



## GLENDOWER CAPITAL

### PILLAR 3, STEWARDSHIP AND REMUNERATION CODE DISCLOSURE

April 2022

## CONTENTS

1.	Introduction to Glendower Capital, LLP .....	3
2.	Pillar 3 Capital Adequacy Disclosure .....	3
	Introduction .....	3
	Scope and application of the requirements.....	4
	Risk management.....	4
	Approach to Risk and Risk Appetite .....	4
	Business risk .....	5
	Operational risk .....	5
	Credit risk .....	5
	Market risk .....	6
	Liquidity risk .....	6
	Capital Adequacy.....	6
	Own Funds.....	6
	Pillar 1 Own Funds Requirement.....	6
	Pillar 2 Assessment of Own Funds and Own Funds Requirement .....	7
	Overall capital adequacy .....	8
3.	UK Financial Reporting Council’s Stewardship Code Disclosure .....	8
4.	Shareholder Rights Directive Disclosure .....	8
5.	Remuneration Code Disclosure.....	9
	Introduction .....	9
	Proportionality .....	9
	Information on Code Staff Remuneration .....	10

## 1. Introduction to Glendower Capital, LLP

This document is designed to meet Glendower Capital, LLP's (the "Firm") Pillar 3 disclosure obligations. Given its business and scope of regulatory permissions, the Firm is classified by the FCA as a limited license Collective Portfolio Management Investment Firm ("CPMI"). It is also a full scope UK Alternative Investment Fund Manager ("AIFM").

The Firm is subject to the new Investment Firm Prudential Regime ("IFPR") from 1 January 2022. The governing body of the Firm does not anticipate a meaningful change to the Firm's capital requirement arising from the new rules, but is preparing to realign its processes to have an Internal Capital and Risk Assessment (ICARA) in place and otherwise to comply with IFPR. The Firm anticipates that it will initially be categorised as a 'small and non-interconnected investment firm' (SNI).

The Pillar 3 disclosures under IFPR are not required until 2023, and therefore, the disclosures below are pursuant to the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") rules, and where relevant, the General Prudential Sourcebook ("GENPRU") of the handbook of rules and guidance (the "FCA Handbook") of the UK Financial Conduct Authority (the "FCA").

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 2021 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 Pillar 3 disclosures are not subject to audit and are provided solely in satisfaction of the Firm's regulatory requirements.

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 European Union Capital Requirements Directive ("CRD") and Alternative Investment Fund Managers Directive ("AIFMD") 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 FCA in the FCA Handbook.

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 contains event-driven additional capital requirements arising from actual or potential risks that are not covered by 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 by the Firm 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. It is an investment management firm which deals as agent on behalf of clients/funds 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 Risk 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 policies 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.

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.

### Approach to Risk and Risk Appetite

The Partners have identified business, operational, market, credit and liquidity as 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.

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.

### 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, data protection (including the UK General Data Protection Regulation) 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 to identify and manage 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 advisory fees invoiced and cash held on deposit, and the Firm's counterparties defaulting on their obligations.

As at 31 December 2021, the Firm's credit risk exposure is limited to cash held at banks, and clients failing to pay the Firm's accrued fees derived from the funds which the Firm manages. All bank accounts are held with large, international, duly authorised and highly rated credit institutions. The Firm considers that there is little risk of default by its investors, who are primarily institutional and professional clients. In addition, as discussed above, the Firm does not have a trading book, and its credit exposure is therefore, limited.

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. Market downturn is not considered a significant risk to the Firm because of the fixed nature of its income.

No specific strategies are adopted in order to mitigate the risk of currency fluctuations, although the Partners review the currency exposure on an ongoing basis and if deemed appropriate a currency suitable hedging strategy will 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 2021</b> <b>£'000</b>
Tier 1 capital	2,572
Tier 2 capital	-
<b>Total capital resources</b>	<b>2,572</b>

### Pillar 1 Own Funds Requirement

As an AIFM, the Firm is required to maintain an initial capital of €125,000.

As discussed above, the Firm is also a CPMI firm and as a result of its internal capital adequacy assessment process, it has determined that its Own Funds Requirements are the higher of the requirements under AIFMD and BIPRU rules:

- sum of credit risk requirement and market risk requirement; and
- sum of:
  - higher of:
    - quarter of an annual fixed overheads requirements; and
    - funds under management (FUM) based capital requirements.
  - PII capital requirement.

In addition to the initial capital and own funds requirements, the Firm holds appropriate professional indemnity insurance cover as required under the AIFMD.

*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.

*PII 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 **£2.4 million**.

The Pillar 1 Own Funds Requirements are monitored by the Group Finance Team with support from a third-party advisor. It is reported to the Chief Risk Officer on a monthly basis and the Partners on a quarterly 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 **£1.8 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. £2.4 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 **£2.6 million** and an overall Own Funds Requirement of **£2.4 million** the Partners are confident that the resulting solvency ratio of **107%** is sufficient to withstand the risks to which the Firm is exposed.

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

COBS 2.2.3 R of the FCA Handbook requires FCA authorised firms to disclose the nature of their commitment to 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's 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) of the FCA Handbook.

## 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 three. The FCA applies proportionality in the following ways: (i) a firm that is "significant" in terms of its size (i.e., has relevant assets exceeding £50bn) must disclose the quantitative information at the level of senior personnel; and (ii) a firm must make a disclosure that is appropriate to the size, internal organisation and the nature, scope and complexity of its activities. In relation to its AIFM activities, the ESMA Guidelines on Sound Remuneration Policies under the AIFMD also allow for the application of the principle of proportionality to the type and amount of information disclosed.

As a result, the Firm is able to disapply certain of the FCA's rules under the principle of proportionality. 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. The Firm considers that its remuneration policy and practices, in particular the process of setting appropriate quantitative and qualitative criteria and the performance assessment process is consistent with, and promotes sound and effective risk management.

#### 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 2021, 10 individuals were identified as ‘Code Staff’.

Equity partners of the Firm receive a profit share in their capacity as owners of the Firm, and is not considered “remuneration” under the FCA rules and guidance.

Disclosure of the aggregate remuneration for the remainder of the Code Staff permits firms to have regard to the provisions of the UK General Data Protection Regulation (Regulation (EU) 2016/679 as it forms part of UK law by virtue of the European Union (Withdrawal) Act 2018) regarding the protection of individuals in relation to the processing of personal data. Due to the residual low numbers of Code Staff receiving remuneration, reliance is made on BIPRU 11.5.20R(2) of the FCA Handbook in determining that aggregate quantitative disclosure for Code Staff is inappropriate.