

## **PILLAR 3 AND REMUNERATION DISCLOSURE**

**December 2020**

**A&M Capital Advisors Europe, LLP**

**(“AMCE” / the “Firm”)**

The Capital Requirements Directive (“CRD”) and the 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 amount that meets the Firm’s credit, market and operational risk capital requirement;
- Pillar 2 requires the Firm to assess whether its capital reserves, processes, strategies and systems are adequate to meet Pillar 1 requirements and further determine whether it should apply additional capital, processes, strategies or systems to cover any other risks that it may be exposed to; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position to encourage market discipline.

The AIFMD adds further capital requirements based on the Alternative Investment Fund (“AIF”) assets under management and professional liability risks.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet our Pillar 3 obligations.

The Pillar 3 disclosure document has been prepared by AMCE in accordance with the requirements of BIPRU 11 and is verified by the management body, which includes Members of the LLP. Unless otherwise stated, all figures are as at the 31 December 2020 financial year-end.

Pillar 3 disclosures will be issued on an annual basis after the year end and published as soon as practical when the audited annual accounts are finalised.

AMCE is permitted to omit required disclosures if it believes that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions about the Firm.

In addition, AMCE may omit required disclosures where it believes that the information is regarded as proprietary or confidential. In its view, proprietary information is that which, if it were shared, would undermine its competitive position. Information is considered to be confidential where there are obligations binding the Firm to confidentiality with its customers, suppliers and counterparties.

AMCE has made no omissions on the grounds that it is immaterial, proprietary, or confidential.

## **Scope and application of the requirements**

AMCE is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. The Firm is categorised as a BIPRU Firm by the FCA for capital purposes.

It is an investment advisory firm in private equity and as such has no trading book exposures.

AMCE is not a member of a group and so carries out solo reporting for prudential purposes.

Where material, AMCE should provide an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities that are:

- Fully consolidated;
- Proportionally consolidated;
- Deducted from capital resources; and
- Neither consolidated nor deducted.

Where the Firm advises investments in subsidiaries or other non-trading book investments, subject to materiality, it will need to comment on the strategic purpose of the investment and valuation.

## **Risk management**

AMCE 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 Members of the LLP who take overall responsibility for this process and the fundamental risk appetite of the firm. The Members of the LLP retain ultimate responsibility for the implementation and enforcement of the Firm's risk principles.

Senior Management (which includes Members of the LLP) meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, business planning and risk management. Senior Management engage in AMCE'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 Senior Management team has identified that business, operational, market and credit are the main areas of risk to which the Firm is exposed. Annually, the Senior Management team formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness.

A formal update on operational matters is provided to the Management Body on a regular basis. Management accounts demonstrate continued adequacy of AMCE's regulatory capital 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 AMCE's mitigating controls.

## **Risks**

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

## **Business risk**

AMCE's revenue is reliant on the performance of the existing funds under management and its ability to advise and obtain valuable investment selections. As such, the risk posed to the Firm relates to underperformance resulting in a decline in revenue. This risk is mitigated by:

- The continued support of the Firm by A&M Capital Advisors, LP; and
- Significant levels of capital held by the Firm which will continue to cover all the expenses of the business.

## **Operational risk**

AMCE 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 members of staff are aware of their responsibilities in this respect.

The Firm has identified a number of key operational risks to manage. These relate to systems failure, failure of a third-party provider, key man departure(s), potential for serious regulatory breaches, including fraud. Appropriate policies are in place to mitigate against these risks, which includes taking out adequate professional indemnity insurance.

AMCE's risk identification and assessment processes have identified that the primary source of material risk is Operational Risk. However, the Members are confident that appropriate controls are in place such that, should a risk still occur in spite of this, or indeed should one or more of the controls fail, then AMCE has appropriate insurance policies in place to cover any financial impact directly suffered by AMCE.

Key mitigants in terms of key man departures are managed by the Firm via a two pronged approach as follows: (i) 12 month notice periods for members and up to 6 months for employees, and (ii) deferred compensation arrangements (such as carried interest). Senior management believe that the deferred compensation arrangements provide a disincentive to leave arbitrarily, whilst the lengthy notice periods provide sufficient time to locate and engage a suitably qualified replacement.

In terms of unforeseen unavailability, a number of AMCE's staff have in the past held investment responsibility for portfolios similar in nature and risk profile to the Fund. In the event that one of the Senior Managers were unavailable for any reason, these individuals have sufficient experience to manage the portfolio until a decision can be taken in consultation with investors as to the future of the Fund.

## **Reputational Risk**

Reputational risk is defined as the risk of damage to AMCE's reputation that could lead to negative publicity, costly litigation, a decline in the customer base or the exit of key staff members and therefore directly or indirectly leading to a loss of revenue. There is some overlap between reputational risks and business risks, since both can result in the loss of clients and a reduction in income.

## **Regulatory capital**

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

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

	31 December 2020 £000
Tier 1 capital*	1,080
Tier 2 capital	1,136
Tier 3 capital	0
Deductions from Tiers 1 and 2	
<b>Total capital resources</b>	<b>3,000</b>
*No hybrid tier one capital is held	

The Firm is small with a simple operational infrastructure. Its market risk is limited to foreign exchange risk on its accounts receivable in foreign currency, and credit risk.

The Firm is subject to the Fixed Overhead Requirement and is not required to calculate an operational risk capital charge though it considers this as part of its process to identify the level of risk-based capital required.

As discussed above, AMCE is a BIPRU firm and, as such, its capital requirements are the higher of:

- €50,000; and
- The sum of the market & credit risk requirements; or
- The fixed overheads requirement ("FOR") which is essentially 25% of the Firm's operating expenses less certain variable costs.

The FOR is calculated, in accordance with FCA rules, based on the Firm's previous year's audited expenditure. AMCE has adopted the simplified standardised approach to credit and market risk and the above figures have been produced on that basis. The Firm is not subject to an operational risk requirement.

It is AMCE's expectation that the Fixed Overhead Requirement establishes its capital requirements.

### **Capital requirement**

AMCE's Pillar 1 capital requirement has been determined by reference to the Firm's Fixed Overheads Requirement ("FOR") and calculated in accordance with Article 95. The requirement is based on the FOR since this exceeds the total of the credit and market risk capital requirements it faces and also exceeds its base capital requirement of €50,000.

The FOR is based on annual expenses net of variable costs deducted, which includes discretionary bonuses paid to staff. The Firm monitors its expenditure on a monthly basis and takes into account any material fluctuations in order to determine whether the FOR remains appropriate to the size and nature of the business or whether any adjustment needs to be made intra-year.

This is monitored by AMCE's accounting team in conjunction with the Compliance Officer and reported to Senior Management on a regular basis.

### **Remuneration disclosure**

The Firm is authorised and regulated by the Financial Conduct Authority as a BIPRU Firm and, so, it is subject to FCA Rules on remuneration. These are contained in the FCA's Remuneration Codes located in the SYSC Sourcebook of the FCA's Handbook.

The Remuneration Code ('the RemCode') covers an individual's total remuneration, fixed and variable. The Firm incentivises staff through a combination of the two.

The Firm's business is to provide delegated portfolio management services to its client.

Our policy is designed to ensure that it we comply with the RemCode and our compensation arrangements:

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

The Firm sets the following financial and non-financial criteria to incentivise staff:

- Bonuses, which are paid on an annual basis, are performance related, taking into consideration a range of factors (including non-investment criteria such as adherence to compliance requirements); and
- Carried interest, which is linked to the performance of the companies the fund invests in and has certain vesting criteria associated with its pay-out, akin to a deferred compensation scheme.

### **Proportionality**

Enshrined in the European remuneration provisions is the principle of proportionality. The FCA has sought to apply proportionality in the first instance by instituting two tests. Firstly, a firm that is significant in terms of its size must disclose quantitative information referred to in BIPRU 11.5.18R at the level of senior personnel. Secondly, that a firm must make disclosure that is appropriate to the size, internal organisation and the nature, scope and complexity of their activities.

The Firm is not 'significant' [that is to say has relevant total assets <£50bn\*] and so makes this disclosure in accordance with the second test (BIPRU 11.5.20R(2)).

\* average total assets on the last three accounting dates.

### **Application of the requirements**

We are required to disclose certain information on at least an annual basis regarding our Remuneration Policy and practices for those staff whose professional activities have a material impact on the risk profile of the Firm. Our disclosure is made in accordance with its our size, internal organisation and the nature, scope and complexity of its our activities. The Firm's full Remuneration Policy is available at the request of investors.

The Firm's policy has been agreed by the Senior Management in line with the Remuneration principles laid down by the FCA.

Due to the size, nature and complexity of the Firm, we are not required to appoint an independent remuneration committee.

The Firm's policy will be reviewed as part of its annual process and procedures or, following a significant change to the business, requiring an update to its internal capital adequacy assessment.

The Firm's ability to pay bonuses is based on the performance of the Firm overall.

Other factors such as performance, reliability, effectiveness of controls, business development and contribution to the business are taken into account when assessing the performance of the senior staff responsible for the infrastructure of the Firm.

There are five senior management and material risk takers each receiving total remuneration in excess of €175k. The Firm is unable to make a more detailed disclosure due to the small number of individuals concerned and the subsequent risk that individual compensation could be disclosed.

Partnership profits allocated to members of the LLP are normally disclosed in aggregate in the report and accounts.

The Firm may omit required disclosures where we believe that the information could be regarded as prejudicial to the UK or other national transposition of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data.

The Firm has made no omissions on the grounds of data protection.

#### **A note on Materiality**

A firm must regard information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions.

A firm must regard information as proprietary information if the sharing of that information with the public would undermine its competitive position.

Proprietary information may include information on products or systems which, if shared with competitors would render the firm's investment in them less valuable.

A firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the firm to confidentiality.

It is unlikely that the disclosure of information relating to remuneration would be confidential or proprietary for firms that have been allowed to aggregate the information due to proportionality. Where there is a limited number of Code Staff, then the firm may consider such omissions (please see FCA Templates on Remuneration Code and FAQ for further consideration).