capital	**£2,076,265**
Permanent share capital	£8,840
Share premium account	£27,760
Profit and loss and other reserves	£2,039,665
Tier 2 Capital	**£0**
Tier 3 Capital	**£0**
Total Capital	**£2,076,265**
Total Variable Capital Requirement	£374,855
Total Capital excess	**£1,701,410**
Regulatory capital % of minimum capital requirement	**454%**

Part 4. Compliance with the Pillar 2 rule

4.1 Disclosure on the overall Pillar 2 rule

MAM has adhered to the overall Pillar 2 rule to ensure that it maintains sound, effective and complete systems, controls and strategies:

(1) to assess and maintain on an ongoing basis the amounts, types and distribution of financial and capital resources and internal capital that it considers adequate to cover:

(a) the nature and level of risks to which it is or might be exposed;
(b) the overall financial adequacy requirements;
(c) the risk that the firm may not be able to meet its Capital Resource requirements; and

(2) that enable it to identify and manage the major sources of risk referred to in (1), including the major sources of risk in each of the following categories where they are applicable to the firm given the nature and scale of its business:

(a) credit risk;
(b) market risk;
(c) liquidity risk;
(d) operational risk;
(e) insurance risk;
(f) concentration risk;
(g) residual risk;
(h) securitisation risk;
(i) business risk;
(j) interest rate risk;
(k) pension obligation risk; and
(l) group risk

Part 5. Compliance with FCA Remuneration Policy

5.1 Decision-making process for remuneration policy

The Executive Board is responsible for approving remuneration policy and in doing so takes into account the pay and conditions across the firm and general market salaries. The Executive Board seeks to preserve shareholder value by ensuring the successful retention, recruitment and motivation of employees.

6.1.1 Code Staff

The Executive Directors and Senior Managers have been identified as Code Staff.

5.2 The link between pay and performance for Code Staff

Remuneration is made up of fixed pay (i.e. salary), pension contributions and discretionary bonuses. Such bonuses are calculated after the annual accounts have been finalised and are discretionary; but take into account any adverse key performance indicators generated by individuals or, for senior managers responsible for business areas, by members of staff for which they are responsible. Bonuses, if paid, are linked to the firm's performance as a whole and are not linked to indicators that could encourage employees to take risks or generate adverse outcomes for clients.

5.3 Aggregate remuneration for Code Staff

Aggregate remuneration expenditure including social security and pension costs in respect of Code Staff was as follows:

Number of Code Staff	5
Aggregate total remuneration	£659,545

There were no deferred remuneration awards, paid out or reduced, during the financial year.

5.4 Sign on and severance payments

There were no sign on or severance payments awarded during the financial year.