Hayfin Capital Management LLP (“HCM”) Pillar 3 Disclosure

Disclosure Policy

The Capital Requirements Directive (“CRD”) is the framework for implementing Basel III in the European Union. Basel III 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 HCM to assess the adequacy of capital held in relation to its material risks; and
- Pillar 3 – requires HCM to publicly disclose its policies on risk management, capital resources and capital requirements.

The Pillar 3 disclosure of HCM is set out below. The regulatory aim of the disclosure is to improve market discipline.

HCM makes Pillar 3 disclosures annually, via its website. The information contained in this disclosure is accurate as at 31 December 2020. 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. HCM 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. HCM 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 HCM’s investments therein less valuable. Further, HCM must regard information as confidential if there are obligations to customers or other counterparty relationships binding HCM to confidentiality.

Background to HCM

HCM is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. HCM is categorised by the FCA, for capital purposes, as a BIPRU firm. It is an investment management firm and has no trading book exposures. HCM 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 2020. 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");
- 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, HCM's Pillar 1 capital requirement is equal to its FOR.

Pillar 2 – ICAAP

HCM'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 HCM'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 HCM. HCM's Business Operations Committee, including in particular the Chief Financial Officer and General Counsel as Senior Managers under SMCR, is responsible for preparing HCM's ICAAP and undertaking the assessments described therein, and presenting it to HCM's Audit and Risk Committee. The Audit and Risk Committee, in turn, in accordance with the terms of reference of HCM's governing documents, reviews, challenges and, on the basis of such review and challenge, approves the ICAAP presented to it.

A key element of the ICAAP is HCM's assessment of its ability to wind down HCM's regulated activities in an orderly manner. In doing so HCM 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 £8.1 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.

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Capital Resources

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

Capital Item	£'000s
Tier 1 capital less innovative tier 1 capital	9,672
Tier 2 capital	0
Tier 3 capital	0
Total capital resources, net of deductions	9,672

Risk Management Objectives and Policies

As part of HCM's risk management framework, HCM has created an Audit and Risk Committee which, working together with the business operations committee and HCM's senior managers, has oversight responsibility for the non-investment risk management framework of HCM. Senior management report to HCM's Audit and Risk Committee on a periodic basis regarding HCM's non-investment risk. HCM has clearly documented policies and procedures (including as set out in HCM's Compliance Policies and Procedures Manual), which are designed to minimise risks to HCM. The Audit and Risk Committee, working together with the Management Committee, the Business Operations Committee and HCM's senior managers, to the extent appropriate, determines how the risks that HCM faces may be mitigated and assesses on an on-going basis the arrangements to manage those risks. The relevant committees each meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management and business planning and risk management, as appropriate.

Remuneration

HCM 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. HCM 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 HCM and HCM 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:

2020 – Senior Management	£m
Total remuneration for the year	12.5

Hayfin Emerald Management LLP (“HEM”) Pillar 3 Disclosure

Disclosure Policy

The Capital Requirements Directive (“CRD”) is the framework for implementing Basel III in the European Union. Basel III 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 HEM to assess the adequacy of capital held in relation to its material risks; and
- Pillar 3 – requires HEM to publicly disclose its policies on risk management, capital resources and capital requirements.

The Pillar 3 disclosure of HEM is set out below. The regulatory aim of the disclosure is to improve market discipline.

HEM makes Pillar 3 disclosures annually, via its website. The information contained in this disclosure is accurate as at 31 December 2020. 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. HEM 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. HEM 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 HEM’S investments therein less valuable. Further, HEM must regard information as confidential if there are obligations to customers or other counterparty relationships binding HEM to confidentiality.

Background to HEM

HEM is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. HEM is categorised by the FCA, for capital purposes, as a BIPRU firm. It is an investment management firm and has no trading book exposures. HEM 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 majority of the HEM’s balance sheet assets represent the risk retention amount held in the CLO. The treatment of such items depends on the approach taken to the retention investment. Those where HEM holds the horizontal "equity" slice, the value of the investments is deducted, in full, from capital resources and so is excluded for the purposes of calculating the credit risk requirement. Those where HEM holds a vertical slice, the value of the investments is subject to the standardised approach calculating the credit risk requirement.

HEM does not deal as principal and holds no commodity positions as at 31 December 2020. 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 FOR was higher than its base capital but lower than the sum of market and credit risk requirements. Therefore, HEM's Pillar 1 capital requirement is equal to the sum of market and credit risk.

Pillar 2 – ICAAP

HEM'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 HEM'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 HEM. HEM's Business Operations Committee, including in particular the Chief Financial Officer and General Counsel as Senior Managers under SMCR, is responsible for preparing HEM's ICAAP and undertaking the assessments described therein, and presenting it to HEM's Audit and Risk Committee. The Audit and Risk Committee, in turn, in accordance with the terms of reference of HEM's governing documents, reviews, challenges and, on the basis of such review and challenge, approves the ICAAP presented to it.

A key element of the ICAAP is HEM's assessment of its ability to wind down HEM's regulated activities in an orderly manner. In doing so HEM 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 that HEM's estimated cost to wind down regulated business is €[385k] when considering the worst plausible case. This is lower than 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	84,818
Deductions from Tier 1 (CLO retention)	0
Tier 2 capital	0
Tier 3 capital	0
Total capital resources, net of deductions	84,818

Risk Management Objectives and Policies

As part of HEM's risk management framework, HEM has created an Audit and Risk Committee which, working together with the business operations committee and HEM's senior managers, has oversight responsibility for the non-investment risk management framework of HEM. Senior management report to HEM's Audit and Risk Committee on a periodic basis regarding HEM's non-investment risk. HEM has clearly documented policies and procedures (including as set out in HEM's Compliance Policies and Procedures Manual), which are designed to minimise risks to HEM. The Audit and Risk Committee, working together with the Management Committee, the Business Operations Committee and HEM's senior managers, to the extent appropriate, determines how the risks that HEM faces may be mitigated and assesses on an on-going basis the arrangements to manage those risks. The relevant committees each meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management and business planning and risk management, as appropriate.

Remuneration

HEM 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. HEM 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 HEM 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:

2020 – Senior Management	**€m**
Total remuneration for the year	N/A