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 (the "Directive"), as amended by the Fourth Capital Requirements Directive. 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 of Van Lanschot Kempen Wealth Management N.V. (The legal merger between Van Lanschot N.V. and Kempen & Co N.V. occurred on 1 January 2020 and until that date Kempen was a 100% subsidiary of Kempen & Co N.V.).

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 Kempen 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 the risk of loss of income or an increase of costs due to either the failure of people, processes and (IT-) systems or as a consequence of external events. 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. Given the absence of any investment management activities in 2019 there is currently minimal operational risk.

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 Kempen Board. Given the absence of any investment management activities in 2019 there is currently minimal business risk.

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). There is no market risk at present as there are no revenues for 2019.

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.

Minimum capital requirement (Pillar 1 capital requirement)

In accordance with GENPRU 2.1.45R (calculation of variable capital requirement for a BIPRU firm), the company's minimum capital requirement has been determined as being the higher of a) its fixed overhead requirement and b) the sum of the credit risk capital requirement and the market risk capital requirement. The fixed overhead requirement, based on our 2018 expenses, has been calculated as being £70k for 2019 and the sum of the credit risk capital requirement and the market risk capital requirement is £88k. The company's Pillar 1 capital requirement is therefore assessed to be £88k.

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 £190.0k, which is Kempen's own assessment of the minimum amount of capital considered adequate to meet the risks identified.

Capital Resources

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.

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 company therefore assesses that the required minimum capital to satisfy its ICAAP is the higher of the company's capital requirement or Pillar 2 capital, and is therefore £190.0k.

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

The value of share capital and audited reserves at 31 December 2018 was £1.049 million.

Remuneration

The remuneration of the key employees of the company, who were the senior management and members of staff whose actions have a material impact on the risk profile of the firm, is determined by the Board of directors. The remuneration consists of fixed and variable components. The variable remuneration is based on the performance of the employee concerned (both financial as well as non-financial criteria) and the performance of the company. Performance bonuses are paid in cash and deferred cash for sums above €50,000.

All remuneration is in relation to investment management services.

The total remuneration paid to key employees described above for the year ended 31 December 2018 amounted to £1.922 million. This was paid to 8 employees.

Included within the total remuneration were:-

£1,056k - Salaries

£395k – Severance payments. This was paid to 6 individuals and the maximum paid to any individual was £89k.

£471k – Deferred compensation. This is through a Long Term Incentive Plan (LTIP) and all amounts were unvested at 31 December 2018. The initial amount awarded was £579k and a fair value adjustment of £108k reduced the value of the LTIP at 31 December 2018.