

# EMK Capital

Enterprise Management Knowledge

## PILLAR 3, STEWARDSHIP CODE AND REMUNERATION DISCLOSURE

The Capital Requirements Directive ('CRD') and Alternative Investment Fund Management Directive ('AIFMD') of the European Union establish 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'), The Interim Prudential Sourcebook for Investment Business ('IPRU (INV)').

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

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet our Pillar 3 obligations.

The Pillar 3 disclosure document has been prepared by EMK Capital LLP ('The Firm') in accordance with the requirements of BIPRU 11. Unless otherwise stated, all figures are as at 31 March 2021.

Pillar 3 disclosures will be issued on an annual basis after the year end and published under the legal section of our website.

We are permitted to omit required disclosures if we believe that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions about the firm.

In addition, we may omit required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties.

Where we have chosen to omit information because it is immaterial, proprietary or confidential we have explained the omission and provided our reason.

### Scope and application of the requirements

The Firm is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. The Firm is categorised as a Collective Portfolio Management Investment Firm ('CPMI') Firm' by the FCA for capital purposes.

It is an agency 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 has established a risk management process in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. The risk management process

is overseen by the Chief Financial Officer, with the Senior Management team taking overall responsibility for this process and the fundamental risk appetite of the firm. The Chief Financial Officer and the team collectively has responsibility for the implementation and enforcement of the Firm's risk principles.

Senior Management meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, business planning and risk management. Senior Management engage in the Firm's risks through 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 Senior Management team has identified that business, operational, market and credit are the main areas of risk to which the Firm is exposed. Annually the Senior Management team formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness.

A formal update on operational matters is provided to the Senior Management team on a regular basis. Management accounts demonstrate continued adequacy of the firm's regulatory capital are reviewed on a regular basis.

Appropriate action is taken where risks are identified which fall outside of the Firm's tolerance levels or where the need for remedial action is required in respect of identified weaknesses in the Firm's mitigating controls.

### **Business Risks**

The Management Committee has determined that disclosures of Business Risks is not material to the user of the accounts for a CPMI firm like EMK Capital LLP.

### **Operational risk**

The Firm places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities in this respect.

The Firm has identified a number of key operational risks to manage, the disclosure of which the Management Committee has determined as immaterial to the users of the accounts. Appropriate policies are in place to mitigate against these risks. In addition in accordance with requirements in the AIFMD the Firm maintains adequate professional indemnity insurance.

### **Credit risk**

The Firm is exposed to credit risk only in respect of its investment management fees billed, which are billed to funds it manages. Given the nature of the Firm's exposures, no specific policy for hedging and mitigating credit risk is in place. The Firm uses the simplified standardised approach detailed in BIPRU 3.5.5 of the FCA Handbook when calculating risk weighted exposures of 1.6% (Cash in Bank) and 8% in respect of its other assets.

### **Professional liability risk**

The Firm has a legal responsibility for risks in relation to investors, products & business practices including, but not limited to; loss of documents evidencing title of assets of the AIF; misrepresentations and misleading statements made to the AIF or its investors; acts, errors or omissions; failure by the senior management to establish, implement and maintain appropriate procedures to prevent dishonest, fraudulent or malicious acts; improper valuation of assets and calculation of unit/share prices; and risks in relation to business disruption, system failures, process management. The Firm is aware of, and monitors, a wide range of risks within its business operations and towards its investors. The Firm has in place appropriate internal operational risk policies and procedures to monitor and detect these risks. These procedures and risks are documented, demonstrating how the Firm aims to mitigate these risks. This is reviewed annually.

The firm has in place appropriate coverage of professional indemnity insurance, where single claims are covered for up to £5m, exceeding the required 0.7% of total AUF assets under management, and aggregate cover is £5m, exceeding the required 0.9%. The excess of £25k is held in Own Funds.

## Regulatory capital

The Firm is a Limited Liability Partnership and its capital arrangements are established in its Partnership deed. Its capital is summarised as follows:

The main features of the Firm's capital resources for regulatory purposes are as follows:

|                                     | <b>31 March 2021</b> |
|-------------------------------------|----------------------|
|                                     | <b>£000</b>          |
| Tier 1 capital*                     | 1,300                |
| Tier 2 capital                      |                      |
| Tier 3 capital                      |                      |
| Deductions from Tiers 1 and 2       |                      |
| <b>Total capital resources</b>      | <b>1,300</b>         |
| *No hybrid tier one capital is held |                      |

Our Firm is small with a simple operational infrastructure. The Firm follows the standardised approach to market risk and the simplified standard approach to credit risk.

BIPRU - 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 a CPMI Firm and as such its capital requirements are the higher of:

- €125,000 + 0.02% of AIF AUM > €250m; and
- The sum of the market & credit risk requirements; or
- The fixed overheads requirement ('FOR') which is essentially 25% of the firm's operating expenses less certain variable costs.

0.02% is taken on the absolute value of all assets of all funds managed by the firm (for which it is the appointed AIFM and / or UCITS operator) in excess of €250m, including assets acquired through the use of leverage, whereby derivative instruments shall be valued at their market value, including funds where it the firm has delegated the management function but excluding funds that it is managing as a delegate. The FOR is calculated, in accordance with FCA rules, based on the firm's previous years audited expenditure. The firm has adopted the simplified standardised approach to credit and market risk and the above figures have been produced on that basis. The firm is not subject to an operational risk requirement.

It is the Firm's experience that the Fixed Overhead Requirement establishes its capital requirements.

## UK Financial Reporting Council's Stewardship Code

FCA COBS Rule 2.2.3R requires FCA authorised firms to disclose whether they conform to the requirements of the UK Financial Reporting Council's Stewardship Code (the 'Code'). Adherence to the Code is voluntary. The Firm does not hold listed securities and as a private capital investor has detailed involvement with its investments on a day to day basis through Board positions and otherwise. Therefore, while the Firm supports the principles of the Code, it does not consider it to be directly applicable to its business at this time.

## Remuneration disclosure

The Remuneration Code ('the RemCode') cover(s) an individual's total remuneration, fixed and variable. The Firm incentivises staff through a combination of the two.

Our policy is designed to ensure that we adequately incentivise our members and staff, comply with the RemCode and our compensation arrangements:

1. are consistent with and promotes sound and effective risk management;
2. do not encourage excessive risk-taking, which is inconsistent with the risk profiles of the relevant AIF of segregated account managed;
3. include measures to avoid conflicts of interest
4. are in line with the Firm's business strategy, objectives, values and long-term interests.

### **Application of the requirements**

We are required to disclose certain information on at least an annual basis regarding our Remuneration policy and practices for those staff whose professional activities have a material impact on the risk profile of the firm. Our disclosure is made in accordance with our size, internal organisation and the nature, scope and complexity of our activities.

Summary of information on the decision-making process used for determining the firm's remuneration policy:

- The Firm's policy has been agreed by the Senior Management in line with the Remuneration principles laid down by the FCA.
- Due to the size, nature and complexity of the Firm, we are not required to appoint an independent remuneration committee.
- The Firm's policy will be reviewed as part of annual process and procedures, or following a significant change to the business requiring an update to its internal capital adequacy assessment.

### **Materiality**

We may omit required disclosures where we believe that the information could be regarded as prejudicial to the UK or other national transposition of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data.

Additionally, the Firm's approach to materiality, and its proportionate disclosure requirements are noted below:

- treating 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 purposes of making economic decisions;
- treating information as proprietary, if the sharing of 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 investment in them less valuable;
- treating information as confidential, if there are obligations to customers or other counterparty relationships binding the firm to confidentiality; and
- paying due regard to the limited number of Code Staff, as such having consideration for any relevant omissions.