

# ADELPHI

## Pillar 3 Disclosure Document

### Disclosure Requirements

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

The FCA framework 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 Funds ('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.

This Pillar 3 disclosure document has been prepared by **Adelphi Capital LLP** ("The Firm") in accordance with the requirements of BIPRU 11 and is verified by the senior management. Unless otherwise stated, all figures are as at the 31 March 2018 financial year end.

Pillar 3 disclosures will be issued on an annual basis after the year end and published as soon as practical once the audited annual accounts have been finalised.

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 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 Financial Conduct Authority and as such is subject to minimum regulatory capital requirements. The Firm is categorised as a BIPRU Firm, and a Collective Portfolio Management Investment Firm ('CPMI') Firm by the FCA for capital purposes. The Firm is not a member of group and so is not required to prepare consolidated reporting for prudential purposes.

## Risk Management

The Partners of the Firm determine its business strategy and risk appetite along with designing and implementing a risk management framework that recognises the risks that the business faces. They also determine how those risks may be mitigated and assess on an ongoing basis the arrangements to manage those risks. The Partners meet on a regular basis and discuss current projections for profitability and regulatory capital management, business planning and risk management. The Partners manage the Firm's risks through a framework of policy and procedures having regard to 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 Partners have identified that business, operational, market and credit risks are the main areas of risk to which the Firm is exposed. Annually the Partners formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness. Where the Partners identify material risks they model the financial impact of these risks as part of our business planning and capital management and conclude whether the amount of regulatory capital is adequate. Management accounts are reviewed on a regular basis and demonstrate continued adequacy of the Firm's regulatory capital.

The Firm is small with a simple operational infrastructure. The Firm carries no market risk, other than foreign exchange risk on its accounts receivable in foreign currency, and credit risk from management and performance fees receivable from the funds under its management. The Firm follows the standardized approach to market risk and the simplified standard approach to credit risk. The Firm is subject to the Fixed Overhead Requirement and is not required to calculate an operational risk capital charge.

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

<b>Equity</b>	<b>31 March 2018</b>	<b>31 March 2017</b>
	<b>£</b>	<b>£</b>
Members' capital	1,310,000	1,305,000
Other reserves	3,465,315	4,251,579
	<u>4,775,315</u>	<u>5,564,579</u>

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

<b>Capital item</b>	<b>£'000</b>
Tier 1 capital less innovative tier 1 capital	1,310
Total tier 2, innovative tier 1 and tier 3 capital	
Deductions from tier 1 and tier 2 capital	
Total capital resources, net of deductions	1,310

The Firm is a CPMI firm and as such its capital requirements are the greater of:

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

As per IPRU (INV) 11.3.2 (2) the Firm is also subject to the Funds Under Management Requirement of maintaining capital equal to at least 0.02% of the amount by which funds under management exceed €250,000,000.

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

### **FCA Remuneration Code Disclosure**

The Firm has adopted a remuneration policy that complies with the requirements of chapter 19B of the FCA's Senior Management Arrangements, Systems and Controls Sourcebook (SYSC), as interpreted in accordance with the FCA's guidance publication entitled "General Guidance on Proportionality: The Remuneration Code (SYSC 19B) & Pillar 3 Disclosures on Remuneration (BIPRU 11)" and subsequent items of guidance issued by the FCA, including its document entitled "Frequently Asked Questions on the Remuneration Code". Under these requirements the Firm is required to disclose certain information on at least an annual basis regarding its remuneration policy and practices for those staff whose professional activities have a material impact on the risk profile of the Firm. This disclosure is made in accordance with the size of the Firm, the internal organisation, nature, scope and the complexity of its activities.

Enshrined in the European remuneration provisions is the principle of proportionality. The FCA has sought to apply proportionality in the first instance by categorising firms into three levels. The Firm falls within the FCA's proportionality level three and as such this disclosure is made in line with the requirements for a level three firm. Given the size and nature of the business the Firm considers that it does not need to maintain a separate Remuneration Committee. Remuneration of the senior officers in risk management and compliance functions is directly overseen by the Executive Committee. The need for a separate Remuneration Committee will be reviewed in the event of a material change to the Firm.

The Firm currently sets the variable remuneration of its staff in a manner which takes into account individual performance and the overall results of the Firm. As permitted for firms falling within proportionality level three, the Firm takes into account the specific nature of its own activities (including the fee-based nature of its revenues) in conducting any ex-ante risk adjustments to awards of variable remuneration and, given the nature of its business, has disapplied the requirement under the Remuneration Code to make ex-post risk adjustments.

The Firm has only one "business area", which is its investment management business. All of the Firm's Code Staff are legal Partners of the Firm. The aggregate "remuneration" (as defined in the FCA Rules) awarded to the LLP's Code Staff during the financial year ending on 31 March 2018 in respect of the 2017/18 performance year is disclosed in the Firm's publically available audited financial statements.

Adelphi Capital LLP is authorised and regulated in the United Kingdom by the Financial Conduct Authority (the "FCA") and as such this document is only made available to professional clients and eligible counterparties as defined by the FCA, or other persons categorised under COBS 4.12 of the FCA Handbook or qualified clients as defined in the United States Investment Company Act of 1940. BIPRU 11.3.1R requires a firm to publicly disclose the information contained in the Pillar 3 Disclosure Document. This Information contained in this Disclosure Document is made pursuant to this rule. The Information contained herein is not intended as an offer or solicitation with respect to the purchase or sale of any security. The Information in this document is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation