



Pillar 3 Disclosure

The Capital Requirements Directive IV (the “Directive”) of the European Union establishes 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 Directive has been implemented by the Financial Conduct Authority (the “FCA”) in its regulations through the General Prudential Sourcebook (GENPRU) and the Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU).

The FCA framework 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 the Pillar 1 requirements and further determine whether it should apply any additional capital, processes, strategies or systems to cover any other risks to which it may be exposed; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls, capital position and remuneration policy.

The rules in BIPRU 11 set out the detailed provision for Pillar 3 disclosure as supplement to the BIPRU prudential requirements. This document is designed to meet the Pillar 3 obligations of Hayfin Capital Management LLP (the “Firm”). Unless otherwise stated, all figures are as at the 31 December financial year-end.

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

The Firm is permitted to omit required disclosures if it believes that the information is immaterial such that omission would not be likely to change or influence the decision of a reader relying on that information. In addition, omission is possible where the information is regarded as proprietary or confidential. No omissions have been made in this statement.

Scope and Application of the Requirements

The Firm is authorised and regulated by the Financial Conduct Authority and, as such, is subject to minimum regulatory capital requirements. The Firm is categorised as a limited licence firm by the FCA for capital purposes. It is an 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 is governed by its members, who in turn have formed a Management Committee, consisting of senior members of the Firm. The Management Committee is responsible for making all decisions regarding the day-to-day management of the Firm, subject to the provisions set out in the Firm's governing documents. As part of its day-to-day management responsibilities, the Management Committee determines the Firm's business strategy and risk appetite and is responsible for establishing and maintaining the Firm's governance arrangements and designing and implementing a risk management framework that recognises the risks that the business faces.

As part of the Firm's risk management framework, the Firm has created an Audit and Risk Committee, which is responsible for reviewing all the risks relevant to the Firm's business and reporting and making recommendations in respect of such risks to the Management Committee.

The Audit and Risk Committee, working together with the Management Committee and the Firm's other members, to the extent appropriate, determines how the risks that the Firm faces may be mitigated and assesses on an on-going basis the arrangements to manage those risks. The Management Committee and the Audit and Risk Committee each meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management and business planning and risk management.

Regulatory Capital

The Firm manages its risk through a framework of policy and procedures having regard to relevant laws, standards, principles and rules (including FCA principles and rules) with the aim of operating a defined and transparent risk management framework. These policies and procedures are updated as required.

The Audit and Risk Committee has identified that credit, market, operational, business and liquidity risks are the main areas of risk to which the Firm is exposed. Annually, the Audit and Risk Committee and the Management Committee both formally review the risks, controls and other risk mitigation arrangements and assess their effectiveness. For material risks, the Management Committee, in coordination with the Audit and Risk Committee, considers the financial impact of these risks as part of its business planning and capital management and concludes whether the amount of regulatory capital is adequate.

The Firm is a limited liability partnership and its capital arrangements are established in its limited liability partnership deed. The total capital resources of the Firm include members' capital totaling £9,100,000 as at 31 December 2016, and are summarised as follows:

£000	As at 31 Dec 2016
Tier 1 capital*	9,100
Tier 2 capital	
Tier 3 capital	

Deductions from Tiers 1 and 2	0
Total capital resources	9,100
*No hybrid tier one capital is held	

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 the firm is an BIPRU limited licence firm and as such its capital requirements are the higher of:

- €50,000 (base capital requirement);
- the sum of the market & credit risk requirements; or
- the fixed overhead requirement (“FOR”) which is essentially 25% of the firm’s operating expenses less certain variable costs.

As a BIPRU limited licence firm, the Firm neither holds client money or assets nor lends money. Therefore, the Firm is not exposed to credit risk in the traditional sense. The Firm’s exposure to credit risk includes:

- the risk that investment management and/or performance fees cannot be collected from its clients;
- the risk that financial institutions where the Firm’s cash and cash equivalents are deposited are unable to deliver such cash and cash equivalents to the Firm; and
- the risk that the Firm’s investments (particularly in subordinated notes issued by Hayfin Ruby II Luxembourg SCA) cannot be recovered.

In terms of market risk, the Firm does not have a trading book. The only potential exposures are non-trading book exposures (e.g., to foreign currency held on deposit and assets or liabilities held and/or denominated in foreign currencies on the Firm’s balance sheet).

The Firm’s fixed overhead requirement was higher than its base capital or credit risk plus market risk. Therefore, the Firm’s capital requirement is equal to its fixed overhead requirement. As at 31 December 2016, the Firm had a fixed overhead requirement of £3,690,683, and eligible regulatory capital of £9,100,000, Therefore, the Firm has substantial excess resources over its regulatory capital requirements.

The Firm ensures that it maintains adequate capital for its size, nature and complexity of the business based on current total capital of £9,100,000 compared to its Internal Capital Resource Requirement of £6,132,000, being the higher of Pillar 1 and Pillar 2, resulting in a Capital Adequacy ratio of 148.4%.

