Pillar III Disclosure

Introduction

Shikuma Capital Limited ("Shikuma" or "the Firm") is an investment management firm authorised and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom ("UK"). Shikuma is prudentially categorised as a "Collective Portfolio Management Investment" ("CPMI") firm. Shikuma is subject to a regulatory capital framework which, *inter alia*, requires Shikuma to publicly disclose specific information about the Firm's risks, management arrangements, capital resources and remuneration structures. This is known as the Pillar III Disclosure. The Pillar III Disclosure requirements are set out in BIPRU 11 of the FCA's Handbook of Guidance and Rules ("FCA Handbook").

In line with BIPRU 11.3.5R and BIPRU 11.3.6R of the FCA Handbook, Shikuma may omit certain information from its Pillar III Disclosure if the information is not regarded as material or the information is regarded as proprietary or confidential. Shikuma has chosen to omit certain information that is deemed immaterial and/or regarded as proprietary or confidential. Shikuma is satisfied that these omissions satisfy the technical criteria in relation to materiality and proprietary or confidential information as set out in BIPRU 11.4.1R and BIPRU 11.4.2R, respectively. Notwithstanding these omissions, Shikuma believes that its Pillar III Disclosure accurately conveys its risk profile comprehensively to market participants.

This Pillar III Disclosure has been prepared in good faith and the information contained herein is believed to be complete and accurate as at the time of writing. Unless otherwise stated, the information in this Pillar III Disclosure is based on Shikuma's audited financial statements for the fiscal year ending 31st December 2021. This Pillar III Disclosure, which is made publicly available by the Firm, is intended to meet the Shikuma's regulatory obligations under BIPRU 11 of the FCA Handbook.

Shikuma is making this Pillar III Disclosure in accordance with MIFIDPRU TP 12 (Disclosure requirements: transitional provisions) of the FCA Handbook. In particular, it is noted that, as per MIFIDPRU 12.5, "where a firm is required by BIPRU 11 or Part Eight of the UK CRR to makes disclosures with a reference date before 1 January 2022, it must still publish those disclosures even if the permitted deadline for publication falls on or after 1 January 2022. The deletion of BIPRU 11 or the removal of MIFIDPRU investment firms from the scope of the UK CRR with effect from 1 January 2022 does not relieve the firm of its obligation to make those disclosures in accordance with the original deadline". The reference date of this Pillar III Disclosure is 31st December 2021.

Furthermore, it is noted that, as a result of the implementation of the UK's Investment Firm Prudential Regime ("IFPR"), Shikuma will, going forward, cease to publish its Pillar III Disclosure on an annual basis and, instead, will publish the relevant disclosures under MIFIDPRU 8 (Disclosure) of the FCA Handbook.

Scope and application of the requirements

Shikuma provides discretionary investment management services to its clients. The Firm does not, nor does it have the regulatory permission to, deal on its own account and/or deal as a principal. As such, Shikuma has no trading book exposures.

Shikuma is not part of a group and the Firm's financial statements are prepared on a solo basis.

Risk management and appetite

The day-to-day risk management of Shikuma's business typically involves identifying risks through a framework of policies, procedures, systems and internal controls that take account of relevant laws, standards, principles and rules, including the FCA's requirements. These policies, procedures, systems and internal controls aim to ensure that the Firm operates with utmost integrity and professionalism in all business dealings. The Firm considers risk as part of its normal business operations and formally documents its risk findings in detail within its Internal Capital Adequacy Assessment Programme ("ICAAP")[1]. Risk management is not a standalone topic. Risk exists in all areas of the Firm's business including, but not limited to, portfolio management, trading, operations and compliance. As such, risk management is an underlying and inherent consideration in all the policies, procedures, systems and

[1] It is noted that the ICAAP is to be replaced by the Internal Capital Adequacy and Risk Assessment ("ICARA").

internal controls that Shikuma has established, implemented and maintains. Risk management is embedded within the day-to-day operations of the Firm to ensure that risks are mitigated as far as reasonably possible.

Collectively, Shikuma's Directors are responsible for setting the Firm's risk appetite. Shikuma's Directors meet on a periodic basis and discuss current projections for profitability, cash flow, regulatory capital management, business planning and risk management. Through its framework of policies, procedures, systems and internal controls, Shikuma aims to operate a defined, effective and transparent risk management framework. These policies, procedures, systems and internal controls are periodically reviewed, both formally and informally, and are updated, as required.

Shikuma's Directors have identified that business, operational, market, credit, professional liability and liquidity risk are the main areas of risk to which the Firm is exposed. On a periodic, typically annual basis, Shikuma reviews the Firm's risks, internal controls and other risk mitigation arrangements and assesses their ongoing effectiveness. To the extent required, updates on operational matters are provided to the Firm's Directors. Shikuma's monthly management accounts monitor the continuing adequacy of the Firm's regulatory capital resources to meeting the Firm's regulatory capital resources requirement. In the event that new risks emerge or existing risks are amplified, appropriate action is taken to mitigate these risks and to ensure that these risks fit within Shikuma's risk appetite.

Consideration of Risks

Shikuma has given due consideration to the main areas of risks to which the Firm is, or may be, exposed. The predominant risks facing Shikuma have been categorised as follows:

Risk Type	Description and Management Response
Key Person Risk	As a small firm, the loss of a key person is a material risk which must be considered. The success of the Firm is dependent on the expertise of the key personnel at Shikuma. The loss of one or more key persons may have a material adverse effect on the performance of the Firm and/or the investment strategy that the Firm employs. While Key Person Risk cannot be completely avoided, it is somewhat mitigated by the fact that there are four Founding Partners involved in the management of the Firm's business affairs. Shikuma will take all reasonable steps to mitigate key person risk, as much as practically possible, through a combination of cross-training and the production of operating procedures. In addition, in certain cases, Shikuma's service providers are able to provide extra assistance in the event that one of the Firm's key persons becomes incapacitated. For example, in the event that Shikuma's Compliance Officer was absent as a result of an unforeseen event, Shikuma's regulatory and compliance service provider, Varramore Partners Limited ("Varramore"), would be able to provide additional support to the Firm during this period. While all four Founding Partners within the Firm are considered very important and their loss would have a significant impact on Shikuma, it is felt that the Firm would be able to effectively manage a period during which a key person is incapacitated and, if necessary, to the transition of the responsibilities of an incapacitated key person to a another of the Founding Partners or to a replacement employee.
Customer Concentration Risk	While Shikuma only has two customers (i.e., the fund and the segregated/managed account), there is multiple underlying investors in the fund. As at the time of writing, the number of underlying fund investors is less than 20. As the fund matures, this number is expected to increase significantly. Shikuma acknowledges that, as an emerging firm, customer concentration risk is a material risk in the early stages but, as the fund grows, customer concentration risk is expected to reduce.
Business	This is the risk of loss inherent in the business and the specific domains in which it operates.

	Shikuma's revenue is reliant on the performance of the portfolios that it manages on behalf of its clients. As such, the risk posed to Shikuma relates to underperformance resulting in a decline in revenue or adverse market conditions hindering the Firm's ability to generate performance fees. In such circumstances, there is also an increased risk of redemptions. Business risk also includes a failure to reach a base level of assets under management ("AuM") leading to lower than anticipated income. These risks are mitigated, to an extent, by the fact that initial funding for the fund is provided by the Founding Partners and family/friends of the Founding Partners. This has given the Firm a platform to launch the fund and time for the fund to implement its strategy, seek additional investors and establish a positive track record. Notwithstanding the above, due to the nature of the Shikuma's business, it is very difficult to mitigate these risks. Nevertheless, through a combination of (a) the continued support of the Firm by its Directors, (b) the significant levels of capital held by the Firm and (c) prudential liquidity management, Shikuma is in a position to continue to cover all the expenses of the business for a prolonged period.
Operational	This is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risk. The Firm has well-structured processes and controls in place which, inter alia, are designed to minimise operational risk. Through the establishment and implementation of effective operational policies, procedures, systems and internal controls (including adequate training of staff), operational risks are mitigated to an acceptable level. To the extent that the Firm outsources activities that could give rise to operational risk, these are mitigated to an acceptable level through regular oversight and the appointment of professionally-competent service providers only. Operational risk is monitored by Shikuma on a continuous basis, both formally and informally.
Market	This is the risk that changes in market prices, such as interest rates and foreign exchange, affect Shikuma's income and/or the value of certain assets. Shikuma does not have a trading book and, as such, market risk is limited. However, Shikuma is indirectly exposed to market movements through the impact a market downturn may have on the value of the Firm's assets under management and the consequential impact on the performance fees that Shikuma generates. In addition, Shikuma is directly exposed to foreign exchange risk in respect of its accounts receivable being calculated in US dollars and cash balances held in US dollars, whilst the Firm's operating expenses and reporting currency is UK sterling. Gains and losses arising from foreign exchange movements are monitored on a regular basis. Shikuma may choose to mitigate foreign exchange risk by hedging its foreign currency exposures.
Credit	This is the risk that a party will default on a financial agreement. Primarily, the Firm is exposed to credit risk as follows: • Investment management fees due to it from its client, • Other debtors, and • Cash held on deposit (Coutts). The risks are mitigated by: • periodic monitoring of the financial strength of the credit institutions with whom the Firm banks; • contractual arrangements being in place in relation to the payment of fees (e.g., management fees are payable within 30 days of their calculation) and the monitoring of payments against agreed payment arrangements; and • engaging with reputable credit institutions and service providers. Shikuma believes that the Firm holds sufficient capital to manage credit risks.
Professional Liability	This is the risk that the Firm's professional indemnity insurance cover is not adequate and, therefore, exposes the Firm to losses arising out of claims.

	Shikuma has a legal responsibility for risks in relation to investors, products and business practices including, but not limited to; loss of documents evidencing title of assets of the alternative investment funds ("AIFs") which it manages; misrepresentations and misleading statements made to the AIFs or its investors; acts, errors or omissions; failure by the senior management to establish, implement and maintain appropriate procedures to prevent dishonest, fraudulent or malicious acts; improper valuation of assets and calculation of unit/share prices; and risks in relation to business disruption, system failures, process management. The Firm is aware of, and monitors, a wide range of risks within its business operations and towards its investors. The Firm has in place appropriate internal operational risk arrangements to monitor and detect these risks and also has professional indemnity insurance cover. Shikuma periodically, typically annually, reviews the professional indemnity insurance policies that the Firm has in place to ensures that they are sufficient for the level of activity and business that the Firm conducts.
Liquidity	This is the financial risk due to uncertain liquidity. Liquidity mismatches could occur as a result of inadequate or failed internal processes and/or systems in relation to monitoring and managing asset/liability profiles and related cash flows. Liquidity risk is managed by the following specific controls: • Preparation of budgets; • Monitoring of current cash levels and of short-term cash requirements; and • Monthly management accounts (including assessment of cash surplus/deficit) Shikuma is required to maintain sufficient liquidity to ensure that there is no significant risk that its liabilities cannot be met as they fall due or to ensure that it can secure additional financial resources in the event of a stress scenario. As part of Shikuma's risk management framework, the Firm regularly monitors its liquidity position. Shikuma retains an amount it considers suitable for providing sufficient liquidity to meet the working capital requirements under normal business conditions. The Firm has sufficient liquidity within the business to meet its obligations and there is no perceived threat to this given the cash deposits its holds. Bank reconciliations and cash flows are prepared on a regular basis to ensure that all liabilities are understood and able to be settled as they fall due.
Employee Risk	This is the risk that the Firm does not have the ability to attract, retain and develop talented people. Shikuma's team consists of four Founding Directors with extensive experience in the investment management sector. As Founding Directors, with equity ownership in Shikuma, they are committed to the long-term success of the Firm. In the event that Shikuma wishes to hire new employees, the Firm will aim to offer competitive remuneration packages to employees, including a discretionary bonus scheme.
Regulatory and Compliance Risk	This is the risk that Shikuma does not adhere to the relevant regulatory requirements or does not stay abreast of material changes in the regulatory landscape. Shikuma has engaged Varramore to provide governance, risk and compliance services to the Firm. In addition to assisting the Firm with its day-to-day compliance needs, Varramore will keep Shikuma informed of any material regulatory changes that apply to the Firm and help Shikuma ensure that it is meeting any new regulatory requirements as and when they take effect.
Reputational Risk	This is the risk of damage to Shikuma's reputation that could lead to negative publicity, costly litigation, a decline in the investor interest or the exit of key employees and, therefore, directly or indirectly to a loss of revenue.

	Reputational risk cannot be completely mitigated. However, the Founding Directors of Shikuma have built up good reputations over the course of their careers to date, Furthermore, they possess honesty and integrity. This significantly helps to mitigate reputational risk.
Interest Rate Risk	This is the risk of potential losses arising from fluctuations in interest rates. Shikuma does not feel that interest rate risk will pose a tangible threat to the Firm's ability to meet its capital resource requirement.
Foreign Exchange Risk	This is the risk of potential loss arising from fluctuations in foreign exchange ("FX") rates. Shikuma notes that, as the Firm's income is in US dollars (USD) and the Firm's expenditure in UK pound sterling (GBP), the Firm is exposed to USD/GBP FX Risk. However, it is also noted that both USD and GBP are stable currencies and that the USD/GBP currency pair is considered to be relatively low volatility. Shikuma does not feel that foreign exchange risk poses a tangible threat to the Firm's ability to meet its capital resources requirement.

As at the time of writing, Shikuma has no exposure to and does not foresee any exposure to the following types of risks – securitisation risk and pension obligation risk. As such, these types of risks are not relevant to the Firm and have not been considered in the table above.

Capital Resources

In line with the FCA's requirements, Shikuma must maintain, at all times, capital resources equal to (or in excess of) the higher of the Firm's base capital resources requirement or variable capital resources requirement. As a CPMI firm, Shikuma's base capital resources requirement as at 31st December 2021 was as follows:

Base capital resources requirement
• €125,000 (or other currency equivalent).

As a CPMI firm, Shikuma's variable capital resources capital requirement as at 31st December 2021 was calculated as follows:

Variable capital resources requirement calculation
The higher of
• €125,000 plus 0.02% of AIF AUM above €250 million (the "funds under management requirement"); • the sum of the credit risk capital requirement and the market risk capital requirement; or • 1/4 of the firm's annual fixed overheads (the "fixed overheads requirement").
Plus, whichever is applicable:
• The professional negligence capital requirement; or • The PII capital requirement.

Shikuma has concluded that the fixed overheads requirement determines the Firm's Pillar I Requirement. The Firm does not believe that it needs to hold Pillar II Requirement capital. Shikuma's total capital resources and total capital resources requirement, as at the 31st December 2021, are as follows:

Description	Amount held (£,000)
Tier 1 Capital	439
Tier 2 Capital	0
Deductions from Tier 1 Capital and/or Tier 2 Capital	(132)
Total Capital Resources	**307**
Total Capital Resources Requirement	**105**
Surplus/Deficit	**202**

As shown in the table above, as at 31st December 2021, the total capital resources that the Firm held exceeded the Firm's total capital resources requirement and provides a significant capital "buffer".

Remuneration

As a Full-Scope UK AIFM that is authorised and regulated by the FCA, Shikuma is subject to the AIFM Remuneration Code (SYSC 19B of the FCA Handbook). The AIFM Remuneration Code applies to the Firm in respect of the fixed and variable remuneration that Shikuma pays to its Directors and employees. Enshrined in the UK's remuneration provisions is the principle of proportionality. Due to the size, nature, scale and complexity of Shikuma's business, the Firm is not deemed to be a "Significant AIFM" and, as such, Shikuma can apply the principle of proportionality to certain requirements of the AIFM Remuneration Code. In practice, Shikuma remunerates its Directors through a combination of fixed and variable remuneration. Shikuma's approach to remuneration is designed to comply with the AIFM Remuneration Code. The Firm's remuneration arrangements:

- are consistent with and promotes sound and effective risk management;
- do not encourage excessive risk taking;
- include measures to avoid conflicts of interest; and
- are in line with the Firm's business strategy, objectives, values and long-term interests.

Shikuma must disclose certain information on at least an annual basis regarding the Firm's approach to remuneration. The disclosure is made in accordance with our size, internal organisation and the nature, scope and complexity of our activities. The following disclosures are made:

- Shikuma's approach to remuneration has been set by the Firm's Directors and is in line with the AIFM Remuneration Code (as set out in SYSC 19B of the FCA Handbook). The Firm's approach is documented in its Remuneration Policy.
- Remuneration consists of both fixed remuneration (i.e., salaries) and variable remuneration (i.e., bonuses). Variable remuneration is discretionary.
- Shikuma's Directors and employees are rewarded based on their contribution to the overall strategy of the business in the relevant business area to which they are associated including, but not limited to portfolio management, risk management, business development, operations, compliance and finance.
- The FCA's requirement to disclose aggregate quantitative remuneration data permits Shikuma to take account of the provisions of the United Kingdom's Data Protection Act 2018. Due to the small size of the Firm and the small number of Directors and employees assessed as Remuneration Code Staff, Shikuma believes that, in line with the Data Protection Act 2018, it is appropriate not to disclose aggregate quantitative remuneration data in this Pillar III Disclosure.