

# Hayfin Capital Management LLP Pillar 3 Disclosure

## Disclosure Policy

The Capital Requirements Directive (“CRD”) is the framework for implementing Basel II in the European Union. Basel II implements a risk sensitive framework for the calculation of regulatory capital. This was implemented in the United Kingdom through changes to the Financial Conduct Authority (“FCA”) Handbook of Rules and Guidance, and specifically through the creation of the General Prudential Sourcebook (“GENPRU”) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”), specifically BIPRU 11.

The framework consists of three pillars:

- Pillar 1 – sets out the minimum capital requirements for the investment manager;
- Pillar 2 – deals with the Internal Capital Adequacy Assessment Process (“ICAAP”) undertaken by the Firm to assess the adequacy of capital held in relation to its material risks; and
- Pillar 3 – requires the Firm to publicly disclose its policies on risk management, capital resources and capital requirements.

The Pillar 3 disclosure of Hayfin Capital Management LLP (“HCM” or the “Firm”) is set out below. The regulatory aim of the disclosure is to improve market discipline.

HCM make Pillar 3 disclosures annually, via its website. The information contained in this disclosure is accurate as at 31 December 2018. It has not been audited by HCM’s external auditors and does not constitute any form of financial statement.

Certain information relating to BIPRU 11.5 may be omitted on the basis that it has been deemed to be immaterial or proprietary/confidential. The Firm regards information as material in the disclosure if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. The Firm regards information as proprietary/confidential if sharing that information with the public would undermine its competitive position. Proprietary/confidential information may include information on products or systems which, if shared with competitors, would render the Firm’s investments therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality.

## Background to the Firm

The Firm is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. The Firm is categorised by the FCA, for capital purposes, as a BIPRU firm. It is an investment management firm and has no trading book exposures. The Firm is not required to prepare consolidated reporting for prudential purposes.

## Capital Resources Requirement

### Pillar 1 - Minimum Capital Requirements

As a BIPRU firm, HCM has adopted the simplified standardised approach for the Pillar 1 regulatory capital calculation of credit risk. HCM does not deal as principal and holds no commodity or securitisation positions as at 31 December 2018. HCM calculates its Foreign Currency Position Risk Requirement by multiplying the sum of the absolute values of its 'open currency position' by 8%. HCM calculates its credit risk under the simplified standardised approach.

The Pillar 1 capital requirement for a BIPRU firm is calculated as the higher of the:

- Fixed Overheads Requirement ("FOR"); and
- the sum of market and credit risk requirements or
- the base capital requirement of €50,000.

HCM's FOR was higher than its base capital or credit risk plus market risk. Therefore, the Firm's Pillar 1 capital requirement is equal to its FOR.

### Pillar 2 – ICAAP

The Firm's ICAAP includes an assessment of the design and performance of the internal controls in place to mitigate risks, the probability of the risk occurring, the potential financial and reputational impact, and the adequacy of the Firm's capital base.

The ICAAP is the process through which HCM determine that it is able to identify and manage its key risks on an on-going basis and ensure that it has sufficient capital in respect of such risks. The process is forward looking and is an integral part of the management of the Firm. The Chief Financial Officer is responsible for the ICAAP within HCM and consulted with the Firm's Audit and Risk Committee and other appropriate members of staff to ensure the accuracy of his findings.

The Management Committee, as part of its review of the ICAAP, sets the Firm's risk appetite, validates that the Firm's key material risks have been considered and assessed, and validates the stress testing scenarios.

A key element of the ICAAP is HCM's assessment of its ability to wind down the Firm's regulated activities in an orderly manner. In doing so the Management Committee considers a number of plausible drivers which could trigger a wind-down and conducts thorough analysis of the estimated costs that would be involved. The result of this analysis indicates HCM's estimated cost to wind down regulated business is £6.1 million when considering the worst plausible case. This exceeds the Pillar 1 capital requirement and Pillar 2 assessment of risk requirements.

Following the completion of the ICAAP, HCM has concluded that their Tier 1 capital is sufficient to cover their Pillar 1 requirements, Pillar 2 assessment and estimated costs of winding down in an orderly manner.

### Capital Resources

The main features of HCM's Capital Resources are as follows:

| Capital Item                                  | £'000s |
|---|--------|
| Tier 1 capital less innovative tier 1 capital | £9,195 |
| Tier 2 capital                                | 0      |
| Tier 3 capital                                | 0      |
| Total capital resources, net of deductions    | £9,195 |

## Risk Management Objectives and Policies

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.

## Remuneration

The Firm must comply with the BIPRU Remuneration Code ("the Code"). The purpose of the Code is to ensure that firms have risk focused remuneration policies, which are consistent with and promote effective risk management and do not expose themselves to excessive risk. The Firm has reviewed all existing employment contracts to ensure they comply with the Code.

Senior management are responsible for setting the Remuneration Policy Statement for all staff and the Compliance Officer is a member of the senior management team. No external consultants have been engaged on remuneration matters.

The Code can be applied in a proportionate way and the FCA has stated that it will normally be appropriate to disapply certain rules. As such senior management has determined that the following rules are not proportionate to the Firm and has not implemented these detailed rules:

- SYSC 19C.3.44 – Ratios between fixed and variable components of total remuneration;
- SYSC 19C.3.47 – Retained shares or other instruments;
- SYSC 19C.3.49 – Deferral; and
- SYSC 19C.3.51 – Performance adjustment

Variable remuneration is not based solely on the financial performance of the individual. Senior management also considered the individuals overall (non-financial) performance to the whole team and the overall results of the fund/firm. The performance of the individual is assessed over the entire year.

**Quantitative Information**

Aggregate fixed and variable profit allocations for the senior management were as follows:

| <b>2018 – Senior Management</b> | <b>£m</b> |
|---------------------------------|-----------|
| Total remuneration for the year | £12.6     |

# Hayfin Emerald Management LLP Pillar 3 Disclosure

## Disclosure Policy

The Capital Requirements Directive (“CRD”) is the framework for implementing Basel II in the European Union. Basel II implements a risk sensitive framework for the calculation of regulatory capital. This was implemented in the United Kingdom through changes to the Financial Conduct Authority (“FCA”) Handbook of Rules and Guidance, and specifically through the creation of the General Prudential Sourcebook (“GENPRU”) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”), specifically BIPRU 11.

The framework consists of three pillars:

- Pillar 1 – sets out the minimum capital requirements for the investment manager;
- Pillar 2 – deals with the Internal Capital Adequacy Assessment Process (“ICAAP”) undertaken by the Firm to assess the adequacy of capital held in relation to its material risks; and
- Pillar 3 – requires the Firm to publicly disclose its policies on risk management, capital resources and capital requirements.

The Pillar 3 disclosure of Hayfin Emerald Management LLP “HEM” or the “Firm”) is set out below. The regulatory aim of the disclosure is to improve market discipline.

HEM make Pillar 3 disclosures annually, via its website. The information contained in this disclosure is accurate as at 31 December 2018. It has not been audited by HEM’s external auditors and does not constitute any form of financial statement.

Certain information relating to BIPRU 11.5 may be omitted on the basis that it has been deemed to be immaterial or proprietary/confidential. The Firm regards information as material in the disclosure if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. The Firm regards information as proprietary/confidential if sharing that information with the public would undermine its competitive position. Proprietary/confidential information may include information on products or systems which, if shared with competitors, would render the Firm’s investments therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality.

## Background to the Firm

The Firm is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. The Firm is categorised by the FCA, for capital purposes, as a BIPRU firm. It is an investment management firm and has no trading book exposures. The Firm is not required to prepare consolidated reporting for prudential purposes.

## Capital Resources Requirement

### **Pillar 1 - Minimum Capital Requirements**

As a BIPRU firm, HEM has adopted the simplified standardised approach for the Pillar 1 regulatory capital calculation of credit risk. A material component of the credit risk requirement is driven by the risk

retention amount held on HEM's balance sheet – such items are weighted at 1,250% before taking the 8% requirement, having the effect of including the entire amount of the risk retention amount within the credit risk requirement. HEM does not deal as principal and holds no commodity positions as at 31 December 2018. HEM calculates its Foreign Currency Position Risk Requirement by multiplying the sum of the absolute values of its 'open currency position' by 8%. HEM calculates its credit risk under the simplified standardised approach.

The Pillar 1 capital requirement for a BIPRU firm is calculated as the higher of the:

- Fixed Overheads Requirement ("FOR"); and
- the sum of market and credit risk requirements or
- the base capital requirement of €50,000.

For HEM, the sum of market and credit risk requirements was higher than its base capital or FOR. Therefore, the Firm's Pillar 1 capital requirement is equal to the sum of market and credit risk requirements.

## **Pillar 2 – ICAAP**

The Firm's ICAAP includes an assessment of the design and performance of the internal controls in place to mitigate risks, the probability of the risk occurring, the potential financial and reputational impact, and the adequacy of the Firm's capital base.

The ICAAP is the process through which HEM determine that it is able to identify and manage its key risks on an on-going basis and ensure that it has sufficient capital in respect of such risks. The process is forward looking and is an integral part of the management of the Firm. The Chief Financial Officer is responsible for the ICAAP within HEM and consulted with the Firm's Audit and Risk Committee and other appropriate members of staff to ensure the accuracy of his findings.

The Management Committee, as part of its review of the ICAAP, sets the Firm's risk appetite, validates that the Firm's key material risks have been considered and assessed, and validates the stress testing scenarios.

A key element of the ICAAP is HEM's assessment of its ability to wind down the Firm's regulated activities in an orderly manner. In doing so the Management Committee considers a number of plausible drivers which could trigger a wind-down and conducts thorough analysis of the estimated costs that would be involved. The result of this analysis indicates HEM's estimated cost to wind down regulated business is £350k when considering the worst plausible case. This exceeds the Pillar 1 capital requirement and Pillar 2 assessment of risk requirements.

Following the completion of the ICAAP, HEM has concluded that Tier 1 capital is sufficient to cover their Pillar 1 requirements, Pillar 2 assessment and estimated costs of winding down in an orderly manner.

## Capital Resources

The main features of HEM's Capital Resources are as follows:

| Capital Item                                  | £'000s  |
|---|---------|
| Tier 1 capital less innovative tier 1 capital | £27,000 |
| Tier 2 capital                                | 0       |
| Tier 3 capital                                | 0       |
| Total capital resources, net of deductions    | £27,000 |

## Risk Management Objectives and Policies

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.

## Remuneration

The Firm must comply with the BIPRU Remuneration Code ("the Code"). The purpose of the Code is to ensure that firms have risk focused remuneration policies, which are consistent with and promote effective risk management and do not expose themselves to excessive risk. The Firm has reviewed all existing employment contracts to ensure they comply with the Code.

Senior management are responsible for setting the Remuneration Policy Statement for all staff and the Compliance Officer is a member of the senior management team. No external consultants have been engaged on remuneration matters.

The Code can be applied in a proportionate way and the FCA has stated that it will normally be appropriate to disapply certain rules. As such senior management has determined that the following rules are not proportionate to the Firm and have not implemented these detailed rules:

- SYSC 19C.3.44 – Ratios between fixed and variable components of total remuneration;
- SYSC 19C.3.47 – Retained shares or other instruments;
- SYSC 19C.3.49 – Deferral; and
- SYSC 19C.3.51 – Performance adjustment

Variable remuneration is not based solely on the financial performance of the individual. Senior management also considered the individuals overall (non-financial) performance to the whole team and the overall results of the fund/firm. The performance of the individual is assessed over the entire year.

### **Quantitative Information**

Aggregate fixed and variable profit allocations for the senior management were as follows:

| <b>2018 – Senior Management</b> | <b>£m</b> |
|---------------------------------|-----------|
| Total remuneration for the year | N/A       |