

## **Kempen Capital Management (UK) Ltd**

### **Pillar 3 disclosures**

#### **Overview**

Kempen Capital Management (UK) Ltd (“Kempen”) is authorised and regulated by the Financial Conduct Authority (“FCA”). The FCA is responsible, in the United Kingdom, for the implementation of the 2006 Capital Requirements Directive of the European Union. This Directive established a new regulatory capital framework for the financial services industry.

The new framework comprises of three separate pillars:

- Pillar 1 sets out the minimum capital levels that the business is required to carry to cover the risks to its business;
- Pillar 2 details the supervisory review process to be used by both Kempen and the FCA to assess whether additional capital requires to be maintained against any risks not adequately covered under Pillar 1; and
- Pillar 3 details the disclosure requirements which Kempen is required to make of its capital, risk exposures and risk assessment processes.

Disclosures have been made in this document in compliance with part 11 of the Prudential Sourcebook for Banks, Building Societies and Investment (“BIPRU”) unless that disclosure has been regarded as immaterial, proprietary, or confidential.

#### **Scope**

The following disclosures relate to the business of Kempen on an individual basis, although the company is a 100% subsidiary Kempen & Co N.V. and the ultimate parent company is Stichting Administratiekantoor van Gewone Aandelen A Van Lanschot, both companies are based in The Netherlands.

There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources between the parent company and its subsidiary.

#### **Risk management objectives and policies**

Kempen is mainly exposed to operational risk, with some additional exposure to business risk, market risk, and credit risk.

Kempen’s Internal Capital Adequacy Assessment Process (“ICAAP”) incorporates the ongoing risk assessment of the company. As a consequence the Risk assessment is reviewed by the Board on a quarterly basis, and at least once a year will be quantified for purposes of ICAAP. However, if a significant risk crystallises then the ICAAP will be revisited at that time rather than on the annual cycle.

Further information on the risk exposures of the business are set out below:

**Operational risk** is the main focus of management attention and covers the whole range of exposures, from risks of loss of key staff, risk of clerical errors, to the risk of breach of the funds’ investment objectives. The company has adopted procedures to manage this risk by regular review, assessment, and reporting which allows appropriate controls to be put in place to mitigate them.

**Business risk** principally takes the form of a fall in assets under management that leads to lower management fees. To mitigate this risk, the Managing Director oversees portfolio management, and this is reviewed quarterly by the full Board.

**Market risk** is limited to Kempen's exposure to foreign exchange fluctuations due to some assets and liabilities being denominated in currencies other than Sterling. To mitigate this risk a system is in place to sweep all foreign currency income into base currency (GBP).

**Credit risk** is the exposure to clients in terms of non-payment of management and performance fees. Specific procedures cover the management of this exposure. With regard to bank deposits, the company only deposits money with approved counterparties on agreed terms.

### **Capital Resources**

The capital resources of Kempen only comprise Tier 1 capital with no deductions.

The company has calculated its capital needs in accordance with the relevant FCA regulations for the base capital requirement, the credit risk requirement and the variable capital requirement. The final level of capital is calculated as being the fixed overhead requirement rather than the total of the market risk and credit risk components.

These are tested under different scenarios in order to provide a robust picture of exposures for the business. Finally, an assessment is made of the probability of occurrence and the potential impact, in order to arrive at a level of required capital.

The required capital level has been assessed as the higher of the Pillar 1 or Pillar 2 capital in order to avoid double counting.

The value of share capital and audited reserves at 31 December 2017 was £1.556 million. Kempen's capital resources comprised of core Tier 1 capital only and therefore there are no other items or deductions.

In accordance with GENPRU 2.1.45R (calculation of variable capital requirement for a BIPRU firm), the company's capital requirement has been determined as being its fixed overhead requirement and not the sum of the credit risk capital requirement and the market risk capital requirement. The Pillar 1 fixed overhead requirement, based on our 2017 expenses, has been calculated as being £628.6k for 2018.

### **Compliance with rules in BIPRU and Pillar 2 rule requirements**

Kempen's approach to assessing the adequacy of internal capital is detailed in the company's ICAAP.

The ICAAP process involves separate consideration of risks to capital together with stress testing using scenario analysis. The level of capital required to cover risks is a function of impact and probability. The company has assessed its material risks and the financial impact of those risks. In assessing those risks a stress and scenario assessment that has been carried out by the company. This stress and scenario testing has involved an assessment of the likelihood of any of the risks materialising and whether they would happen all at the same time or at different periods. As a consequence a percentage weighting has been assessed against each of the material risks identified and the impact that this would have on capital resources. This has enabled a basis on which to assess the likelihood and impact in terms of financial quantification for each of those risks. The company is therefore satisfied that the stress and scenario testing carried out in relation to the nature of the business is appropriate.

The company's Pillar 2 capital requirement has been assessed at £679.5k, which is Kempen's own assessment of the minimum amount of capital considered adequate to meet the risks identified.

The company therefore assesses that the required minimum capital to satisfy its ICAAP is the higher of the Pillar 1 or Pillar 2 capital, and is therefore £679.5k.

### **Remuneration**

The remuneration of the key employees of the company is determined by the Board of directors. Remuneration is awarded by a mix of fixed salary and a discretionary bonus based on the performance of the company. Performance bonuses are paid in cash and deferred cash for sums above €50,000. The total remuneration paid for the year ended 31 December 2017 amounted to £1.340 million.