TEVIOT PARTNERS
investment managers

RISK AND REGULATORY CAPITAL MANAGEMENT DISCLOSURE

Teviot Partners LLP was formed as an English registered Limited Liability Partnership in November 2016 and is authorised and regulated by the Financial Conduct Authority (FCA), effective from 1st March 2017.

The FCA has created rules and guidance, set out in the General Prudential sourcebook (GENPRU) and the Prudential sourcebook for MIFID Investment Firms (MIFIDPRU), which are volumes of the FCA Handbook. MIFIDPRU 8 sets out the rules on risk and regulatory capital management disclosure.

RISK MANAGEMENT

Overview and Objective

Teviot Partners has developed a structure of systems and controls appropriate for the scale and nature of the business. The Firm operates with a single strategy in long-only, UK listed equities. The Firm does not hold client money and many of the administrative functions are handled by our Authorised Corporate Directors (ACDs).

The Firm's appetite for risk is low and maintaining risk at a suitable level is achieved in part by retaining a focused and relatively simple business model.

Risks are kept under constant review by the Risk & Compliance Committee. The Risk & Compliance Committee includes both Partners of the business and the Compliance Officer and is responsible for monitoring and reporting on the current and potential future risks facing the business. The Committee has developed a Risk Matrix to identify, assess and monitor key areas of risk in the Firm.

The Risk & Compliance Committee reports into the Partners Meeting, the firm's ultimate governing body. Through these fora, the firm's capital and liquidity positioning and planning are monitored constantly.

During 2022, Teviot Partners implemented its inaugural Internal Capital Adequacy and Risk Management process (ICARA), which assesses the levels of capital and liquid resources in the context of the risks that the business faces.

Key Risks

Operational Risk
There are several components to running an investment management business which can be sub-divided into: people risk, process risk, systems risk, and environment risk. Risks are kept under constant review through the Risk & Compliance Committee. The firm purchases Professional Indemnity (PI) insurance, with cover up to £5m.

Liquidity Risk
The Partners have a prudent approach to working capital management. As noted above, all capital is held in the form of cash and this is held at a level which is comfortably in excess of thresholds calculated during the ICARA process.

Concentration Risk
Both the VT Teviot UK Smaller Companies Fund and Teviot's segregated mandate focus on the same UK smaller companies strategy. As such, the fortunes of the business are linked to delivering returns from a single asset class that will attract and retain clients.

However, a reliance on 2 mandates with the same strategy does represent an exposure. To mitigate this, the firm's cost base is managed carefully, re-forecasts are completed regularly, and rigorous stress testing is applied to ensure that the firm remains positioned to withstand a variety of extreme scenarios in which assets under management and therefore income are reduced dramatically.

Diversification of the investor base of the strategy is also monitored closely. It has been identified as a strategic priority for the firm to grow assets under management and to continue to diversify the strategy's investor base.

Credit Risk
The firm has two sources of revenue; management fees from an OEIC administered by Valu-trac and a segregated mandate. The fees are received one month in arrears. Valu-trac and the segregated mandate's ACD are FCA regulated entities. The credit risk is judged to be very low.

All dealings with counterparties are done on a "delivery versus payment" basis with FCA regulated entities. Accordingly, the firm's exposure to counterparties is minimised and the only counterparty risk relates to corporate cash held at banks. Teviot manages this risk by holding corporate funds with an institution of sufficient credit quality and reviews this on a regular basis considering Fitch credit ratings.

Remuneration Risk
The Partners are remunerated entirely through drawings from the firm. Drawings can only be made from any profits generated by the business. In this way, a significant element of remuneration is variable in line with the performance of the business.

Teviot's remuneration structure for employees, comprising a mix of fixed and variable elements, is intended to incentivise and reward while at the same time promoting effective risk management, discourage risk-taking and aligning interests with the long-term interests of the business.

Business Risk
This is defined as "material risk to the sustainability of a firm's business model / capital position due to a cyclical downturn in economic conditions". As considered under Concentration Risk, the firm is positioned to withstand substantial reductions in revenue before the current capital position is affected. The firm maintains a solvency ratio of >200% and regular forecasting would allow the Partners to address the firm's cost base in the event of a prolonged downturn.

Market Risk
Teviot is not permitted to deal as principal and does not hold any investments on the balance sheet. Market risk is limited to the indirect exposure via the portfolios it manages on behalf of its clients, which is inherent to all Investment Managers.

Insurance Risk
Teviot is not permitted to conduct insurance business.

Residual Risk
The nature of Teviot does not leave it financially exposed to the value of residuals.

Securitisation Risk
Teviot will have no involvement with securitisations.

Interest Rate Risk
Changes to interest rates would not have a material direct impact on the business as the balance sheet comprises mainly of cash.

Pension Obligation Risk
The firm has no defined benefit pension risk. The firm provides defined contributions to employees under the auto-enrolment initiative.

CAPITAL RESOURCES

As noted, the firm's capital resources are held as high-quality tier 1 capital. As at the end of June 2022, Teviot Partners held permanent capital resources of £200k. This has been unchanged since shortly after the business became profitable and is projected to remain unchanged in the future.

To comply with MIFIDPRU, firms must, at all times, hold Own Funds (OF) and Liquid Assets (LA) of sufficient size and quality to ensure that:

1. They remain financially viable through economic cycles.
2. Their business can be wound down in an orderly manner.

Teviot's OF requirement is defined as being equal to its Fixed Overheads Requirement (FOR) of £97k. The Partners are satisfied that the resulting OF surplus of £103k is sufficiently prudent and no additional capital is required.

Since the firm's capital resources are entirely held as high-quality tier 1 capital, the firm is also comfortably in excess of its LA requirements.

The firm is also obligated to estimate the cost of an orderly wind-down process and consider the implications. Having modelled a full wind-down period, applying a variety of scenarios, the Partners are satisfied that these LA requirements would be sufficient in the unlikely event that the business needed to fund a full wind-down process.

The business continually monitors its capital and liquidity positions with reference to these regulatory requirements.

DISCLOSURE

These disclosures are not subject to audit and have been produced solely for the purposes of satisfying regulatory requirements. The partners are responsible for ensuring that Teviot has in place a suitable governance and risk management framework to ensure that risks are adequately identified, assessed and mitigated.