1. Capital Requirements

Background

The Capital Requirements Directive (“CRD”), which came into effect on 1 January 2007 and was most recently updated with “CRD IV” in July 2013, introduced a supervisory framework in the EU for rules on capital measurement and capital standards. This was implemented in the United Kingdom through changes to the Financial Conduct Authority (“FCA”) Handbook of Rules and Guidance, and specifically through the creation of the General Prudential Sourcebook (“GENPRU”) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”).

The FCA framework consists of three ‘pillars’:

Pillar 1 - determines the base capital required by a business dependent on the size and nature of the entity.

Pillar 2 –the firm’s Internal Capital Adequacy Assessment Process (“ICAAP”) seeks to identify firm-wide risks within the context of the risk management framework to determine whether the capital required under Pillar 1 rules is sufficient to support those risks.

Pillar 3 - complements the minimum capital requirements and supervisory review process of Pillar 1 and Pillar 2, through capital requirement disclosures, to enable market participants to assess key information on the capital, risk exposures, risk assessment processes and remuneration polices of the group.

Application of the Requirements

TT is a specialist asset management group, which manages both pooled funds and segregated client accounts. There are two key investment management styles operated: long-only and long/short.

There are four active entities in the group structure in which investment management activities take place. The key features of each entity are summarised below.

TT International (“TT”)

TT is an English unlimited liability partnership with 16 individual partners and one further partner, TT Retired Partners LP. TT holds investment management agreements with all TT managed funds and most of the group’s segregated clients (exceptions listed below). TT delegates certain marketing activities to TTIA and some marketing, trading and investment management activities to TTHK.

The FCA is TT’s lead regulator and, based on the firm’s authorised activities, it is classified as a BIPRU limited licence firm under the CRD. TT has permission to provide discretionary investment management services to institutional clients. TT is not authorised to hold client money. It is also a registered investment adviser with the SEC in the United States.

TT International Investment Management LLP (“TTIIM LLP”)

TTIIM LLP is an English registered limited liability partnership incorporated in March 2013 under the Limited Liability partnership Act 2000. It was established to enable the group to comply with the Alternative Investment Fund Managers Directive (“AIFMD”) (as an unlimited liability partnership TT lacks the legal personality required under AIFMD to perform the role of Alternative Investment Fund Manager (“AIFM”). TT continues to hold client contracts but delegates investment management and risk services to TTIIM LLP in relation to TT’s own Cayman domiciled Alternative Investment Funds (“AIF”). TTIIM LLP is authorised by the FCA and became authorised as an AIFM on 22nd July 2014.

TT International Advisors Inc. (“TTIA”)

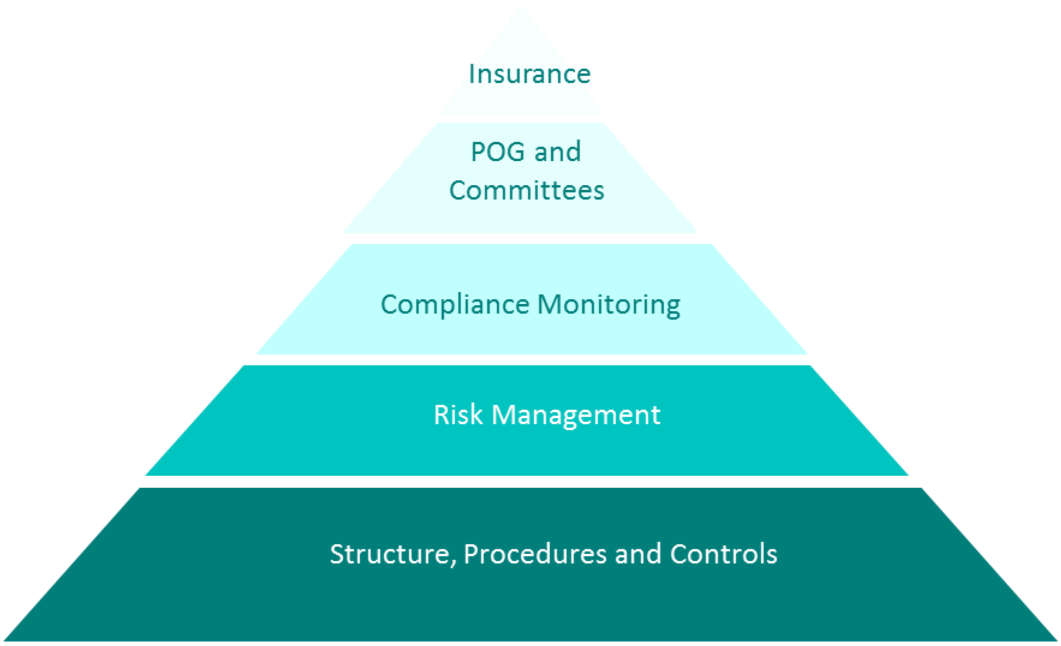
TTIA is a US corporation with limited liability. It is a wholly owned subsidiary (via a UK incorporated holding company) of TT. TTIA has 2 employees; one sales person and a business manager. TTIA is not regulated.

TT International (Hong Kong) Limited in Hong Kong (“TTHK”)

TTHK is a Hong Kong incorporated limited company wholly owned by TT. Four segregated account clients contract with TTHK since they are unable to contract directly with TT, an unlimited liability partnership. There are 12 staff in HK; covering investment management, trading, marketing and compliance activities. Five employees of TTHK are also partners of TT. TTHK is authorised by the Securities and Futures Commission (“SFC”) of Hong Kong.

Risk Management

TT’s risk management policy reflects the FCA’s, SEC’s and SFC’s requirement that appropriate financial resources and adequate systems and controls are necessary for the effective management of prudential risks. The partners of TT determine the business strategy and risk appetite in conjunction with designing and implementing a risk framework that recognises the risks that the business faces. In evaluating the probability of identified risks, the business considers the controls and procedures in place to mitigate those risks. The risk management framework adopted by the partners comprises five tiers, building on each other, as described in the following.



Tier 1: Structure, Procedures and Controls

The existence of strong operational controls and efficient processing of transactions is key to supporting TT’s active management style. As the partners of TT have unlimited liability, they have a very active interest in risk management. TT places significant importance on having a robust infrastructure, complemented by an experienced business management team.

The Partnership is committed to having a strong control environment with high standards of regulatory compliance, extensive segregation of duties and best practice operational and IT support structures. Experienced senior management are in place in all aspects of the investment management process and the business support functions, with partners of the firm designated responsible for all key control areas. In addition, TT invests in “best-in-class” third party IT systems, complemented by proprietary software and infrastructure development.

Tier 2: Risk Management

TT has an independent Risk Management department, which reports to the COO. The department has three main roles;

Market Risk

To independently scrutinise the market risk both in individual portfolios, and across the funds and managed accounts, to ensure portfolio managers and senior management are aware of the risks and, where necessary, to ensure there is an effective challenge and enforcement mechanism to effectively manage these risks.

Counterparty Risk

To manage the process of setting and determining counterparty limits and to monitor adherence to these.

Operational Risk

To prepare TT’s Report on Internal Controls, which is based in accordance with the International Standard on Assurance Engagements 3000 and 3402 and ICAEW Technical Release AAF 01/06. To confirm the procedures and controls are adhered to the Risk Management team undertakes ongoing internal checks. This is in addition to the annual review carried out by an external third party auditor.

Tier 3: Compliance Monitoring

TT has a four-person Compliance team, three based in London and one in Hong Kong. The function reports to the COO, a partner of the firm.

Compliance establishes, implements and maintains appropriate procedures to ensure the firm’s compliance with its regulatory obligations and for countering financial crime risks. Furthermore, Compliance supports and assists the business in maintaining high ethical standards and treating customers fairly. Compliance operates a comprehensive compliance monitoring programme comprising a schedule of risk-based reviews designed to assess whether the business and operational control standards and procedures meet with relevant domestic and international regulations. The Partnership is updated regularly of the scope of such compliance monitoring, material issues that may arise and any actions taken to address these issues.

Tier 4: Partner Operations Group and Committees

TT partners have put into place senior management-led committees to oversee key business and support functions, systems and controls, and to ensure strong governance.

In addition, to ensure that all functions are coordinated, the Partners Operations Group (“POG”) meets weekly to discuss operating and administration issues. The group is comprised of the managers of the key business areas, including the COO, CFO, Senior Business Advisor and HR Advisor.

Tier 5: Insurance

TT recognises that in addition to strong operating controls it is essential to maintain protection against the occurrence of unforeseen events, as one of the elements of operational risk mitigation. Therefore, TT maintains a comprehensive professional indemnity insurance policy, which includes Civil Liability Insurance, Crime and Directors’ and Officer’s Liability Insurance.

Risk Assessment

As part of the ICAAP process TT reviews all major risks as described in GENPRU 1.2.30R (2) of the FCA handbook and assesses how each risk is applicable to the firm. In particular, detailed consideration is given to whether the capital requirement under Pillar 1 is sufficient or whether further capital should be maintained under Pillar 2 if risks are not adequately covered under Pillar 1.

Credit Risk

TT has not experienced default in relation to management or performance fees. The nature of the firm's clients and structure of fee arrangements is such that a third-party administrator facilitates the payment of fees. This is closely monitored by TT. Cash deposits and any hedges in respect of non-GBP fees are only undertaken with highly-rated counterparties.

Market Risk

Investments in the funds

TT does not trade for its own account. However, it does from time-to-time hold interests in the funds it manages. Amounts payable under the employee deferred bonus scheme that are linked to the performance of funds, are invested in the funds so that there is an equal corresponding liability, such that there is no material market exposure. Further investments in the funds made in respect of retained profits of the partners are monitored to ensure the capital maintained is sufficient given the Value at Risk of the investments. TT may also seek to use it own funds as seed capital when launching new products.

Foreign currency assets

TT receives fees predominantly in GBP, USD and EUR and also maintains non-GBP bank accounts. Hedging of some non-GBP fees receivable is undertaken. Value at Risk analysis based on historic currency movements is conducted to monitor the risk that any un-hedged foreign currency receivables and bank accounts present to the business.

Operational Risk

TT, as an unlimited liability partnership, places a high degree of focus on operational controls to manage and mitigate these risks. As outlined above, the multi-layered risk management framework ensures robust controls and monitoring are in place. The framework is designed to ensure all areas of the business are subject to oversight by the firm's partners. In particular, TT's Post Mortem Committee has been established in order to perform detailed scrutiny in the event of a trading or operational error, agree whether compensation is due, and determine actions to enhance processes and controls to mitigate future errors.

Liquidity Risk

The business maintains a high level of liquidity, with material cash and holdings in highly liquid funds.

Concentration Risk

There are three types of concentration risks that could affect TT: client, market/sector and product concentration. To counter these risks TT has a diversified product range with geographic and sector spread. In addition, the client base is spread both geographically and by type of investor.

Business Risk

Business risk is inherent in investment management and arises across the full spectrum of the firm's activities. A Risk Register is maintained which documents all the specific business risks together with the associated controls. A number of the key risks are considered below:

Product/market performance: One of the key inherent business risks of fund management is market risk. For example, the consequences of a significant downturn in a particular market or sector could impact revenues if portfolio risk is not adequately managed. Portfolio risk is managed through diversification within the strategies and portfolios.

Loss of key personnel: TT has a low historic turnover of partners and staff. However, to ensure the business is resilient to the loss of a key person, each strategy has a backup or support manager who is able to continue the management of each strategy, either indefinitely or until a replacement could be sourced.

Insurance Risk

The insurance policy covering Civil Liability, Crime and Directors and Officers is placed across at least 13 underwriters, with A rating or above, providing risk diversification. An exercise to compare the firm's insurance cover with its Risk Register has also been undertaken to ensure the policy has appropriate coverage.

Other Risks

All other risks are not applicable or insignificant with respect to TT's business.

Capital Requirement

Pillar 1

TT is a limited license firm and therefore BIPRU provides that the firm's minimum capital requirement is the higher of:

- The base capital requirement, being EUR 50,000;
- The fixed overhead requirement ("FOR"), being 25% of adjusted prior year audited reserves; or
- The sum of market risk and credit risk requirements calculated in accordance with BIPRU 3 and 7.

Currently the FOR exceeds the other requirements and is therefore the minimum capital requirement.

Pillar 2

TT assesses all known risks, including operational risks, and performs extensive stress testing and scenario analyses (including wind-down) to ensure that the regulatory capital maintained is sufficiently resilient given the business risks identified. This process helps confirm the capital required under Pillar 2. TT also undertakes reverse stress testing which identifies worst-case scenarios.

TT has established that the capital required under Pillar 2 does not exceed the minimum Pillar 1 capital requirement. However, as required by the Partnership Agreement, the business maintains capital at all times which is equal to a minimum of the regulatory capital requirements plus a 10% buffer.

2. Remuneration Code

Background

TT meets the requirements of the Remuneration Codes set out in SYSC 19 B, C and E as appropriate, in a proportionate manner, based on the size, nature and complexity of its business and discloses details of its remuneration policy per BIPRU 11.

TT has developed and implemented policies and practices that align the firm with the risks faced by its business. Where appropriate, TT has disapplied certain provisions within the Remuneration Codes in accordance with FCA and CEBS guidance.

TTIIM LLP is subject to the Alternative Fund Managers Directive ("AIFMD"). As a Collective Portfolio Management ("CPM") firm, the firm must comply with the AIFM Remuneration Code in SYSC 19B for its AIFMD activities.

Identification of Code Staff

The FCA defines Remuneration Code Staff as senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as those detailed above whose professional activities have a material impact on the risk profile of the firm.

All partners who are members of the POG, hold greater than 5% interest in the firm and/or manage accounts generating revenues greater than 10% of the total firm's revenue are regarded as Code Staff of TT. In addition, TT regards any employee who holds a specified Control Function (CF1-29) or equivalent and all CF4 TTIIM LLP partners who are risk takers or who manage accounts generating revenues greater than 10% of the total firm's revenue, as Code Staff. As at 30th September 2019, TT had 12 partners or employees that it considers to be Code Staff.

In relation to AIFMD, TTIIM LLP has followed the guidance provided by the European Securities and Markets Authority ("ESMA") and has 13 partners or employees that it considers to be Code Staff as at 30 September 2019.

In relation to the firm's UCITS activities as at 30 September 2019 TT has 10 partners or employees that it considers to be Code Staff.

TT and TTIIM LLP consider the need to add any new joiners to the list of Remuneration Code Staff during the year.

Governance

TT and TTIIM LLP do not consider it necessary to have a separate remuneration committee given the size and structure of the business. Accordingly, the function is undertaken for each entity by the POG. The POG is responsible for the design, implementation and operation of the remuneration policies across the firm. An HR consultant provides advice and supervises the remuneration policy. The POG will consider the remuneration policy and any provisions which have been disapplied on at least an annual basis to ensure that the approach continues to be appropriate.

The CEO, in consultation with the HR consultant and a number of other external advisors, is responsible for determining the award of partnership interests. The CEO is conscious of the importance of aligning the interests of the partners with those of the business and its clients, and he has significant investment in the TT managed funds.

Design and structure of remuneration

As an unlimited liability partnership, TT is owned by its partners. Each partner is obliged to contribute capital to support their ownership interest, which gives them a pre-agreed percentage of the profits of the business in accordance with the terms of the partnership deed. Partners' right to receive profits is subject to ensuring TT meets the FCA capital and liquidity requirements at all times. A percentage of profit is retained and invested in TT managed funds.

Employees receive a salary and discretionary bonus, which is based on the performance of the individual, their team and the business as a whole, as appropriate. The POG reviews and approves all bonus decisions. A specific percentage of all bonuses are subject to a three-year bonus deferral and vesting plan, subject to a de minimis threshold.

Link between Pay and Performance

The performance of partners and employees is measured using objectives set around a number of quantitative and qualitative drivers in order to provide a multi-dimensional assessment. For staff in a fee-earning role, the attainment of business targets are only a part of their objective setting process and remuneration assessment. Non-financial metrics such as adherence to effective risk management and compliance with regulatory and internal firm requirements are also taken into account for all staff.

A key objective in utilising the partnership structure was to align the interests of the partners with the overall goal of achieving the best performance over the long-term for the clients' assets. Each partner's ownership interest is reviewed annually. Adjustment can be both down as well as up and is based on an individual's performance and, more significantly, long-term contribution to the business.

Risk Adjustment

TT believes that its Remuneration Policy is consistent with, and promotes, effective risk management. All employees and partners are focused on growing TT's business in a profitable and efficient manner. In particular, partners are unlimitedly liable for the firm's actions, which ensures risk management and compliance are a key focus within the business. Fixed elements of remuneration for employees are kept to a relatively low level to ensure that TT can withstand various market pressures while still meeting its ongoing obligations to clients.

Partners are only entitled to receive their profit share after ensuring the FCA capital and liquidity requirements and the working capital needs of the firm have been considered and are sufficient for future requirements.