



## BACKGROUND & PURPOSE

**The Capital Requirements Directive ('CRD') and Alternative Investment Fund Management Directive ('AIFMD') of the European Union 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'), 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 **Praxis Capital Limited (the "Firm")** in accordance with the requirements of BIPRU 11 and is verified by senior management. Unless otherwise stated, all figures are as at the last financial year-end.

Pillar 3 disclosures will be issued on an annual basis after the year end and published as soon as practical when the audited annual accounts are 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.

We have made no omissions on the grounds that it is immaterial, proprietary or confidential.



## SCOPE & 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 BIRPU firm with MiFID activity restriction by the FCA for capital purposes.

It is an investment management firm and as such has no trading book exposures.

The Firm is the only active trading company in its 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 a dedicated risk manager, with the Senior Management team taking overall responsibility for this process and the fundamental risk appetite of the firm. The Compliance Officer 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 demonstrating 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 Firm's revenue is reliant on the performance of the existing funds under management and its ability to launch new funds/obtain new mandates. As such, the risk posed to the firm relates to underperformance and adverse market conditions hindering the launch of new funds and ultimately the risk of redemptions from the funds managed by the firm. This risk is mitigated by e.g.

- + the use of lock up periods and redemption gates imposed by the funds;
- + the continued support of the firm by its stakeholders; and
- + regular monitoring and maintenance of a level of capital adequacy.



### **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. These relate to failure of a third party provider, key man, potential for serious regulatory breaches and market abuse. Appropriate policies are in place to mitigate against these risks, which includes taking out adequate professional indemnity insurance.

### **Credit Risk**

The Firm is exposed to credit risk in respect of its debtors and investment management fees billed and cash held on deposit.

The number of credit exposures relating to the Firm's investment management clients is limited. Management fees are drawn monthly from the funds managed and performance fees are paid out from realised investments. The Firm considers that there is little risk of default by its clients while all bank accounts are held with large international credit institutions.

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.

### **Liquidity Risk**

The Firm retains an amount it considers suitable for providing sufficient liquidity to meet its working capital requirements under normal business conditions. The Firm has had sufficient liquidity within the business to meet its obligations and there are no perceived threats to this given the cash deposits it holds and the support it receives from its stakeholders.

Additionally, it has historically been the case that all management fee 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 Chief Executive Officer on a regular basis, and the Firm would be able to call on further capital as needed or required.

The Firm maintains a Liquidity Risk Policy which formalises this approach.



## Market Risk

Since the Firm takes no trading book positions on its balance sheet it has only indirect market risk exposure.

## REGULATORY CAPITAL

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

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

	31-03-2020 £000
Tier 1 capital*	226
Tier 2 capital	
Tier 3 capital**	
Deductions from Tiers 1 and 2	
<b>Total capital resources</b>	<b>226</b>
<b>*No hybrid tier one capital is held</b>	

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.

Limited License - 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 Limited Licence Firm and as such its capital requirements are the higher of:

- + €50,000; 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.

The FOR is calculated, in accordance with FCA rules, based on the firm's previous years audited expenditure. The firm has adopted the 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.



## CAPITAL REQUIREMENT

The Firm's Pillar 1 capital requirement has been determined by reference to the Firm's Fixed Overheads Requirement ('FOR') and calculated in accordance with Article 95 and the EBA Final draft technical standards. The requirement is based on the FOR since this exceeds the total of the credit and market risk capital requirements it faces and also exceeds its base capital requirement of €50,000.

The FOR is based on annual expenses net of variable costs deducted, which include discretionary bonuses paid to staff, allowable commission, fees and other variable expenditure. The Firm monitors its expenditure on a monthly basis and takes into account any material fluctuations in order to determine whether the FOR remains appropriate to the size and nature of the business or whether any adjustment needs to be made intra-year.

This is monitored by the Head of Operational Finance and reported to senior management on a monthly basis.

## 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 acts as a manager to certain private investment funds, therefore, while the Firm supports the principles of the Code, it does not consider it appropriate to conform to the Code at this time.

If the Firm investment strategy changes in such a manner that the provisions of the Code become relevant, the Firm will amend this disclosure accordingly.

## REMUNERATION DISCLOSURE

The Firm is authorised and regulated by the Financial Conduct Authority as a BIRPRU Limited License Firm and, so, it is subject to FCA Rules on remuneration. These are contained in the FCA's Remuneration Codes located in the SYSC Sourcebook of the FCA's Handbook.

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.

The Firm's business is to provide investment management services to its alternative investment funds.

Our policy is designed to ensure that we comply with the RemCode and our compensation arrangements:

- + are consistent with and promotes sound and effective risk management;
- + do not encourage excessive risk taking which is inconsistent with the risk profiles of the AIFs they manage;
- + include measures to avoid conflicts of interest; and
- + are in line with the Firm's business strategy, objectives, values and long-term interests.



## Proportionality

Enshrined in the European remuneration provisions is the principle of proportionality. The FCA has sought to apply proportionality in the first instance by instituting two tests. Firstly, a firm that is significant in terms of its size must disclose quantitative information referred to in BIPRU 11.5.18R at the level of senior personnel. Secondly, that a firm must make disclosure that is appropriate to the size, internal organisation and the nature, scope and complexity of their activities.

The firm is not 'significant' (that is to say has relevant total assets <£50bn\*) and so makes this disclosure in accordance with the second test (BIPRU 11.5.20R(2)).

## 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.

### 1. **Summary of information on the decision-making process used for determining the firm's remuneration policy including use of external benchmarking consultants where relevant.**

- + 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.
- + The Firm's ability to pay bonus is based on the performance of Firm overall and derived after its fund's managed returns have been calculated by client appointed third party administrators.

### 2. **Summary of how the firm links between pay and performance (SEE REM CODE).**

- + Individuals are rewarded based on their contribution to the overall strategy of the business.
  - a. Investment Generation
  - b. Investment Management
  - c. Sales & Marketing
  - d. Operations
- + Other factors such as performance, reliability, effectiveness of controls, business development and contribution to the business are taken into account when assessing the performance of the senior staff responsible for the infrastructure of the firm

*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.*

*We have made no omissions on the grounds of data protection.*