



Milltrust International LLP Pillar 3 Disclosures May 2020

# Milltrust International LLP Pillar 3 Disclosures

## Year ended 31 March 2020

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## Milltrust International LLP Pillar 3 Disclosures May 2020

### 1. Introduction

#### 1.1 Purpose

The purpose of this document is to set out the Pillar 3 Disclosures for Milltrust International LLP.

#### 1.2 Background and regulatory context

The Basel II Accord, implemented in the European Union through the European Capital Requirements Directive ('the Directive', or 'CRD') establishes a revised regulatory capital framework across Europe governing the amount and nature of capital that must be maintained by credit institutions and investment firms. In the United Kingdom, the Directive 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. These comprise: base capital resources requirements; credit risk and market risk capital requirements; and the fixed overhead requirements;
- Pillar 2 requires that firms undertake an overall assessment of their capital adequacy, taking into account all risks to which the firm is exposed and whether additional capital should be held to cover risks not adequately covered by Pillar 1 requirements;
- Pillar 3 complements Pillar 1 and 2 and requires firms to disclose information on their capital resources and requirements, risk management framework and remuneration policy.

BIPRU 11 sets out the provisions for Pillar 3 disclosure. This document is designed to meet the Pillar 3 obligations of Milltrust International LLP (herein referred to as "Milltrust" or the "Firm").

#### 1.3 Disclosure Policy

The FCA's BIPRU 11 rules set out the requirements for Pillar 3 disclosures and permit non-disclosure of information considered by the Partners to be immaterial, to the extent that any such non-disclosure would be unlikely to change or otherwise influence decisions made by a reader relying on such non-disclosed information. The BIPRU 11 rules additionally permit non-disclosure of information of a proprietary and/or confidential nature. Propriety and confidential information includes non-public information that is confidential and/or propriety to the Company and/or to parties with whom the Company transacts business with. Disclosure of information that would prove detrimental to the Company's competitiveness would also constitute confidential information.

Additional disclosures will be made should Milltrust's Partners deem it necessary as a result of any material change to the Firm's scale of operations or range of activities or where the Partners of the Firm is otherwise of the opinion that the impact of events requires disclosure, in accordance with the provisions of BIPRU 11.

The disclosures have been compiled to explain the basis of preparation and disclosure of certain capital requirements and provide information about the management of certain risks and for no other purposes. They do not constitute any form of audited financial statement and have been produced solely for the purposes of Pillar 3. They should not be relied upon in making judgements about the Company. The disclosures will only be subject to external verification to the extent that they are equivalent to those made under accounting requirements.

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### 2. Corporate Background

Milltrust is a Limited Liability Partnership registered in England and Wales (Company Number OC344800) since 8<sup>th</sup> April 2009. Its registered office is at 5 Market Yard Mews, 194-204 Bermondsey Street, London, SE1 3TQ and its place of business is at 6 Stratton Street, London, W1J 8LD. It has been authorised and regulated by the FCA since 4 January 2010. Milltrust manages and advises platforms for (i) Emerging Markets Funds and (ii) Agricultural and other private equity for institutional investors. The core underlying investments are:

- (i) Property related assets for rental or development.
- (ii) Investments in emerging markets equity funds
- (iii) Investments in private unlisted companies

There are four designated partners, and these Principals form the Governing Body:

1. Eric Anderson
2. Alexander Kalis
3. Gary Thornton
4. Milltrust International Group (Singapore) Pte. Ltd

Milltrust International Group (Singapore) Pte. Ltd owns 97% of Milltrust International LLP.



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### 2.1 Business Model

Milltrust, a BIPRU €50K Limited Licence Firm, acts as an investment manager and adviser. It does not hold or control client money. The Firm may only deal on an agency or riskless principal basis with clients and affiliated Group entities. Accordingly, Milltrust does not deal for its own account or underwrite issues on a firm commitment basis. The Firm is not subject to consolidated reporting within the EU with other entities.

Milltrust's target client base is professional institutions and investors. Milltrust manages a fund of Emerging Markets equity funds which invest indirectly in listed equities, two agricultural buy and lease funds which hold Property related assets for rental income and development, a private equity fund investing in unlisted UK companies, and a further private equity fund that invests in development properties.

The Firm has two key clients, where it provides investment management, advisory, promoter, distribution and platform services.

- (i) Milltrust International Investments SPC (Cayman mutual fund) comprising five equity funds, launched in February 2020.
- (ii) Milltrust International Managed Investments ICAV (An Irish Qualifying Investor Alternative Investment Fund (QIAIF) comprising one fund of funds, one equity fund, two agricultural (buy and lease funds), and one private equity fund.

A BIPRU firm must maintain at all times capital resources equal to or in excess of the capital requirement. The variable requirement for a BIPRU Limited Licence Firm is the higher of the credit risk capital requirement and the market risk capital requirement, or the Fixed Overhead Requirement (FOR) (i.e. one quarter of the firm's relevant fixed expenditure). A BIPRU firm must maintain at all times capital resources equal to or in excess of the variable requirement.

### 3. Risk Management

The Governing Body of Milltrust forms the Risk Committee of the Firm, and accordingly has the responsibility of approving:

- The Risk Appetite, in terms of parameters and tolerances;
- The Risk Matrix or Register for identifying and monitoring Risk;
- The Risk Management Policy for the application of Risk Management.

#### 3.1 ICAAP

Milltrust's Individual Capital Adequacy Assessment Process (ICAAP) methodology is designed to capture the key risks faced by the business under Pillar 2. Milltrust reviews its ICAAP methodology at least annually.

When considering adverse ICAAP scenarios, the Firm incorporates downside testing of the impact of a reduction in future revenue. The Firm considers a wind-down analysis which looks at whether it would be required to hold additional capital over the period it would take to wind up the business.

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### 3.2 Risk Categories and Definitions

As part of its ICAAP process, Milltrust identified the key categories of risk that it faces. The Firm has identified 9 Risk groups as being key to the operations of the Firm:

- |                     |                                 |
|---------------------|---------------------------------|
| 1. Advisory Risk    | 5. Distribution Risk            |
| 2. Market Risk      | 6. Business & Strategy Risk     |
| 3. Credit Risk      | 7. Capital & Liquidity Risk     |
| 4. Operational Risk | 8. Key Individual Risk          |
|                     | 9. Compliance & Regulatory Risk |

The Firm has incorporated the above risk groupings into its Risk Matrix and applied a scoring to quantify the risks identified within the business.

#### 3.2.1 Advisory Risk

The primary function of Milltrust has been the provision of advice in emerging markets, on which their fees are based. Milltrust believes that any Risk in this area, is mitigated by the experience of the Designated Partners and their sub-advisors, accordingly, they have not allocated any capital here.

#### 3.2.2 Market Risk

Market risk is defined as the risk of adverse movements of markets, and in relation to Milltrust this would consist of the following:

- Milltrust is exposed to market movements as a market downturn will have an impact on the value of funds advised and accordingly, performance fees and advisory fees would be affected.
- Milltrust is exposed to foreign exchange due to its fees being principally denominated in US Dollars and Euros whilst the functioning currency of Milltrust is Sterling.
- Milltrust is exposed to its investment in Milltrust Agricultural Investments Limited which provides research on Australasian farms and UK innovation companies.

On the basis of the above, Milltrust has allocated capital for Market Risk, which has been computed in accordance with BIPRU 7.5, as follows:

<b>Accrued income - Management fees (Market Risk)</b>		<b>67,994</b>
<b>Total</b>		<b>67,994</b>
	<b>8%</b>	<b>5,440</b>

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### 3.2.3 Credit Risk

The Firm holds neither client money nor client assets. The Firm's exposure to Credit Risk is the risk that investment management or investment advisory fees are not paid and its exposure to banks where surplus cash is deposited. The Firm's cash is with OCBC and Metro, which have high credit ratings. Notwithstanding this, Milltrust applies a standardised approach to credit risk, applying 8% to Milltrust's risk weighted exposure amounts.

Credit Risk Component	Exposure	Risk	Weighted
Cash at Bank and in Hand	146,888	20%	29,378
Total Other debtors	384,422	100%	384,422
Accrued income *	3,814	100%	3,814
Prepayments	83,914	100%	83,914
<b>Total</b>	<b>619,038</b>		<b>501,528</b>
<b>Credit Risk Component</b>		<b>8%</b>	<b>£40,122</b>

Milltrust exposures are monitored and reported monthly.

\* Net of items in operational risk below

### 3.2.4 Operational Risk

Operational risk includes those risks or events that could impact Milltrust's people, processing and technology in such a way as to impact the achievement of Milltrust's goals and objectives. Systems, internal controls and human resources are in place to mitigate exposure to operational risk.

Accrued income - Management fees	67,994
Accrued income - Advisory fees	57,091
Accrued income - Platform fees	51,820
<b>Total</b>	<b>176,905</b>
	<b>8%</b>
	<b>14,152</b>

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### 3.2.5 Distribution Risk

Distribution risk relates to the adherence of the rulings of MiFiD 2, as transposed under PROD in the FCA Handbook, which came into effect 3<sup>rd</sup> January 2018.

Milltrust has a distribution agreement with the two Funds for whom it advises, and in accordance with MiFiD Milltrust has not allocated any extra capital to Distribution risk.

### 3.2.6 Liquidity Risk

Liquidity risk is defined as the risk that a firm, although solvent, either does not have available sufficient financial resources in readily realisable funds to enable it to meet its obligations as they fall due, or is able to secure such resources only at excessive and/or punitive cost.

Longer-term receivables are listed below, and form the components on which liquidity risk is determined:

<b>Milltrust Agricultural Investments</b>		<b>0</b>
<b>Milltrust International Group</b>		<b>28,429</b>
<b>Total</b>		<b>28,429</b>
	<b>8%</b>	<b>2,274</b>

### 3.2.7 Business Risk

Business risk is defined as the uncertainty in revenues due to unforeseen changes in the competitive and regulatory environment. The Governing Body defines Business Risk as the current or prospective risk to earnings or capital due from changes in the business environment and from adverse business decision making or improper implementation of strategic planning.

To ensure adherence with the Board mandated risk appetite a framework of Key Performance Indicators and tolerances is monitored by the Board and Management team allowing corrective or remedial actions where necessary. Any subsequent impact upon budgetary forecasts and capital planning is assessed and considered within the overall business strategic objectives.

The current uncertainty around Brexit, combined with the restrictions on effective negotiation due to COVID-19, and the ideological stance of the current government puts a 'hard Brexit' as the most likely outcome at this point.

In this hard Brexit scenario, the key impact to Milltrust International LLP would be their inability to manage or advise Irish authorised funds under the passporting regime. On the other hand, for the Milltrust Funds, there may be the inability to delegate advisory, investment management and risk management functions to Milltrust International LLP, although Memoranda of Understanding in the event of a no-deal Brexit between the EU securities regulators and the UK Financial Conduct Authority (FCA) were agreed on 1 February 2019 which resolves this matter for the short to medium term. In the longer-term, however, the position remain uncertain whilst there is still no final withdrawal agreement.

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Depending on the outcome, contingency actions may include (i) establishing a branch or entity within the EU (e.g. Ireland), or (ii) extending the existing scope of the Irish AIFM's services to cover activities that Milltrust would no longer be able to provide. The Governing body of Milltrust is continually monitoring events, as is the entire UK Investment and Advisory community from a contingency position. A separate Brexit Impact Assessment has been prepared and is updated periodically.

The impact of the COVID-19 pandemic has been assessed as far as possible as at the date of this document. Although the initial indications (from individual COVID-19 assessments carried out) are that the funds advised or managed by the Firm have not experienced a significant impact from the economic and social effects of the pandemic, the longer term outlook may be less certain, once the real financial cost to business can be measured, timing for lifting restrictions and economic outlooks for a recovery are in place.

For the Firm, the impact is likely to be seen in:

- (i) Investor confidence, restricting the ability of the Firm to raise new assets
- (ii) Longer term performance, maintaining confidence of existing investors
- (iii) Ability of private equity investments to meet capital raising targets to secure their valuations and stability

<b>Milltrust Agricultural Investments</b>		<b>0</b>
<b>Milltrust International Group</b>		<b>28,429</b>
<b>East India Capital Management</b>		<b>0</b>
<b>Total</b>		<b>28,429</b>
	<b>8%</b>	<b>2,274</b>

### 3.2.8 Capital Risk

Milltrust has no borrowings, it is funded by its Partners. Milltrust calculates and reports its capital resources and capital requirements in accordance with current FCA regulations. The following table presents a summary of both capital resources and the capital requirements for the Firm based on the audited financials of the Firm.

In accordance with GENPRU 2.1.45R (calculation of variable capital requirement for a BIPRU firm), the Firm's Pillar 1 capital requirement is determined as the higher of the Fixed Overhead Requirement or the sum of credit risk and market risk capital requirements.

The Firm's capital position and regulatory capital requirements are set out below:

<b>CAPITAL RESOURCES</b>	<b>31/03/2020</b>
Tier 1, 2, 3 Capital after Deductions	361
Credit risk & market risk	46
Fixed Overhead Requirement	144
Surplus capital over Pillar 1 Requirement	217
Solvency ratio (%) (Total capital resources / Fixed Overhead Requirement)	251%

Milltrust considers that it has sufficient capital to cover all relevant risks.

**3.2.9 Key Individual Risk**

Key Individual Risk is the loss of Key Individuals within the business which may have a material impact on growth, business development and reputation.

The Key Individuals within Milltrust are all Designated Partners and accordingly are incentivised by their profit share. They operate on a collegiate basis, and have worked together for some time both within Milltrust and in previous enterprises.

Milltrust has not allocated any extra capital to Key Individual Risk.

#### 4. Remuneration Disclosures

Under the FCA's remuneration code, Milltrust is classified as a Tier 3 firm, which allows it to proportionately apply the Code's rules and principles.

In setting its remuneration policy, the Firm aims to;

- attract, motivate and retain high calibre partners and employees;
- offer a policy that is aligned with the risk management practices of the Firm and avoids conflicts of interest;
- avoid any remuneration structure from encouraging inappropriate risk taking, including ensuring that an appropriate balance exists between fixed and performance-based components;
- operate a fair and consistent policy that rewards individual contributions to Milltrust's overall performance; and
- be competitive with industry standards.

##### 4.1 Code Staff

The Remuneration Code requires the Firm to consider its processes and procedures for personnel whose activities have a material impact on the Company's risk profile (Code Staff). The Firm recognises the responsibility Code Staff have in driving its future success and delivering value for its members and that remuneration is a key component in motivating and rewarding these staff. Code Staff remuneration is based on competitive market-based wages that fairly compensate employees in view of skills provided, work performed and responsibility undertaken.

As at 31st March 2020, 3 employees were identified as being Code Staff, the criteria being that they all fell within any or all of the following:

- Partners;
- Heads of significant business lines;
- The Head of Risk;
- The Head of Compliance;
- The Head of Finance.

##### 4.2 Aggregate quantitative information on remuneration for Code Personnel

Milltrust is a limited liability partnership; partners are entitled to a share of distributable profits according to their profit share percentages as set out in the Partnership Agreement and their Individual Terms.

	<b>2020</b>
Total number of code staff during the year	3
Total fixed remuneration	326,000
Total variable remuneration*	62,118
<b>Total Remuneration</b>	<b>£ 388,118</b>

\* Represents fee commission