



## GLENDOWER CAPITAL

### PILLAR 3, STEWARDSHIP AND REMUNERATION CODE DISCLOSURE

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## 1. Introduction

This document is designed to meet Glendower Capital LLP (the 'Firm') Pillar 3 disclosure obligations.

This Pillar 3 disclosure document has been prepared by the Firm in accordance with the requirements of the BIPRU 11 sourcebook of the FCA Handbook and is verified by the Partners of the Firm. Unless otherwise stated, all figures are as at the 31 December 2019 financial year-end.

Pillar 3 disclosures will be issued on an annual basis shortly after the completion of the Firm's annual report and accounts.

The FCA does not expect disclosures to be made that are regarded as immaterial, proprietary or confidential. Information that is regarded as material is if on its omission or misstatement, could change or influence the assessment or decision of a user relying on it to make economic decisions. Proprietary or confidential information could include information, which, if shared with competitors, would render a firm's investments less valuable or if the information comprises obligations to clients or other counterparty relationships binding a firm to confidentiality. Where such omissions have been made, details of the information not disclosed with reasons will be included.

## 2. Pillar 3 Capital Adequacy Disclosure

### Introduction

The Capital Requirements Directive ('CRD') and Alternative Investment Fund Management Directive ('AIFMD') of the European Union establish a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain.

In the United Kingdom, the CRD and AIFMD have been implemented by the Financial Conduct Authority ('FCA') in its regulations through the General Prudential Sourcebook ('GENPRU'), the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU'), The Interim Prudential Sourcebook for Investment Business ("IPRU (INV)").

The CRD consists of three 'Pillars':

- Pillar 1 sets out the minimum capital requirements that firms are required to meet for credit, market and operational risk;
- Pillar 2 requires firms to take a view on whether additional capital should be held against capital risks not covered Pillar 1; and
- Pillar 3 requires firms to publish certain details of risks, capital and the risk management process.

The AIFMD adds further Own Funds Requirements based on the Alternative Investment Fund ('AIF') assets under management and professional liability risks.

### Scope and application of the requirements

The Firm is authorised and regulated by the FCA and as such is subject to minimum Own Funds Requirements. The Firm is categorised as a Collective Portfolio Management Investment Firm ('CPMI') Firm' by the FCA for capital purposes.

It is an agency investment management firm and as such has no trading book exposures.

The Firm is not a member of a group and so is not required to prepare consolidated reporting for prudential purposes.

### Risk management

The Firm has established a risk management process in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. The risk management process is overseen by the Partners who take overall responsibility for this process and the fundamental risk appetite of the Firm. The Chief Compliance Officer has responsibility for the implementation and enforcement of the Firm's risk principles.

The Partners meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, business planning and risk management. The Partners manage the Firm's risks through a framework of policy and procedures having regard to the relevant laws, standards, principles and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required.

The Partners have identified that business, operational, market and credit are the main areas of risk to which the Firm is exposed. On an annual basis the Partners formally review the risks, controls and other risk mitigation arrangements and assess their effectiveness.

A formal update on operational matters is provided to the Partners on a regular basis. Management accounts demonstrate continued adequacy of the Firm's regulatory capital and are reviewed on a regular basis.

Appropriate action is taken where risks are identified which fall outside of the Firm's tolerance levels or where the need for remedial action is required in respect of identified weaknesses in the Firm's mitigating controls.

### Material Risks

Specific risks applicable to the Firm come under the headings of business, operational, credit and market risks.

### Business risk

The Firm's revenue is reliant on its ability to launch new funds and obtain new mandates as well as retaining the relationships with existing key customers. Business risk is influenced by numerous factors, including reputational damage, key man events, competition, the overall economic climate and government regulations. This risk is mitigated by the long-term nature of the funds and advisory contracts, the Firm's track record and the Firm's scalable business model which allows it to react quickly and effectively to triggers.

### Operational risk

The Firm places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities in this respect.

The Firm has identified a number of key operational risks to manage. These relate to key man risk, breaches in investment process, abuse of insider information, money laundering, GDPR and cybersecurity breaches.

The Firm has implemented systems and controls to enable it to effectively manage risks posed by its business activities. These are contained within the Firm's compliance manual together with a compendium of policies which detail how the Firm will operate. These systems and controls arrangements are reviewed periodically and tested on a regular basis through regular compliance monitoring. The outcomes of the monitoring are presented to the Firm's Partners in the form of a report of the areas tested together with recommendations.

The Firm has a responsibility under the AIFMD for risks in relation to investors, products and business practices. In addition to the internal operational risk policies and procedures to monitor and detect these risks the Firm has in place appropriate and comprehensive coverage of professional indemnity insurance.

#### Credit risk

The Firm is exposed to credit risk in respect of its management fees and performance fees invoiced and cash held on deposit.

The number of credit exposures relating to the Firm's investment management clients is limited. The Firm considers that there is little risk of default by its clients. All bank accounts are held with large international credit institutions.

Given the nature of the Firm's exposures, no specific policy for hedging and mitigating credit risk is in place.

The detailed breakdown of the component parts of the credit risk capital requirement has been omitted on the basis it is not material.

#### Market risk

The Firm takes no market risk on its own balance sheet other than foreign exchange risk in respect of its accounts receivable and cash balances held in Euros and US Dollars.

No specific strategies are adopted in order to mitigate the risk of currency fluctuations but the Partners are developing a currency hedging strategy as the exposures grow in size, such that hedging can be deployed in the event exposures exceed the Firm's risk appetite in respect of foreign exchange risk.

The detailed breakdown of the component parts of the foreign exchange risk capital requirement has been omitted on the basis it is not material.

### Liquidity risk

The Firm maintains a Liquidity Risk Management Framework, the purpose of which is to:

1. Identify any unwanted risks in relation to liquidity risk;
2. Design and implement procedures to eliminate or mitigate those risks;
3. Put processes in place to ensure that there is effective oversight and monitoring of liquidity risk; and
4. Ensure there are contingency plans in place where possible in relation to identified risks.

The Firm retains an amount it considers suitable for providing sufficient liquidity to meet the working capital needs under normal business conditions. The cash position of the Firm is monitored by the Finance Team on a daily basis.

### Capital Adequacy

The Firm is a Limited Liability Partnership and its capital arrangements are established in its LLP Agreement. Its capital is summarised as follows:

#### Own Funds

The main features of the Firm's capital resources for regulatory purposes are as follows:

	<b>31 December 2019</b> <b>£'000</b>
Tier 1 capital	1,764
Tier 2 capital	-
<b>Total capital resources</b>	<b>1,764</b>

### Pillar 1 Own Funds Requirement

As discussed above the Firm is a CPMI firm and as such its Own Funds Requirements are the higher of:

- sum of credit risk requirement and market risk requirement; and
- sum of:
  - higher of:
    - fixed overheads requirements; and
    - FUM capital requirements;
  - PII capital requirement.

*Credit risk requirement* – the Firm has adopted the simplified standardised approach to credit risk.

*Market risk requirement* – the Firm has adopted the simplified standardised approach market risk.

*Fixed overheads requirement* – calculated, in accordance with FCA rules, based on the Firm's projected annual expenditure.

*FUM capital requirement* – 0.02% is taken on the AUM of all funds managed by the Firm (for which it is the appointed AIFM) in excess of €250m. AUM is valued as the absolute value of all assets

including assets acquired through the use of leverage, whereby derivative instruments shall be valued at their market value.

*Pillar 1 capital requirement* – 0.01% is taken on the AUM of all AIFs where the Firm is the portfolio manager, including AIFs where the Firm is managing as a delegate. AUM is valued as the absolute value of all assets including those acquired through the use of leverage, whereby derivative instruments are valued at their market value.

The firm is not subject to an operational risk requirement.

It is the Firm's experience that the fixed overhead requirement plus the PII capital requirement establishes its Pillar 1 Own Funds Requirement, in total being **£1.3 million**.

The Pillar 1 Own Funds Requirements are monitored by the Finance Team and reported to the Partners on a monthly basis.

### **Pillar 2 Assessment of Own Funds and Own Funds Requirement**

In the course of carrying out its internal capital adequacy assessment process ('ICAAP'), the Partners have:

- considered the major risk scenarios, with quantitative and qualitative aspects, that may affect the continuity and viability of its business as well as the procedures which are in place to mitigate these risks;
- assessed the Firm's systems and controls as being adequate and sufficiently flexible to accommodate the Firm's existing business plans;
- formulated a comprehensive orderly wind-down plan and estimated the associated costs to ensure Own Funds and liquid resources would be sufficient in such an event. Due to income arising as a result of notice period on investment management and investment advisory contracts, income receivable during a wind-down period is estimated to exceed the estimated costs, therefore the Partners are confident that the net cost of an orderly wind-down would be **nil**. Consequently, the Partners have concluded that no incremental Pillar 2 Own Funds Requirement is necessary;
- assessed and quantified the residual risks arising from the Firm's risk assessment process. This quantification has yielded a total Pillar 2 Own Funds Requirements of **£1.2 million** in relation to all risks in aggregate across the Firm's risk profile. As this is less than the Pillar 1 Own Funds Requirement the Board has concluded that the Pillar 1 Own Funds Requirement shall represent the overall Own Funds Requirements; and
- conducted stress and scenario testing based on risks identified in the Firm's risk assessment process. None of these caused the surplus to be eroded below the overall Own Funds Requirements (i.e. £1.3 million). Therefore, the Partners have concluded that known or reasonably foreseeable events would not cause the Firm's capital resources to become in breach of its Own Funds Requirements and has therefore concluded that the Firm is currently adequately capitalised and does not recommend the injection of further capital resources.

### Overall capital adequacy

Having challenged the ICAAP the Partners have concluded that the level of Own Funds Requirements quantified therein is proportionate to their assessment of the level of complexity of the Firm's business and the risks to which it is exposed in accordance with the requirements of GENPRU and BIPRU.

With Own Funds of **£1.7 million** and an overall Own Funds Requirement of **£1.3 million** the Partners are confident that the resulting solvency ratio of **133%** is healthy and sufficient to withstand the risks to which the Firm is exposed.

### 3. UK Financial Reporting Council's Stewardship Code Disclosure

FCA COBS Rule 2.2.3R requires FCA authorised firms to disclose whether they conform to the requirements of the UK Financial Reporting Council's Stewardship Code (the 'Code'). Adherence to the Code is voluntary.

The Firm pursues a private equity secondaries investment strategy. Consequently, while the Firm supports the objectives that underlie the Code, the provisions of the Code are not relevant to the investment strategy undertaken by the Firm.

If the Firm investment strategy changes in such a manner that the provisions of the Code become relevant, the Firm will amend this disclosure accordingly.

### 4. Shareholder Rights Directive Disclosure

The Firm does not comply with the requirements of the Shareholder Rights Directive ("SRD II"), as it considers that it has an investment strategy that is not commensurate with outcomes sought thereunder. The Firm is predominantly a secondary private markets focused investment manager and its strategy does not include trading equities on regulated markets. Moreover, the Firm ensures that its clients are regularly and routinely apprised of the investment strategies employed by the Firm. As such, it is felt the clients would not expect the Firm to achieve compliance with the core requirements of the SRD II and hence makes this disclosure in accordance with COBS 2.2B.5R (2).

### 5. Remuneration Code Disclosure

#### Introduction

The Firm's remuneration policy is designed to ensure the Firm complies with the Remuneration Code.

The policy is designed to create a direct link between reward and performance and ensure remuneration arrangements:

- Are consistent with and promotes sound and effective risk management;
- Do not encourage excessive risk taking which is inconsistent with the risk profiles or constitution of the AIF(s);
- Include measures to avoid conflicts of interest; and
- Are in line with the Firm's business strategy, objectives, values and long-term interests.

Total remuneration is determined in light of:

- Individual performance both commercially and with reference to the appraisal methods detailed in the remuneration policy;
- The performance of the relevant business unit (with the exception of the Compliance function); and
- The results of the Firm as a whole.

#### Proportionality

In terms of the applicable regulations, the Firm falls within the FCA's proportionality level four. As a result, the Firm is able to disapply certain of the FCA's rules under the principle of proportionality, which permits the Firm to take into account its size, nature and complexity when applying such rules where appropriate. In this respect, the Firm's remuneration policy reflects the proportionality principle and rewards individual and team performance in order to align employees' interest with those of the Firm and the relevant investment strategy.

Specifically, the Firm ensures that appropriate fixed compensation (such as salary and benefits in kind) and variable compensation (such as cash bonus) are awarded in a manner consistent with the nature of the business, applicable law and market practice.

#### Information on Code Staff Remuneration

The Firm has included all natural persons who fall into the below categories as 'Code Staff' with respect to the FCA's Remuneration Code:

- Senior management (including NEDs), control functions (i.e. staff responsible for compliance, risk and audit), business unit heads, risk takers (including portfolio managers);
- Delegates who provide portfolio management or risk management;
- Staff who exert a material influence on the risk profile of the AIF or AIFM; and
- Any employee remunerated in the same bracket as the above

For the Financial year ended 31 December 2019, 8 individuals were identified as 'Code Staff'.

Disclosure of the aggregate remuneration for Code Staff permits firms to take account of the provisions of the Data Protection Directive (Directive 95/46/EC) regarding the protection of individuals in relation to the processing of personal data. The Partners are senior managers remunerated by a profit share representing a return on equity in the in the partnership. Due to the residual low numbers of Code Staff receiving remuneration, as defined by the Code, reliance has been taken upon BIPRU 11.5.20R(2) in determining that aggregate quantitative disclosure for Code staff is inappropriate.