



# SANDERSON

ASSET MANAGEMENT

## MIFIDPRU 8 Disclosure Financial Year Ended 31 March 2022

### Introduction

As a UK investment firm undertaking activities within the scope of the UK Markets in Financial Instruments Directive (“**MIFID**”), Sanderson Asset Management LLP (“**Sanderson**”) (FRN: 585065) is subject to the prudential requirements of the Investment Firms Prudential Regime (“**IFPR**”) contained in the MIFIDPRU Sourcebook of the Financial Conduct Authority (“**FCA**”) Handbook. Sanderson is required to publish disclosures in accordance with the provisions and guidance outlined in MIFIDPRU 8 of the IFPR. Under the IFPR’s firm categorisation, Sanderson is categorised as a non-small non-interconnected (“**non-SNI**”) MIFIDPRU investment firm.

### Basis of Disclosure

This disclosure for Sanderson is prepared at least annually on a solo entity (i.e. individual) basis. The disclosed information is proportionate to Sanderson’s size and organisation, and to the nature, scope and complexity of Sanderson’s activities.

In accordance with the provisions of MIFIDPRU, Sanderson is currently required to provide disclosure on its:

- (i) Governance Arrangements (MIFIDPRU 8.3);
- (ii) Own Funds (MIFIDPRU 8.4 and 8.5); and
- (iii) Remuneration Policies and Practices (MIFIDPRU 8.6).

Unless stated otherwise, the disclosures herein relate to Sanderson’s most recently ended financial year, which ended on 31 March 2022. As such, Sanderson is not currently required to include disclosures relating to its Risk Management Objectives (MIFIDPRU 8.2) and Investment Policies (MIFIDPRU 8.7). Whilst some disclosure on Sanderson’s risk management objectives and policies is provided in this document as context for the other required disclosures, this may be amended or expanded in future. Disclosure of Sanderson’s investment policies may be included in subsequent versions of this disclosure statement, to the extent that those provision of MIFIDPRU apply to Sanderson.

### Significant Changes Since Prior Disclosure

In accordance with when the provisions of MIFIDPRU were first applied to Sanderson, this is Sanderson’s first such disclosure and therefore there are no significant changes to prior disclosures which require to be set out here.

## **Firm Structure**

Sanderson is an independent private limited liability partnership that provides discretionary investment management services primarily to institutional clients through commingled funds established, operated and managed by the firm. Sanderson Partners Ltd (“**SPL**”) is a member of Sanderson and holds approximately 90% of Sanderson’s capital. SPL’s capital is controlled by its former employees and their connected parties. Silchester Partners Ltd (“**Silchester**”), holds a minority stake in SPL and owns 49.9% of the total share capital, with 9.9% of the voting rights. Silchester has a membership interest in Silchester International Investors LLP, a provider of investment management services. Sanderson has one subsidiary, Sanderson Asset Management, Inc.

Sanderson’s audited financial statements are prepared in accordance with UK GAAP. Sanderson is authorised and regulated by the FCA and is registered with the United States Securities and Exchange Commission.

## **Internal Capital and Risk Assessment (“ICARA”) Document**

The provisions of MIFIDPRU require Sanderson to maintain sufficient capital and liquid resources. The approach of the business to assessing the adequacy of those resources to support current and future activities is contained in Sanderson’s ICARA document. As a long only asset manager that invests client assets primarily in publicly traded non-US equity securities, Sanderson is principally exposed to operational risk. There is, however, some small exposure to business risk and credit risk. These are discussed further below, but are typical for an asset management business.

In preparing the ICARA, Sanderson has identified the material risks facing its business. The ICARA process stress tests against these risks, in order to produce a determination on the level of resources that Sanderson is required to maintain. This feeds into the Own Funds requirement set out below.

The ICARA is updated on at least an annual basis and may be updated more frequently if a material change occurs in the risk or business profile of the firm.

## **Firm Governance**

Sanderson’s Supervisory Group is responsible for determining the risk strategy of the firm, setting the firm’s risk appetite and ensuring that risk is monitored and controlled effectively through a suitably robust operational risk management framework. It also has ultimate responsibility for the preparation and contents of the ICARA.

As a MIFIDPRU investment firm, Sanderson is subject to the requirements of the Senior Management Arrangements, Systems and Controls Sourcebook (“**SYSC**”) of the FCA Handbook. In accordance with SYSC, Sanderson must ensure that the Supervisory Group defines, oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management of the business, including the segregation of duties in the organisation and the prevention of conflicts of interest, in a manner that promotes the integrity of the market and the interests of Sanderson’s clients.

Although the Supervisory Group has overall responsibility for oversight of the business, it delegates day to day responsibilities to various business groups. Business groups are required to meet regularly and provide certain reports or information to the Supervisory Group. The Supervisory Group also works closely with the Compliance Group to ensure that Sanderson’s risk management framework is adequate and effective.

As of 31<sup>st</sup> December 2022, the Supervisory Group has four members.

<b>Supervisory Group Member</b>	<b>No. of Other Directorships Held</b>
<b>Paul Carter</b> Chief Operating Officer	1
<b>Christian Paaskesen</b> Chief Investment Officer	1
<b>Tim Sanderson</b> Non-Executive Supervisory Group Member	4
<b>Tim Linehan</b> Non-Executive Supervisory Group Member	6

### **Policy on Diversity and Inclusion**

As a small firm with low staff turnover, Sanderson’s policies on diversity and inclusion are in place at the firm level. Whilst Sanderson understands the advantages that a diverse team can offer, we do not consciously look to equalise gender or minority ratios and do not set any diversity goals for hiring. Instead, when hiring Sanderson looks to recruit the most suitable candidate in each case.

Sanderson tends to think about diversity and inclusion in the context of our partnership structure and looks at whether any particular individual can, given the opportunity and necessary training, grow their contribution and build their seniority in the firm over time. Sanderson aims to foster talent and provide solid career and/or ownership progression for all staff who demonstrate aptitude and work hard for the firm.

### **Risk Management Framework**

Sanderson’s Compliance Group has developed and maintains a risk matrix that is broken down by business function and each key underlying process within the business function. Each risk is then assessed to determine (i) the type of risk exposure (ii) its materiality and (iii) what mitigating procedures can be put in place to control the risk of error.

Sanderson’s Compliance Group supports the business and the Supervisory Group in fulfilling their regulatory obligations. This support is provided primarily through the provision of advice and training, and carrying out Sanderson’s internal risk-based monitoring programme. The monitoring programme is structured around Sanderson’s detailed risk matrix and the outcomes and recommendations of the programme are reported directly to Sanderson’s Supervisory Group. Sanderson’s Compliance Group is independent of the firm’s investment function.

The firm’s risk management framework has been designed, implemented and, as necessary, will be updated to take into account material changes in Sanderson’s business, capital obligations, or

resource requirements. Note that Sanderson does not have and is not required to establish a separate Risk Committee.

### **Risk Appetite**

Sanderson's Supervisory Group regularly reviews Sanderson's risk appetite, not least by its detailed consideration of the ICARA, Sanderson's insurance provision and its oversight and review of the firm's business' strategy.

As described further under the specific risk categories below, Sanderson's business model has remained broadly unchanged since inception. Sanderson only operates one investment programme, has placed a cap on the book cost it oversees, holds staff numbers relatively constant and regularly invests into its technology infrastructure.

Additionally, Sanderson has a low cost base, strong cash flows and a stable capital foundation. Sanderson has achieved a strong level of staff financial alignment by virtue of its PBRT model and the staff Financial Alignment Policy which it overlays onto this. Sanderson considers that, from an operational and business objective perspective, it has a low risk appetite.

### **Risk Categories and Analysis**

As a result of its normal business activities, Sanderson is exposed to a variety of risks, the most significant of which are described below.

#### *Credit Risk*

*The potential risk that arises from clients or counterparties failing to meet their obligations as they fall due.*

As an asset management company, Sanderson is subject to credit risk, although this is limited to that arising in respect of (i) unpaid investment management fees, (ii) commingled fund investments, (iii) cash deposits and (iv) prepaid expenses.

Sanderson receives investment management fees on a monthly basis from its commingled funds. The fees are calculated using the value of each underlying investor's holding in the commingled fund and are paid within five business days after each month end. As all accounts managed by Sanderson are "long only" accounts that cannot use leverage, margin or derivative products, there is little, if any, credit risk associated with the fees.

Sanderson's own investments comprise units in The Sanderson International Value Fund (Ireland), an Irish UCITS.

Sanderson's free cash flow is placed on deposit each month. Deposits are normally placed with financial institutions depending on available interest rates. The eligible banks are each approved by Sanderson's Supervisory Group with advice from Sanderson's Chief Financial Officer. The credit rating and financial strength of a bank is subject to periodic review by Sanderson's Supervisory Group. Sanderson does not utilise any risk mitigation techniques (i.e. credit default swaps) to minimise its financial exposure to bank deposits.

Credit risk arising in relation to prepaid expenses is not material.

### *Market Risk*

*The risk that the value of, or income arising from, assets and liabilities varies as a result of changes in interest rates, exchange rates or other market prices.*

Sanderson has no trading book and does not invest in commodities, futures, options or derivatives. Market risk is therefore limited to foreign exchange fluctuations where Sanderson's assets and liabilities are denominated in currencies other than GBP. Non-GBP assets primarily comprise investments in The Sanderson International Value Fund (Ireland) and a proportion of cash deposits. Sanderson regularly assesses its foreign exchange needs and exposures and does not actively seek foreign exchange exposures via forward currency hedging activities.

### *Liquidity Risk*

*The risk that a firm may have insufficient liquid resources to cover cash flow shortfalls or fluctuations in funding and be unable to meet its obligations as they fall due.*

Sanderson has no borrowing and is not dependent on external financing for any aspects of its business. Sanderson has some exposure in the event that a banking counterparty suffers severe financial distress and is unable to return some or all of Sanderson's cash deposits. Sanderson maintains sufficient assets in liquid form to meet its obligations as they arise and in practice the business has little liquidity risk.

### *Business Risk*

*The risk that a firm may not be able to carry out its business plan and/or desired strategy.*

Sanderson is a small, independent organisation, where senior management also hold a significant stake in the business via their capital contributions as members, as well as other measures of alignment (see further below). All material structural changes to Sanderson's business are subject to discussion at the Sanderson Supervisory Group level.

The principal business risks facing Sanderson are:

### Operational Risk

*The risk of loss, or breach of contractual requirements, resulting from inadequate or failed internal processes, people or systems; human error; or, external events.*

Sanderson attempts to mitigate the impact of operational risks by (i) maintaining substantial financial resources and ensuring that the business can meet its regulatory capital requirements on an ongoing basis, (ii) identifying and managing sources of risk, stress testing those risks and maintaining insurance or other capital to offset any financial losses created by those risks, (iii) aligning the interests of all staff and members with the supervision of the operations of the business through remuneration/ drawings, (iv) maintaining a risk matrix and key operating procedures ("KOPs") for all material business areas, (v) reviewing the operations of all material business groups annually, and (vi) keeping Sanderson's business, structure and operational requirements relatively simple.

## Concentration Risk

*The risk that exposures to specific sectors or asset concentration could result in losses.*

Sanderson principally invests client assets in publicly traded companies located in any country other than the United States and Canada and earns its revenue principally from a US client base. Sanderson's business could suffer (i) from a decline in its investment performance relative to benchmark indices, (ii) if US institutional investors sell their overseas investments managed by Sanderson or (iii) the US dollar sharply appreciates, negatively impacting relative returns. There is little Sanderson can do to minimise this risk except by focusing on keeping its business simple and aligned with clients, and minimising its overheads.

## Insurance Risk

*The risk of a failure of insurance cover.*

Sanderson maintains fiduciary liability (e.g. professional indemnity), crime (e.g. errors and omissions), ERISA and cybersecurity insurance at a level which Sanderson considers appropriate for its business and subject to a deductible which Sanderson can reasonably afford to meet if called upon. Sanderson seeks to obtain insurance only from well capitalised insurance firms to minimise the risk of loss arising from insurance risk.

## **Own Funds**

Under MIFIDPRU, Sanderson is required to disclose the composition of its Own Funds and provide a reconciliation of these to the balance sheet in its most recent set of audited financial statements. Sanderson is also required to describe any material aspects of its Own Funds.

<b>COMPOSITION OF REGULATORY OWN FUNDS</b>			
	<b>Item</b>	<b>Amount (in GBP thousands as of 31/03/2022)</b>	<b>Page ref. in audited financial statements</b>
<b>1</b>	<b>OWN FUNDS</b>	5,297	Sum of other items
<b>2</b>	<b>TIER 1 CAPITAL</b>	5,297	Sum of other items
<b>3</b>	<b>COMMON EQUITY TIER 1 CAPITAL</b>	5,297	Sum of other items
4	Fully paid up capital instruments	3,600	Members' capital classified as equity (page 10)
5	Share premium		
6	Retained earnings		
7	Accumulated other comprehensive income		
8	Other reserves	1,697	Revaluation reserve (page 10)
9	Adjustments to CET1 due to prudential filters		
10	Other funds		
<b>11</b>	<b>(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1</b>		
19	CET1: Other capital elements, deductions and adjustments		
	<b>ADDITIONAL TIER 1 CAPITAL</b>		<b>N/A</b>
	<b>TIER 2 CAPITAL</b>		<b>N/A</b>

RECONCILIATION OF REGULATORY OWN FUNDS TO BALANCE SHEET IN AUDITED FINANCIAL STATEMENTS				
		a	b	c
		Balance sheet as in published/audited financial statements (in GBP thousands as of 31/03/2022)	Under regulatory scope of consolidation	Page reference in Audited Financial Statements
<b>Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements</b>				
1	Investments	5,275		Page 10 for all figures in this table as labelled herein
2	Debtors	10,499		
3	Cash at bank	1,773		
	<b>Total Assets</b>	<b>17,547</b>		
<b>8</b>				
1	Creditors	1,910		
2	Members' capital classified as a liability	425		
3	Other amounts	1,229		
	<b>Total Liabilities</b>	<b>3,564</b>		
<b>Shareholders' Equity</b>				
1	Members' capital classified as equity	3,600		
2	Revaluation reserve	1,697		
3	Other reserves	8,686		
	<b>Total Shareholders' equity</b>	<b>13,983</b>		

### Description of Own Funds

Sanderson's Own Funds consists of two components:

- (i) Capital provided by SPL is permanent in nature and is not repayable except in extraordinary circumstances. It is included in Own Funds as provided by FCA rules.
- (ii) Sanderson has invested the permanent regulatory capital provided by SPL into The Sanderson International Value Fund (Ireland). This is a UCITS, where Sanderson acts as the investment manager. Unrealised gains/losses on this investment are reflected in the revaluation reserve figure above.

### Own Funds Requirements

Sanderson is required to hold Own Funds of a sufficient quantity and quality to absorb certain losses and meet specific regulatory requirements ("**Own Funds Threshold**"). Sanderson's Own Funds Threshold is the largest of the following:

- (i) Permanent Minimum Capital requirement (as established by FCA Rules). This is currently £75,000;
- (ii) Fixed Overhead Requirement ("**FOR**"). Broadly speaking, this is equal to 25% of Sanderson's annual overheads. Sanderson's FOR as of 31st March 2022 is £1.7m; and

- (iii) 'K' Factor requirement. Given the structure of its business, the only relevant K-factor to Sanderson is K-AUM. Broadly speaking, Sanderson's K-AUM requirement is equal to 0.02% of average AUM. As of 31st March 2022, Sanderson's K-AUM figure is £0.8m.

The Own Funds Threshold is increased if amounts need to be retained to meet costs related to an orderly wind down. Using reasonable assumptions, Sanderson determined that £2.1m of excess costs would be incurred in a wind down situation. As this is greater than any of the core requirements set out above, Sanderson considers that its Own Fund Threshold requirement is £2.1m, providing an excess of £3.3m.

### Remuneration Code Provisions

For the purposes of these disclosures, Sanderson Asset Management LLP and Sanderson Asset Management, Inc. are referred to as "Sanderson".

- *Link between pay and performance:* Sanderson's governing limited liability partnership agreement specifies the ratio of profits less direct costs before any remuneration or drawings (internally referred to as profits before remuneration and tax or "PBRT") to be shared. These ratios ensure that employees and members are focused on growing Sanderson's business in a profitable and efficient manner.
- *Decision-making process for determining remuneration:* Responsibility for determining remuneration and partnership participation levels rests with the Supervisory Group which seeks to obtain feedback on the performance and contribution of each individual employee or member. Remuneration and partnership distributions are not based on the profitability of any specific investment recommendation, the implementation of a given trade(s), the growth/retention of any particular investor, or the age, religion, gender, sexual orientation, ethnicity, or disability of any member of staff. Broad parameters have been established to reward individuals having regard to contribution and ownership of responsibility, reliability and total remuneration. Market levels are also taken into account. Variable remuneration payments are primarily made in the form of cash bonuses. Bonuses and discretionary drawings are only paid after Sanderson ensures that FCA capital and liquidity requirements are satisfied.
- *Split Between Fixed and Discretionary Components* - Fixed aspects of remuneration should be more oriented to those with a reliable proven record of adding value and discharging responsibility. Where such a record has not been established, the flexibility of discretionary payments is more appropriate. Fixed aspects of expenditure should be kept low as this provides the greatest level of flexibility and allows Sanderson to withstand various stresses – performance volatility, loss of client assets, exchange rate volatility and changes in interest rates – without needing to terminate staff.
- *Policy on Alignment and Co-Investment:* This policy requires all staff to invest a sum equivalent to 10% to 20% of their total gross remuneration in any financial year in specified financial instruments linked to Sanderson and its business (either shares of SPL, partnership capital in Sanderson or investments in one of Sanderson's funds). The alignment rate and the minimum amount which is expected to be invested in stock varies depending on whether the staff member is a legal member, part of the Investment Team or another business group. The investments made under this policy cannot be sold until an individual resigns, retires from or otherwise leaves the firm



- *Code Staff Criteria:* Although not all members of the firm are “risk takers” or actively involved with research and portfolio implementation, Sanderson currently classifies all staff with more than two years’ experience at the firm as Code Staff from an administrative perspective, although it may elect to declassify certain employees as Code Staff based on the Guidance adopted by the FCA. As of 31 March 2022, Sanderson had 21 staff members, 17 of whom were considered to be Code Staff/materials risk takers.
- *Quantitative Remuneration Disclosures:* Senior management, defined here as legal members of Sanderson Asset Management LLP, received remuneration of £8.7mn for the year ended 31 March 2022 (of this, elements of fixed remuneration accounted for approximately 15% of this figure). Employees of the firm, including Material Risk Takers and other staff (aggregated here for the purposes of privacy), received remuneration of £4.7mn, (of this, elements of fixed remuneration accounted for approximately 45% of this figure).
- *Remuneration Committee:* Note that Sanderson does not currently have and is not required to establish a Remuneration Committee.

As of 31 March 2022