Equitix Investment Management Limited Pillar 3 Disclosure

A. BACKGROUND

The Capital Requirements Directive (“CRD”) and the Alternative Investment Fund Managers Directive (“AIFMD”) established 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”) and the Investment Funds Sourcebook (“FUND”).

The FCA regulatory capital framework consists of three ‘Pillars’:

- Pillar 1 sets out the minimum capital amount that meets the firm's credit, market and operational risk;
- Pillar 2 requires a firm to assess whether its Pillar 1 capital amount is adequate to cover the nature and level of all the risks to which it is exposed or whether it needs to hold additional capital. Through an Internal Capital Adequacy Assessment Process (“ICAAP”), a firm links its risk to capital for internal capital management purposes.
- Pillar 3 requires disclosure of specified information about the underlying risk management 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.

Equitix Investment Management Limited (the “Firm” or “EIML”) is authorised and regulated by the FCA (FRN: 471196) and is categorised as a collective portfolio management investment firm (“CPMI firm”). The Firm is a discretionary investment manager and does not hold client money or client assets. Although the Firm is an alternative investment fund manager (“AIFM”) and falls under the AIFMD regime, it is also subject to the CRD and the Pillar 1, Pillar 2 and Pillar 3 requirements outlined above by virtue of the additional activities it undertakes that fall under the Markets in Financial Instruments Directive (“MIFID”).

Scope

This disclosure has been prepared by the Firm in accordance with BIPRU 11 and summarises the material disclosures the Firm is required to make under Pillar 3 for the reporting period ending 31 December 2019.

Frequency

The Pillar 3 disclosure is reviewed at least on an annual basis and is approved by the Firm’s Board of Directors. The Firm has considered the need for more frequent publication and has decided this is not necessary in light of the nature, size and complexity of the business.

Media and Location

The disclosure will be published on the Firm’s website.

Verification

This disclosure is made to explain the risk profile of the Firm. It does not constitute any form of audited financial statement and has been produced solely for the purposes of meeting the Pillar 3 requirements. This disclosure should not be relied upon in making investment decisions in relation to the Firm.

The rules in BIPRU require the disclosure of material information but recognise that certain information must be excluded from the public disclosure document due to it being proprietary or confidential in nature.

Materiality

The Firm regards 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 purpose of making economic decisions. If the Firm deems certain information to be immaterial, it may be omitted from this disclosure.

Confidentiality

The Firm regards information as proprietary if sharing 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 investments therein less valuable. Furthermore, the Firm must regard information as confidential if there are obligations to investors or other counterparty relationships binding the Firm to confidentiality.

B. GOVERNANCE FRAMEWORK

The Firm's Board of Directors possesses the appropriate expertise and experience to control the Firm's activities. The Board sets the Firm's strategy and risk appetite. The composition of the Board complements the Firm's activities as an investment manager. The Board is composed of the following members:

Geoff Jackson	Executive Director	SMF 3
Hugh Crossley	Executive Director	SMF 3
Jonathan Smith	Executive Director	SMF 3
Siôn Jones	Executive Director	SMF 3
Achal Bhuwania	Executive Director	SMF 3
Peter Roughton	Executive Director	N/A
Patrick Dear	Special Director	N/A

C. RISK MANAGEMENT OBJECTIVES

Risks and mitigating factors are identified through analysis of the Firm's operations and consultation with Directors and members of staff. The Firm documents each risk and scores it to probability and impact. The probability and impact are set based on the past occurrence of a risk, the Firm's business activities and mitigating factors. These aspects of risk management, review and reporting are subject to review by the Board. Due to the direct day-to-day involvement and oversight by the Firm's six Executive Directors, the Firm's activities are constantly monitored and any possible risk to the Firm is reviewed and resolved as quickly as possible. The full Board is informed of any possible substantial risk and is actively involved in remedying these situations or matters.

D. <u>CAPITAL RESOURCES</u>

The summary of the table below reflects the Firm's capital resource as at 31 December 2019.

Tier 1 Capital	**£,000**
Share Capital	£10
Retained Earnings	£16,205
Capital Resource	**£16,215**

The Firm's capital requirements are calculated under the following basis:

(i) AIFMD

As a CPMI firm, the Firm is required by IPRU-INV 11 to maintain own funds which equal or exceed the higher of:

- The Funds Under Management Requirement (£980k) = €125,000 + 0.02% of funds under management in excess of €250m; or
- The Fixed Overhead Requirement (£319k)

<u>Plus</u>

- An additional capital amount of £25k for its Professional Indemnity Insurance (PII) excess.

(ii) PILLAR 1

The Firm is also a BIPRU limited licence firm and therefore is required to calculate a capital requirement as the higher of:

- The base capital resources requirement (€50,000)
- The variable capital requirement – which is defined as the higher of:
  - The sum of credit risk capital requirement and market risk capital requirement (£0k); and
  - The Fixed Overhead Requirement (£319k).

However, BIPRU 1.1.13 stipulates that BIPRU only applies to a CPMI firm in respect of its designated investment business (excluding managing an AIF or UCITS). Therefore, the Firm's capital requirement based on BIPRU for market and credit risk is always lower than the respective AIFMD requirement set out in IPRU-INV.

As a CPMI firm, the Firm calculates its Fixed Overhead Requirement in accordance with IPRU-INV 11.3.3A and Article 95 and 96 of the EU Capital Requirement Regulation (CRR). As a BIPRU firm, the Firm calculates its Fixed Overhead Requirement in accordance with GENPRU 2.1.54R. The Firm's minimum capital requirement as a BIPRU firm is driven by its Fixed Overhead Requirement and as a CPMI firm is driven by its Funds Under Management Requirement. On completion of its ICAAP, the Firm has concluded that its <u>Pillar 1 capital requirement as at 31 December 2019 is £1,005k.</u>

(iii) PILLAR 2

The Firm's Pillar 2 capital reserve represents the assessment of its operational risk (Pillar 2A) and the buffer derived under Pillar 2B. This position was reached following a detailed analysis undertaken in the ICAAP. The Pillar 2 assessment allows the Firm to assess the risks it faces which are not adequately captured under its Pillar 1 assessment.

The ICAAP revealed that where there are other forms of risk faced by the Firm, those risks are largely either minor (so as to have no appreciable effect on the Firm) or are simply irrelevant given the nature and relative simplicity of the business activities of the Firm. Where a risk was considered to be more pertinent, capital resources have been assessed to determine the ability of the business to absorb any likely resultant impact. A summary of the risk assessment is detailed below.

FCA Risk Categorisation	**Assessment for CRD Purposes**
Market Risk	Minimal Risk – The Firm does not invest in tradeable investments on its own balance sheet whose value is influenced by external market factors. As the Firm's primary activity is managing AIFs, its Pillar 1 calculation for market risk under the BIPRU rules is minimal as this only applies in respect of designated investment business outside of its activities of managing AIFs.
Operational Risk	This is the Firm's largest risk representing the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events that impact the business resulting in a loss event. Examples of loss events include legal actions, loss of key staff, regulatory sanctions, fraud, loss of significant premises in event of fire or similar events, and failure of material suppliers. The Firm employs a number risk identification, management and mitigation procedures and therefore considers the probability of risk impact to be low. However, a number of severe but plausible risks have been considered as part of its Pillar 2 assessment. Notably, the Firm employs experienced staff, adopts a robust performance appraisal process to ensure all individuals uphold the Firm's values. The Firm's policies and procedures are documented in its Compliance Manual and staff are required to provide the Firm with a written attestation periodically to confirm that they have and will comply with the FCA rules and applicable internal policies and procedures. Compliance training is provided to staff periodically. Outsourced relationships are monitored on a risk basis to ensure they adhere to contractual obligations. Business continuity plans forms part of the Compliance Manual which is reviewed at least on an annual basis. The Firm has dedicated in-house Compliance and Legal functions that are responsible for ensuring the business operates in a compliant manner. The Firm also has a number of commercial insurance arrangements in place to mitigate certain traditional operational risks. The Firm has not incurred any significant losses as a result of operational risks materialising and has suffered no losses linked to fraud.
Credit Risk	Minimal Risk – The Firm does not invest in portfolios or lend to external parties directly and therefore is only exposed to credit risk in respect of its balance sheet. As the Firm's activities are primarily in respect of managing AIFs, its Pillar 1 calculation for credit risk under the BIPRU rules is minimal as this only applies in respect of designated investment business outside of its activities of managing AIFs.
Concentration Risk	Minimal Risk – The Firm does not consider it is exposed to credit concentration risk in terms of sector, geographic or assets. The Firm's

	significant assets are made of debtors in respect of management fees from the underlying funds which are well diversified in terms of sectors and investors and as such does not recommend an additional capital reserve for this risk.
Residual Risk	N/A – The Firm does not employ any credit mitigation techniques.
Securitisation Risk	N/A – The Firm does not securitise assets.
Business Risk	Any risk arising from changes in its business, due to an acute change in business environment such as prolonged economic downturn or significant financial loss arising from changes to the Firm's business model or strategy. The Firm's long term business plan has been developed with a view to withstand such pressures. Loss of clients might impact future earning potential but would not change current revenue projections because fees are fixed by contracted investor commitments.
Interest Rate Risk	N/A – The Firm is not exposed to interest rate risk.
Pension Obligation Risk	N/A – The Firm has no pension obligations.
Liquidity Risk	Minimal Risk – Fees are fixed by contracted investor commitments. The funds managed by the Firm are close-ended AIFs. The Firm is required to hold liquid resources equal to its Fixed Overhead Requirement as a CPMI firm, and therefore does not consider any additional Pillar 2 requirement is needed.

Additionally, Stress Tests were also considered and, where necessary, conducted to determine the impact of certain shocks on the financial viability of the Firm. On completion of the ICAAP, the Firm concluded that no additional Pillar 2 capital is required.

E. REMUNERATION DISCLOSURE

The Firm, as an AIFM, must comply with the remuneration rules in Article 13 of the AIFMD and SYSC 19B of the FCA Handbook (the "Remuneration Code"). The purpose of the Remuneration Code is to ensure that firms have remuneration policies that promote effective risk management and do not expose the firm to excessive risks. The Firm has reviewed all existing remuneration arrangements to ensure they comply with the Remuneration Code.

The Remuneration Code can be applied based on the Principle of Proportionality. The Firm has decided to dis-apply the "Pay-out Process Rules" after considering its size, internal organisation, business nature, scope and complexity of activities.

Variable remuneration is not set based solely on the financial performance of an individual. In setting the level of remuneration for staff, the Firm's Board of Directors also considers an individual's overall (non-financial) performance, the performance of the managed funds and the Firm. The performance of the individual is assessed over the entire year.

Following the annual appraisal process, the Firm's Board of Directors is responsible for setting the level of remuneration for staff with complete discretion.

The Firm has designated certain individuals as "Risk Takers". The aggregate remuneration for the

Firm’s current Risk Takers for the financial year ended 31 December 2019 was £2,372,436.

Equitix Investment Management Limited – June 2020