Hayfin Emerald Management LLP

MIFIDPRU 8 Disclosure

October 2023

1. Introduction

The Financial Conduct Authority ("FCA" or "Regulator") in its Prudential Sourcebook for MiFID Investment Firms ("MIFIDPRU"), sets out the detailed prudential requirements that apply to Hayfin Emerald Management LLP ("HEM" or the "Firm"). In particular, Chapter 8 of MIFIDPRU ("MIFIDPRU 8" or the "public disclosures requirements") sets out public disclosure obligations with which the Firm must comply.

HEM is classified under MIFIDPRU as a non-small and non-interconnected investment firm ("non-SNI MIFIDPRU investment firm"). Accordingly, MIFIDPRU 8 requires the Firm to disclose information on the following areas:

- Risk management objectives and policies;
- Governance arrangements;
- Own funds;
- Own funds requirements; and
- Remuneration policy and practices.

This document has been prepared by HEM in accordance with the requirements of MIFPRU 8. Unless otherwise stated, all figures are current as at the 31 December financial year-end.

2. Risk Management Objectives and Polices

This section describes HEM's risk management objectives and policies for the following categories of risk:

- Own funds requirements;
- Concentration risks; and
- Liquidity.

Business Strategy

HEM serves as investment manager and advisor for pooled investment vehicles and separately managed accounts (together, "**Funds**" and/or "**SMAs**"). Hayfin manages complementary and cohesive debt investment strategies: Direct Lending, Tactical Solutions, Special Opportunities and High Yield and Syndicated Loans are Hayfin's private credit strategies through which Hayfin aims to provide specialised lending solutions primarily to European middle-market companies and private credit situations. Direct Lending focuses on vanilla, senior secured investments, whereas Tactical Solutions and Special Opportunities target higher complexity situations in which Hayfin believes the market's perceived risk is greater than Hayfin's assessment of credit risk. The High Yield and Syndicated Loans strategy focuses on European and U.S. high-yield bonds and syndicated loans. Additionally, Hayfin manages a Private Equity

Solutions investment strategy with primary focus on equity co-investments and providing liquidity to existing assets through GP-led secondary solutions.

The growth of HEM's revenues is driven primarily by growing the Firm's underlying asset base upon which fees are charged. This growth in assets is achieved through additional fund launches building upon the Firm's track record of success and identifying complementary product offerings.

The Firm's costs are carefully controlled to maintain and ensure long-term profitability with investments made, as appropriate, to expand the business and associated systems and controls.

Considering the Firm's business model, controls, and controls assessment, it is the conclusion of the Firm that its overall potential for harm is low.

Own Funds Requirement

HEM is required to always maintain own funds that are at least equal to the Firm's own funds requirement. The own funds requirements are the higher of the Firm's:

- **Permanent minimum capital requirement ("PMR")**: The PMR is the minimum level of own funds required to operate at all times and, based on the MiFID investment services and activities the Firm currently has permission to undertake, is set at €75,000;
- **Fixed overhead requirement ("FOR"):** The FOR is intended to calculate a minimum amount of capital that HEM would need available to absorb losses if it has cause to wind-down or exit the market, and is equal to one quarter of the Firm's relevant expenditure; and
- **K-Factor requirement ("KFR"):** The KFR is intended to calculate a minimum amount of capital that HEM would need available for the ongoing operations of its business. The K-factor that applies to the Firm's business is K-AUM (calculated on the basis of the Firm's AUM).

HEM's own funds requirement is currently set by its KFR, as this is the highest of the three metrics. The potential for harm associated with HEM's business strategy, based on the Firm's own funds requirement, is low. This is due to the relatively stable revenues and asset base.

One of the strategies adopted to manage adherence to the Firm's own funds requirement is by maintaining a healthy own funds surplus above the own funds requirement. If own funds drop to an amount equal to 110% of the Firm's own funds threshold requirement, the Firm will immediately notify its management body, as well as the regulator. The management body will consider the necessary steps to be taken to increase the own funds buffer; which may include injecting more own funds into the Firm.

Concentration Risk

The potential for harm associated with HEM's business strategy, based on the Firm's concentration risk, is low.

The Firm has multiple clients which provides for a diverse stream of revenue. Moreover, the investors are typically institutional professional investors that invest for the long term. The Firm therefore considers its asset base is not prone to substantial fluctuations, including during stressed market conditions.

The Firm deposits its cash with several well-established multinational institutions.

Liquidity

The Firm is required to maintain sufficient liquidity to ensure there is no significant risk that its liabilities cannot be met as they fall due, and to ensure that it has appropriate (liquid) resources in the event of a stress scenario.

The potential for harm associated with HEM's business strategy, based on the Firm's basic liquid assets requirement, is low. As with its own funds requirement, this is due to the relatively stable revenues, asset base and maintenance of a healthy core liquid assets surplus above the basic liquid assets requirement. The Firm retains an amount it considers suitable for providing sufficient liquidity to meet the working capital requirements under various conditions. HEM has always had sufficient liquidity within the business to meet its obligations, and there are no perceived threats to this given the cash deposits it holds. Additionally, it has historically been the case that all debtors are settled promptly, thus ensuring further liquidity resources are available to the Firm on a timely basis. The cash position of the Firm is monitored by the Financial Controller and Director on a daily basis, and the Firm would be able to call on the parent for further capital as required.

Risk Management Structure

HEM has established a risk management process to ensure that it has effective systems and controls in place to identify, assess, manage, monitor and report risks arising in the business. The fundamental risk appetite of the Firm is the responsibility of the Management Committee. The overall responsibility for oversight of the non-investment risk framework lies with the Audit and Risk Committee. The day-to-day implementation of the risk management framework, together with the responsibility for the implementation and enforcement of the Firm's risk principles, is overseen by the Risk and Compliance Committee.

The Audit and Risk Committee meets on regular basis and engage in HEM's risks though 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 Firm formally reviews its risks, controls and other risk mitigation arrangements on an annual basis. This review helps to inform the overall risk appetite of the Firm.

Management accounts demonstrate that the continued adequacy of HEM's regulatory capital is reviewed on a regular basis.

Appropriate action is taken where risks falling outside of the Firm's tolerance levels, or weaknesses in HEM's mitigating controls, are identified.

3. Governance Arrangements

Overview

HEM believes that effective governance arrangements help the Firm achieve its strategic objectives while also ensuring that risks to the Firm, its stakeholders and the wider market are identified, assessed, managed and mitigated.

The Management Committee is responsible for all decisions regarding day-to-day management of HCM which does not fall within the scope of responsibilities of the Audit and Risk Committee and the Remuneration Committee and is therefore responsible for defining and overseeing the governance arrangements at the Firm.

A key report that is reviewed, discussed and ratified by the senior management at least annually is the Senior Management Systems and Controls ("SYSC") document, as this demonstrates how the Firm has met its governance arrangement requirement. The SYSC document provides the Management Committee with information on the functioning and performance of all aspects of the Firm, including the following areas:

- general organizational requirements, including steps taken by the Firm to ensure continuity and regularity in the performance of its regulated activities and the Firm's account policies;
- employees, including steps taken by the Firm to ensure that employees have the necessary skills, knowledge and expertise for the discharge of the responsibilities allocated to them, and to ensure that they are fit and proper persons;
- regulatory framework for meeting compliance and financial crime requirements;
- internal capital adequacy and risk assessment process;
- outsourcing of critical or material operating functions or activities;
- record-keeping controls and arrangements;
- conflicts of interest management;
- remuneration policies and practices; and
- whistleblowing controls.

The Management Committee

The below table provides the number of directorships held by each member of the Management Committee:

Management body member	Position at HEM	Number of directorships held	
		Executive	**Non-Executive**
Timothy B Flynn	Chief Executive (SMF 1) Partner (SMF 27)	1	0
Mark James Tognolini	Partner (SMF 27)	0	0
Andrew McCullagh		0	0

Diversity of the Management Committee

Hayfin ensures that the Management Committee:

- has overall responsibility for the FCA Firms;
- approves and oversees implementation of the FCA Firms' strategic objectives, risk strategy and internal governance;
- ensures the integrity of the FCA Firms' accounting and financial reporting systems, including financial and operational controls and compliance with the regulatory system;
- oversees the process of disclosure and communications;
- has responsibility for providing effective oversight of senior management;
- monitors and periodically assesses:
    - the adequacy and the implementation of the FCA Firms' strategic objectives in the provision of investment services and/or activities and ancillary services;

  - the effectiveness of the FCA Firms' governance arrangements; and
  - the adequacy of the policies relating to the provision of services to Clients; and take appropriate steps to address any deficiencies and
- has adequate access to information and documents which are needed to oversee and monitor management decision-making.

Hayfin ensures that the Management Committee defines, approves and oversees:

- the organisation of the FCA Firms, including the skills, knowledge and expertise required by staff as well as the FCA Firms' resources, procedures and arrangements;
- a policy regarding the services, activities, products and operations offered or provided, in accordance with the risk tolerance of the FCA Firms and the characteristics and needs of the FCA Firms' Clients, including carrying out stress testing, where appropriate; and
- a remuneration policy that aims to encourage responsible business conduct, fair treatment of Clients as well as avoiding conflicts of interest in the relationships with Clients.

Audit and Risk Committee

HEM has established an independent Audit and Risk Committee. The purpose of the Audit and Risk Committee is to advise the management body on the Firm's overall risk appetite and strategy. The Audit and Risk Committee will also assist the Firm's management body in overseeing the implementation of that strategy by senior management. Members of the Audit and Risk Committee have the appropriate knowledge, skills and expertise to fully understand, assess, manage and monitor the risk strategy and risk appetite of the Firm.

4. Own Funds

As at 31 December 2022, HEM maintained own funds of €84.82 million. The below regulator-prescribed tables provide a breakdown of the Firm's own funds:

Composition of regulatory own funds			
	Item	**Amount (EUR thousands)**	**Source based on reference numbers/letters of the balance sheet in the audited financial statements**
1	**OWN FUNDS**	**84,818**	1
2	**TIER 1 CAPITAL**	**84,818**	1
3	**COMMON EQUITY TIER 1 CAPITAL**	**84,818**	1
4	Fully paid up capital instruments	84,818	1
5	Share premium	-	
6	Retained earnings	-	
7	Accumulated other comprehensive income	-	
8	Other reserves	-	
9	Accumulated other comprehensive income	-	
10	Accumulated other comprehensive income	-	
11	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	-	
19	CET1: Other capital elements, deductions and adjustments	-	
20	**ADDITIONAL TIER 1 CAPITAL**	-	
21	Fully paid up, directly issued capital instruments	-	
22	Share premium	-	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	-	
24	Additional Tier 1: Other capital elements, deductions and adjustments	-	
25	**TIER 2 CAPITAL**	-	
26	Fully paid up, directly issued capital instruments	-	
27	Share premium	-	
28	(-) TOTAL DEDUCTIONS FROM TIER 2	-	
29	Tier 2: Other capital elements, deductions and adjustments	-	

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements				
		Balance sheet as in published/audited financial statements	**Under regulatory scope of consolidation**	**Cross-reference to above template**
		As at 31 December 2022	As at 31 December 2022	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements (in €'000)				
1	Financial assets at fair value through profit and loss	166,447,155	N/A	N/A
2	Trade and other receivables	4,658,982	N/A	N/A
3	Amounts due from members	37,000,192	N/A	N/A
4	Cash and cash equivalents	2,691,659	N/A	N/A
	Total Assets	210,797,988		
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements (in €'000)				
1	Trade and other payable	1,095,853	N/A	N/A
2	Borrowings	124,856,075	N/A	N/A
	Total Liabilities	84,846,060		
Shareholders' Equity (in €'000)				
1	Members' capital	84,817,711	N/A	1
2	Retained earnings	100,503	N/A	N/A
3	Cumulative translation adjustment	(72,154)	N/A	N/A
	Total Shareholders' equity	84,846,060	N/A	N/A

Own funds: main features of own instruments issued by the Firm	
HEM's own funds consists solely of Comment Equity Tier 1 Capital. The main features of the own funds issued by the Firm issued are highlighted below:	
Placement	*Private*
Instrument type	*Eligible Members' LLP capital*
Amount recognised in regulatory capital (EUR thousands, as of most recent reporting date)	*84,818*
Accounting classification	*Equity*
Perpetual or dated	*Perpetual*
Write-down features	*Ranks last on winding up*

5. Own Funds Requirements

HEM is required to, at all times, maintain own funds that are at least equal to the Firm's own funds requirement. The own funds requirement is the minimum requirement of capital the Firm is required to hold, taken as the higher of the PMR, FOR and KFR.

The below table illustrates the various components of the HEM's own funds requirement:

Requirement	**€'000**
(A) Permanent Minimum Capital Requirement ("PMR")	75
(B) Fixed Overhead Requirement ("FOR")	2,400
(C) K-factor requirement ("KFR")	700
- K-AUM – *risk arising from managing and advising on investments*	700
- K-COH – *risk from order execution and reception and transmission of orders*	-
(D) Own Funds Requirement (Max[A; B; C])	2,400
[redacted]	

HEM is also required to comply with overall financial adequacy rule ("OFAR"). This is an obligation on HEM to hold own funds and liquid assets which are adequate, both as to their amount and quality, to ensure that:

a. the Firm can remain financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities; and
b. the Firm's business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

Where HEM determines that the FOR is insufficient to mitigate the risk of a disorderly wind down, the Firm must maintain an 'additional own funds required for winding down', above the FOR, that is deemed necessary to mitigate this risk. Similarly, where the Firm determines that the KFR is insufficient to mitigate the risk of harm from ongoing operations, the Firm must maintain an 'own funds required for ongoing operations', above the KFR, that is deemed sufficient to ensure the viability of the Firm throughout economic cycles.

The Firm's own funds threshold requirement is the higher of:

- the Firm's PMR;
- the sum of the Firm's FOR and its additional own funds required for winding down; and

- the sum of the Firm's KFR and its additional own funds required for ongoing operations.

This is the amount of own funds that HEM is required to maintain at any given time to comply with the OFAR.

To determine the Firm's own funds threshold requirement, HEM identifies and measures the risk of harm faced by the Firm and considers these risks in light of its ongoing operations and also from a wind-down planning perspective. The Firm then determines the degree to which systems and controls alone mitigate the risk of harm and disorderly wind-down, and thereby deduce the appropriate amount of additional own funds required to cover the residual risk.

6. Remuneration Policy and Practices

Overview

As a non-SNI MIFIDPRU investment firm, HEM is subject to the 'basic' and 'standard' requirements of the MIFIDPRU Remuneration code. The purpose of the requirements on remuneration are to:

- promote effective risk management in the long-term interests of the Firm and its clients;
- ensure alignment between risk and individual reward;
- support positive behaviours and healthy firm cultures; and
- discourage behaviours that can lead to misconduct and poor customer outcomes.

The objective of HEM's remuneration policies and practices are to establish, implement and maintain a culture that is consistent with, and promotes, sound and effective risk management and does not encourage risk-taking which is inconsistent with the risk profile of the Firm and the services that it provides to its clients.

In addition, HEM recognises that remuneration is a key component in how the Firm attracts, motivates and retains staff and sustains consistently high levels of performance, productivity and results. As such, the Firm's remuneration philosophy is consistent with the belief that its people are the most important asset and greatest competitive advantage.

HEM is committed to excellence, teamwork, ethical behaviour and the pursuit of exceptional outcomes for clients. From a remuneration perspective, this means performance is determined through the assessment of various factors that relate to these values, and by making considered and informed decisions that reward effort, attitude and results.

Characteristics of the remuneration policy and practices

Remuneration at HEM is made up of fixed and variable components.

The fixed component of the remuneration comprises salary, which is permanent, pre-determined, non-discretionary, non-revocable and which is not dependent on the performance of the individual. The fixed component is set in line with market competitiveness at a level to attract and retain skilled staff.

The variable component of remuneration broadly comprises annual variable remuneration paid in cash and long-term incentives. Long-term incentives are themselves split into three categories: (i) awards of carried interest; and (ii) awards of equity which are made via a restricted share scheme and a management incentive programme. Variable remuneration is paid on a discretionary basis, and takes into consideration the Firm's financial performance, the financial performance of each business unit, and the financial and non-financial performance of the individual in contributing to the Firm's success. All staff members are eligible to receive variable remuneration.

When assessing the level of variable remuneration to be paid, the Firm applies a number of both financial and non-financial performance criteria at the level of the firm, the relevant business unit and the individual to whom the remuneration is payable. At the level of the Firm, in determining the variable remuneration which can be awarded, current and future risks or anticipated risks to the Firm, as well as the Firm's liquidity requirements on a current and a look-forward basis are taken into account. Furthermore, other matters relevant to the long-term success of the Firm such as ensuring that remuneration is aligned with the interests of the Firm's shareholders and its clients and seeking to attract and retain talent, amongst others, are taken into consideration.

As to both the business unit and the individual level, the Firm awards variable remuneration where the employee or the business unit in which the employee sits has contributed to the long-term interests of the Firm, measured against factors such as profitability. Further, at the individual level, no employee shall be encouraged to take or rewarded for taking excessive risks for the purpose of generating short-term profit.

HEM ensures that the variable and fixed components of the total remuneration are appropriately balanced and that the fixed component represents a sufficiently high proportion of the total remuneration. This allows for a fully flexible policy on variable renumeration and the possibility of paying no variable remuneration component, which the Firm would do in certain situations, such as where the Firm's profitability is particularly constrained, or where there is a risk that the Firm may not be able to meet its regulatory capital or liquidity requirements.

Governance and Oversight

The Remuneration Committee is responsible, amongst other things, for any decisions regarding the exercise of a discretion which is conferred on the Remuneration Committee by the legal framework of the group; any decisions regarding the implementation of and any changes to the group's compensation plan; any decisions regarding any settlement agreement with a departing employee (where the amount payable exceeds €500,000) or a departing member of HEM; and any decisions regarding whether leaver provisions in respect of the incentive plan are to be exercised in relation to any leaver.

Material Risk Takers

HEM is required to identify its material risk takers; that is, those members of staff whose professional activities have a material impact on the risk profile of the Firm and of the assets that the Firm manages. The types of staff that have been identified as material risk takers at HEM are:

- members of the Management Committee in its management function;
- members of the senior management team;
- those with managerial responsibility for a client-facing or client-dealing business unit of the Firm;

- those with managerial responsibilities for the activities of a control function[1];
- those with managerial responsibilities for the prevention of money laundering and terrorist financing;
- those that are responsible for managing a material risk within the Firm;
- those that are responsible for managing information technology; information security; and/or outsourcing arrangements of critical or important functions; and
- those with authority to take decisions approving or vetoing the introduction of new products.

Quantitative Remuneration Disclosures

The below table quantifies the remuneration paid to staff in the financial year 1st January 2022 to 31st December 2022. For these purposes, 'staff' is defined broadly, and includes, for example, employees of the Firm itself, members, employees of other entities in the group, employees of joint service companies, and secondees:

Period: 1st January 2022 – 31st December 2022			
		Senior Management & Other material risk takers	Other staff
Total number of material risk takers			
Remuneration Awarded	Fixed (€)	0	0
	Variable (€)	0	0
	Total (€)	0	0
Guaranteed variable remuneration	Amount (€)	0	
	# Staff Awarded	0	
Severance payments	Amount (€)	0	
	# Staff Awarded	0	
Highest severance payment awarded to an individual (€)		0	

[1] A control function is defined as a function (including, but not limited to, a risk management function, compliance function and internal audit function) that is independent from the business units it controls and that is responsible for providing an objective assessment of the Firm's risks, and for reviewing and reporting on those risks.