Sarkis Limited

Pillar 3 Risk Disclosure 30th April 2021

Introduction

Sarkis Limited (**"Sarkis"** or the **"Firm"**) is required by the FCA to disclose information relating to the capital it holds and each material category of risk it faces in order to assist users of its accounts and to encourage market discipline.

The Capital Requirements Directive (**"CRD"**) created a revised regulatory capital framework across Europe covering how much capital financial services firms must retain. In the United Kingdom, rules and guidance are provided in the General Prudential Sourcebook (**"GENPRU"**) for Banks, Building Societies and Investments Firms (**"BIPRU"**).

The FCA framework consists of three "Pillars":

- Pillar 1 sets out the minimum capital requirements that companies need to retain to meet their credit, market and operational risk;
- Pillar 2 requires companies to assess whether their Pillar 1 capital is adequate to meet their risks and is subject to annual review by the FCA;
- Pillar 3 requires companies to develop a set of disclosures which will allow market participants to assess key information about its underlying risks, risk management controls and capital position. These disclosures are seen as complementary to Pillar 1 and Pillar 2.

Rule 11 of BIPRU sets out the provisions for Pillar 3 disclosure. The rules provide that companies may omit one or more of the required disclosures if such omission is regarded as immaterial. Information is considered material if its omission or misstatement could change or influence the decision of a user relying on the information. In addition, companies may also omit one or more of the required disclosures where such information is regarded as proprietary or confidential. Sarkis believes that the disclosure of this document meets its obligation with respect to Pillar 3.

Firm Overview

Sarkis is incorporated in the UK and is authorised and regulated by the FCA as a Full Scope Alternative Investment Fund Manager (**"AIFM"**) under the Alternative Investment Fund Managers Directive (**"AIFMD"**). As such, Sarkis, is a Collective Portfolio Management Firm (**"CPMI Firm"**) for prudential purposes. As a CPMI firm, Sarkis is subject to the BIPRU rules, as well as the AIFMD rules set out in IPRU-INV. Sarkis is not permitted to take on retail clients, hold client money or take propriety trading positions.

The Board of Sarkis is responsible for daily management and oversight of the Firm. It is comprised of:

- Alexander Thistlethwayte; and
- Jon Cameron.

The Board is responsible for the entire process of risk management, as well as forming its own opinion on the effectiveness of the process. In addition, the Board determines Sarkis' risk appetite or tolerance for risk and ensures that the Firm has implemented an effective, ongoing process to identify risks, to measure its potential impact and then to ensure that such risks are actively managed. Jon Cameron, as Chief Operating Officer (**"COO"**), is accountable for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of Sarkis.

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Capital Resources and Requirements

Capital Resources

Pillar 1

As at 30th April 2021, Sarkis held regulatory capital resources of £600,000 comprised solely of Tier 1 capital.

The Sarkis capital requirements are the greater of:

- Its base capital requirement of €125,000; and
- The sum of its market and credit risk requirements; or
- Its fixed overhead requirement (**"FOR"**).

As a CPMI firm, Sarkis has an ongoing capital resources requirement which comprises the greater of:

- The funds under management requirement of €125,000 plus 0.02% of the AIF AUM exceeding €250,000,000 and
- The sum of its market and credit risk requirements; or
- Own funds based on FOR (which is at least 25% of the firm's operating expenses less certain variable costs)

Plus: whichever is applicable of:

- The professional indemnity insurance (**"PII"**) capital requirement; or
- The professional negligence capital requirement (**"additional own funds requirement"**).

The Board has elected to take a conservative approach in its assessment of its fixed overhead requirement and, as such, has incorporated 100% of its fixed overhead requirement in its calculation of capital requirements to permit further growth and expansion in the year ahead.

Considering the above, as at 30th April 2021, the Firm's Pillar 1 capital requirement is £563,544.

Satisfaction of Capital Requirements

Pillar 2

Sarkis has adopted the "Structured" approach to the calculation of its Pillar 2 Minimum Capital Requirement as outlined in the Committee of European Banking Supervisors Paper, 27 March 2006 which takes the higher of Pillar 1 and 2 as the ICAAP capital requirement. It has assessed Business Risks by modeling the effect on its capital planning forecasts and assessed Operational Risk by considering if Pillar 2 capital is required, taking into account the adequacy of its mitigation.

Since the Firm's Internal Capital Adequacy Assessment Process (ICAAP or Pillar 2) process has not identified capital to be held *over* and *above* the Pillar 1 requirement, the capital resources detailed above are considered adequate to continue to finance the Firm over the next year. No additional capital injections are considered necessary and the Firm expects to continue to be profitable.

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Risk Management Objectives and Policies

Sarkis has established a risk management process in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. The risk management process is overseen by the Board of Sarkis and its aim is to minimize the risks to its clients and to ensure it remains in full compliance with applicable regulatory and legal requirements.

As risks are identified within the business, appropriate controls are put in place to mitigate these and compliance with them is monitored on a regular basis. The frequency of monitoring in respect of each risk area is determined by the significance of the risk. Sarkis' risk management framework incorporates an analysis of the impact of each material risk to the business, the probability of each risk occurring and the procedures in place to mitigate such risks. Risks identified through the operation of the risk management framework are assessed as part of the ICAAP process each year.

Credit Risk

The main credit risk to which Sarkis is exposed is in respect to the failure of its debtors to meet their contractual obligations. The majority of receivables relate to investment management activities. Sarkis believes its credit risk exposure is limited since the Firm's revenue comprises management and performance fees received from its fund and/or managed account clients ("Investor Clients"). Management fees are drawn throughout the year from the Investor Clients while performance fees are due annually in arrears. Other credit exposures include expense re-charges to Investor Clients, bank deposits and office rental deposits.

The Firm undertakes periodic impairment reviews of its receivables and does not include any fees not yet received in its calculation of capital assets. No fees or dealing cost recharges have been overdue during the prior year and, as such, the Firm assesses the risk of non-payment from its counterparties to be low. On the basis of the foregoing, management is of the opinion that no provision is necessary. A financial asset is overdue when the counterparty has failed to make a payment when contractually due. Impairment is defined as a reduction in the recoverable amount of a fixed asset or goodwill below its carrying amount.

Sarkis has adopted the standardised approach to credit risk, and therefore follows the provision within BIPRU 3 standardised credit risk of the FCA handbook. The Firm applies a credit risk capital component of 8% to its non-trading book risk weighted exposure. As the Firm does not make use of an external credit rating agency, it is obligated to apply a risk weight of 100% to all non-trading book credit exposures, except cash and cash equivalents which are held by investment grade firms which currently attract a risk weighting of 20%.

Market Risk

Sarkis' market risk is limited to exposure to foreign exchange rate fluctuations as a result of its revenues being denominated in USD, while the majority of its costs are denominated in GBP. Sarkis' exposure to currency risk is being actively controlled, with regular monitoring of future currency needs.

Business Risk

Business risk is the risk of loss inherent in a firm's operating, business and industry environment. Sarkis' main business risks relate to factors leading to a possible fall in assets under management and a consequent diminution in investment management fees. Sarkis mitigates its exposure by holding sufficient capital to withstand adverse changes in the business environment.

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Liquidity Risk

Liquidity risk is the risk that Sarkis will be unable to meet its financial obligations as they fall due. Sarkis is subject to the FCA's Liquidity Rules and has considered liquidity risk in its stress testing. Liquidity risk is not considered material for the purposes of this disclosure.

Operational Risk

The Firm places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities in this respect. The Firm has identified a number of key operational risks. These relate to disruption of the office facilities, system failures, trade failures and failure of third party service providers. Appropriate policies are in place to mitigate against risks, including appropriate insurance policies and business continuity plans.

Remuneration Code

Sarkis has adopted a remuneration policy and procedures that comply with the requirements of chapter 19B of the FCA's Senior Management Arrangements, Systems and Controls Sourcebook (SYSC), and in accordance with ESMA's Guidelines on sound remuneration policies. Sarkis has considered all the proportionality elements in line with the FCA Guidance.

As a UK AIFM, Sarkis has assessed the proportionality elements and disapplies the Pay Out Rules. Furthermore, the Firm has concluded, on the basis of its size and the nature, scale and complexity of its legal structure and business that it does not need to appoint a remuneration committee. Instead, the Board sets, and oversees compliance with, Sarkis' remuneration policy, including reviewing the terms of the policy at least annually.

Code Staff Remuneration

Senior management and members of staff whose actions have a material impact on the risk profile of Sarkis are classified as Code Staff. The below table shows the number of Code Staff in each business area.
During 2020 Sarkis operated only a single business line, portfolio management.

Type of Remuneration Code Staff	**Number of Code Staff[1]**
Senior Management	2
Other Remuneration Code Staff	5
Total Fixed Remuneration of Code Staff	£351,404
Total Variable Remuneration of Code Staff	£684,530

[1] As at 31 December 2020