Valu-Trac Investment Management Limited
Authorised and regulated by the Financial Conduct Authority (FCA), registration number 145168.

Registered in England No. 2428648

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Valu-Trac Investment Management Limited
Pillar 3 Disclosure

The Capital Requirements Directive (CRD) of the European Union created a revised regulatory capital framework across Europe governing how much capital financial services firms must hold. In the United Kingdom this is implemented and enforced by the Financial Conduct Authority (FCA) with rules and guidance within the General Prudential Sourcebook (GENPRU) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU). The framework is structured around three 'pillars'.

- Pillar I: Sets out the minimum regulatory capital requirements a firm must adhere to. A BIPRU firm must maintain capital resources which are at least equal to the base capital resources requirement. A firm must also meet the variable capital requirement which is the higher of a) the capital required to cover a firm's credit, market and operational risk or b) the firm's fixed overhead requirements. The base capital can be used to meet the variable capital requirement.

- Pillar II: Requires a firm to regularly assess the amount of internal capital it considers adequate to cover all of the risks to which it is exposed, within the context of its overall risk management framework. The process, known as the Internal Capital Adequacy Assessment Process (ICAAP) is the firm's responsibility and is the key document reviewed by the FCA as part of their Supervisory Review and Evaluation Process (SREP).

- Pillar III: Requires firms to make disclosures to the market for the benefit of the market. The aim is to encourage market discipline by developing a set of disclosure requirements, both generic and accounting specific, which will allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes.

The rules in the FCA Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") set out the provision for Pillar 3 disclosure. This document is designed to meet our Pillar 3 disclosure obligations.

Frequency of disclosure
Disclosures will be issued on an annual basis.

Verification
These disclosures have been prepared and set out in order to comply with the FCA's regulatory requirements and provide information on the firm's risk management policies and certain capital requirements. They do not constitute financial statements and are based on unaudited financial positions and should not be relied upon in isolation when making judgements about the firm.

Location
This report is available upon request from the Company's head office in Moray.

Scope and application of the requirements
The firm is authorised and regulated by the Financial Conduct Authority ("FCA") to conduct investment business. We do not hold client money. The Firm is categorised as a Limited Licence firm by the FCA for capital purposes.

Risk appetite and management
We are exposed to a variety of risks, as analysed and quantified below. However, the Board have adopted a conservative approach to risk, resulting in a low risk profile, for the following reasons:

- The business model is investment management services for third party funds. As principal positions are not taken, our exposure is nil;

- The recruitment of high quality experienced personnel;

- The corporate governance structure ensures that responsibilities within the firm are apportioned with all oversights and key control functions staffed by experienced personnel with direct and unfettered access to Senior Management;

- Comprehensive insurance arrangements are in place to provide substantially higher levels of cover than historic loss data would indicate was required.

Risk management is a fundamental part of the day to day management of the firm. This applies to our implementation of operational procedures to ensure that the risks associated with the provision of investment management services are mitigated by appropriate controls and processes and to our considered approach to stock selection and daily management of the investment portfolios managed for clients.

The Board meets routinely quarterly, or as and when necessary, and has primary responsibility for governance and oversight of the firm. The Compliance Officer provides independent oversight of our risk management process and controls, and has overseen the development of the internal Compliance and Risk regime.

Operational, market, credit and regulatory risks are reviewed regularly by the Compliance Officer.

Capital adequacy and ICAAP

Our overall approach to assessing the adequacy of our internal capital is detailed in the Internal Capital Adequacy Assessment Process ("ICAAP") document. The ICAAP process includes an assessment of all considered material risks faced by the firm and looks at the controls in place to identify, manage and mitigate those risks. The ICAAP is then stressed-tested against various scenarios to determine the level of capital that should be held.

Where risks can be mitigated by capital we have adopted a "Pillar 1 plus" approach whereby the Pillar 1 capital calculations are assessed. Where the Board considers that the Pillar 1 calculations do not adequately reflect the risk, we provide additional capital in Pillar 2.

Whilst the ICAAP is formally reviewed by the Board once a year, Senior Management review risks and the required capital more frequently as part of their routine controls work and will particularly also undertake a review when there is a planned change to operating practice which could impact our risks and capital or when changes are expected in the business environment which may impact the ability to generate income.

Capital resources

The capital requirements of the firm are monitored on an ongoing basis to ensure that at any time there is always sufficient capital in place. As at May 28th, 2016 our capital resources, for FCA purposes, were as follows:

	£'000s
Tier 1 Capital	308
Tier 2 Capital	-
Tier 3 Capital	-
Total Capital before deductions	308

We had £308k of regulatory capital after deductions in place as at May 28th, 2016, compared with an ICAAP capital requirement of £261k, resulting in a £47k (18%) surplus.

Material risks

The material risks for the firm are as follows:

Market Risk - the risk of losses due to adverse movements in equity, bond, commodity, currency and other market prices, indices, or rates, or changes in the anticipated or calculated volatility of these movements.

Market Risk is controlled as per the relevant prospectuses of each CIS scheme managed by Valu-Trac. It is the responsibility of the fund accountant assigned to the scheme to check that the fund remains within the investment guidelines as per the relevant prospectus at all times. Any breaches in investment guidelines are reported immediately to the Head of Administration, the representative of the ACD and the Compliance Officer.

Liquidity Risk - the risk that a particular asset or security cannot be traded quickly enough at its market price, possibly resulting from a dislocation in a market. Also, as positions/contracts increase in complexity and are more bespoke, the ability to unwind a position at market prices could be significantly impacted. The same may be said of large positions. Liquidity Risk is controlled as per the relevant prospectuses of each scheme managed by Valu-Trac and is generally assessed by the Fund Manager appointed by Valu-Trac. Should the fund accountant assigned to the scheme become concerned regarding this risk at the time of valuation or on a request to purchase a new intrument, this is reported to the Head of Administration, representative of the ACD and the Compliance Officer.

Counterparty Credit Risk – the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flow.

Counterparty Credit Risk is assessed in the first instance by the Compliance Officer and the Board to ensure they are properly licensed by the applicable regulator, of sufficient financial standing, and are of sound reputation.

The risk is then monitored on an on-going basis by a Fund Accountant. Should the credit rating (as per Moody's and Standard & Poor's) of a counterparty change, this would be reported to the Head of Compliance and the change in risk associated with the counterparty would be reassessed. A report is circulated daily to the Compliance Officer, Head of Alternative Investment and a representative of the ACD with a note of all counterparties and their credit rating. Any change of rating from the previous day is highlighted.

Legal and Documentation Risk – the risk that, in the event of counterparty default or a dispute, Valu-Trac may be unable to enforce or rely on rights or obligations arising under contractual arrangements entered into by Valu-Trac, or on Valu-Trac's behalf, with brokers or other counterparties.

Valu-Trac has its own legal advisors who will review from the company's perspective any legal risk due to the unexpected application of a law or regulation or because the contracts are not legally enforceable or documented correctly. These risks would be reported to the Compliance Officer.

Cash Flow Risk – the risk that a CIS will have insufficient cash to meet its obligations, including margin calls necessary to sustain its position in an exchange-traded contract (e.g. where short-dated futures contracts are used to hedge long-dated OTC transactions or where additional margin calls are made intra-day) and relevant OTC contracts.

The global exposure of a scheme, arising from the use of Financial Derivative Instruments or otherwise, shall not exceed the net asset value of the scheme. The Investment Manager will monitor leverage and global exposure on a daily basis and, where necessary, will carry out intra-day calculations. This is also monitored by the Fund Accountants and the ACD.

Operational Risk – The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events (The New Basel Capital Accord, 2001). Operational risks are ones that are relevant to the CIS and therefore the investor.

Valu-Trac maintains an internal risk register to monitor operational risk. This is updated regularly and made available to all staff. All staff are empowered to report errors. Internal and external reviews are undertaken to assist detection of unreported errors. Reporting of these errors would follow the organisational chart as set out in section 1.1.1. There is also an IT Risk Register maintained by the Head of IT.

Regulatory Risk – The Compliance Officer monitors the regulations governing CISs in particular the FCA COLL Sourcebook and UCIT Directives. Any changes in rules are notified ahead to the investment manager responsible for the OEIC to allow any changes to processes to be made. The OEIC fund accountants monitor the investments to ensure that they comply with the COLL rules and the ACD also monitors this. It is also included in internal and external compliance monitoring.

Valuation Risk – the risk that the valuation of a specific transaction may not be accurate. This risk may increase with the complexity of the transactions entered into or where assets are domiciled in different time zones.

Valuations of a CIS will always be carried out in accordance with the relevant prospectus. Valu-Trac utilises multiple independent data sources in order to minimise risk of incorrect valuations. Price exceptions are reviewed independently by the Head of the Pricing team prior to release. A notice is circulated by the Pricing team to the Fund Accountants for each Valuation Point time within the day to confirm when the prices are ready to be imported. Any errors arising for whatever reason are reported to the Head of Administration immediately.

Unitholder Risk - we should ensure:-

- a robust process for assessing the risk a client is willing and able to take is in place and includes:

1. Assessing a clients capacity for loss;
2. Identifying clients that are best suited to placing their money in cash deposits because they are unwilling or unable to accept the risk of loss of capital, and
3. Appropriately interpreting client responses to questions and not attributing inappropriate weight to certain answers;

- tools, where used, are fit for purpose and any limitations recognised and mitigated;

- any questions and answers that are used to establish the risk a client is willing and able to take and descriptions used to check this, are fair, clear and not misleading;

- a robust and flexible process for ensuring investment selections are suitable given all aspects of a clients investment objectives and financial situation (including the risk they are willing and able to take) as well as their knowledge and experience;

- the nature and risks of products or assets selected for clients are understood by them and

- clients are engaged in a suitability assessment process (including risk-profiling), which acts in the best interests of those clients.

Remuneration Policy Statement

The Remuneration Code (the Code) came into force on 1 January 2011. The aim of the Code is to ensure that UK authorised and regulated firms have risk focused remuneration policies which are consistent with and promote effective risk management, and do not expose firms to excessive risk. Valu-Trac is committed to managing its affairs to comply with the applicable requirements of the Code, within the proportionality principles. In compliance with the Code, Valu-Trac has a focused remuneration policy in place, which is consistent with and promotes effective risk management.

Valu-Trac is a limited company under which the profits of the firm are shared on the performance of the firm as a whole, rather than allocated to individual employees on the basis of their personal performance.

> Valu-Trac have taken full account of the Remuneration Principles as set out in SYSC 19A of the FCA Handbook, and are of the view that their remuneration strategy lies well within the requirements as set out in the Principles. Two particular Principles are referred to here, to exemplify and highlight the nature of Valu-Trac's strategy:-
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> Principle 1. Risk management and risk tolerance.
> Valu-Trac's policy is to create and build on long-term business relationships with their clients. Remuneration levels are set by the directors on the basis that the firm has a sufficient

infrastructure and capital to ensure that it can meet the needs of its clients both now and in the future.

Principle 12. Remuneration Structures.
Valu-Trac's structures are simple, transparent, and based on current profitability.

The directors of Valu-Trac have adopted this Remuneration Policy Statement in full. Staff to whom the Code applies (Code Staff) have been identified as shown below. Furthermore, in evidencing its commitment to the Code, Valu-Trac will look to ensure that in the future Valu-Trac's remuneration policies continue to be consistent with and to promote effective risk management, all in compliance with the Code.

This Statement, including an analysis of Code Staff, will be reviewed by the directors along with its Remuneration Policy on an annual basis.

Code Staff
In terms of the Code Valu-Trac is a Tier 4 firm. Employees share in the net profits of the firm, and whilst bonuses may be issued, they form a low percentage basis of an individual's overall earnings. Employee distributions and bonuses are set at a level where there is significant margin of safety surrounding the firm's minimum capital requirements. In Valu-Trac's view four of its employees qualify as Code staff at the present time. The aggregate remuneration expenditure including social security in respect of Code staff during the year ended May 28th 2016 amounted to £161,760.

29 July 2016