

DALTON STRATEGIC PARTNERSHIP LLP

PILLAR 3 DISCLOSURE – ICAAP and REMUNERATION

Introduction

The firm is required to disclose information relating to the capital it holds and each material category of risk it faces in order to assist stakeholders and to encourage market discipline. These disclosures aim to provide information on the risk exposures faced by the firm and the risk assessment process it has in place to monitor these. These disclosures are seen as complimentary to the firm's minimum capital requirement calculation (Pillar 1) and the internal review of its capital adequacy (Pillar 2).

Capital resources

The firm maintains capital resources as follows: 31 October 2011	
£000	
Tier 1 capital*	584
Tier 2 capital	NIL
Tier 3 capital	300
Total capital resources	884
*No innovative tier one capital is held	

The firm's capital resources are deemed to be sufficient and will continue to be monitored throughout the year to ensure this position is maintained.

Credit risk

The firm regularly monitors amounts due from its clients and has appropriate credit control procedures in place. The credit control process is operated by the firm's Chief Financial Officer and outstanding balances are reported to senior management on a monthly basis via the management accounts. Any significant issues arising intra-month would be reported immediately. The Chief Financial Officer prepares bank reconciliations on a monthly basis in order to ensure the firm's records are in agreement with those of the bank. Given the nature of the firm's exposures, no specific policy for hedging and mitigating credit risk are in place.

Market risk

The firm does not run a trading book and as such only has exposure to debtors and cash balances held in currencies other than GBP, the Partnerships operating currency. As the firm is rarely exposed to foreign exchange, market risk is deemed immaterial.

Business risk

The firm conducts a formal assessment of the business risk to which it is exposed on an annual basis, though given the size and nature of the firm no separate risk management function is considered necessary in respect of the firm's own balance sheet. Matters arising from the review are considered and mitigating or remedial action is taken where appropriate.

The firm's revenue is reliant on the performance of the existing funds under management and its ability to attract new assets into those funds and to launch new funds/obtain new mandates. As such, the risk posed to the firm relates to underperformance resulting in a decline in revenue and adverse market conditions hindering the launch of new funds and ultimately the risk of redemptions from the funds managed by the firm. This risk is mitigated through the continued support of the firm by its Partners and by capital maintained within the business which is kept at a level sufficient to cover the expenses of the firm for at least twelve months.

Operational risk

The firm conducts a formal assessment of the operational risk to which it is exposed on an annual basis. Risk management remains a key function of the firm's business in respect of the portfolios it manages and matters arising from reviews are considered and mitigating or remedial action is taken where appropriate.

The firm has professional indemnity insurance in place to mitigate against the risk of costs being incurred due to trade errors occurring. The insurance cover is provided by Axis Speciality London.

The firm is reliant on its ability to attract and retain key investment management personnel. Appropriate policies are in place to mitigate this, including thorough vetting procedures and an appropriate remuneration structure.

The firm has alternative arrangements in place should a disaster recovery event occur. These arrangements are tested on a regular basis in order to ensure that they would be effective should they be required to be invoked.

Counterparty and concentration risk

Dalton holds its cash balances only with Banks with whom it has a strong, well-established relationship and who typically have a minimum Moody's or S&P rating of "A".

Liquidity risk

Dalton maintains a surplus of liquid resources sufficient at all times to meet any immediate requirements it could prudently foresee. Dalton reviews its potential liquidity requirements at a 96% confidence level over a 12 month time horizon on at least an annual basis, as part of the ICAAP process.

As a minimum, Dalton holds its working capital requirements (defined as 3 months worth of fixed costs) in cash.

Fixed Overhead Requirement

The firm's Pillar 1 capital requirement is determined by its Fixed Overhead Requirement (FOR), calculated in accordance with GENPRU 2.1.53, since this is typically the largest of the variable factors to consider. The firm monitors its expenditure on a monthly basis and takes into account any material fluctuations in order to determine whether the FOR remains appropriate to the size and nature of the business or whether any adjustment needs to be made intra-year. This is monitored by the Chief Financial Officer and reported to senior management on a monthly basis.

The firm calculates its FOR after first deducting variable costs from its annual expenditure. Variable costs deducted when calculating the firm's current FOR relate to discretionary bonuses paid to staff and allowable commission and fees.

Consolidation

The firm is exempt from the consolidated supervision rules.

Remuneration

There is no separate remuneration committee of the firm, due to its size and relatively low complexity. Decisions as to remuneration are undertaken by the Governing Body of the partnership (the Managing Board) with input from senior management and review by the Compliance Officer, as well as oversight and approval in certain circumstances from the board of the corporate member.

The firm is a Limited Liability Partnership in which many staff are partners, necessitating CF4 approval and making them a significant influence function. The firm has decided to treat all partners as Code Staff, on the basis that they impact the risk profile of the firm. In addition to the partners, there is a Control Function person, the Compliance Officer and MLRO, who must be treated as Code Staff.

The firm has defined itself as a Proportionality Tier Four investment firm ("Tier Four Firm") and adopted a proportioned approach to remuneration policy, disapplying certain provisions where appropriate, in accordance with FSA guidance.

The strategy of the firm is to earn profit by attracting clients, manage their assets for a fee and retain their business over time by meeting their investment objectives. The remuneration strategy is aligned with this objective in that certain partners will receive variable remuneration related to the fee income they generate. In many cases this will include a portion of performance fees, which are only earned when the investment objectives are met, thus aligning interests with clients.

As well as partners, the firm has a number of salaried employees who are entitled to a discretionary bonus determined by the firm's Managing Board. The total remuneration paid to such employees is relatively modest and individual sums would fall well below the FSA's threshold limits for "Code Staff".

The firm had one business area during 2011, investment management, which comprised 21 Code Staff.

In order to comply with the FSA disclosure requirement BIRPU 11.5.18 R (6) and (7), disclosure will be made in relation to the calendar performance year 2011. Such disclosure will occur in February 2012, when variable remuneration figures are known.