Parvus Asset Management Europe Limited

Introduction

In 2006, the Basel II capital accord revised the existing regulatory capital framework to make it more sensitive to the risk management practices of modern banks and investment firms. The European Union implemented these provisions via the Capital Requirements Directive ('CRD'), which consists of a three pillar framework:

- Pillar 1 – sets out the minimum capital requirements comprising base capital resources requirements; credit risk and market risk requirements; and fixed overhead requirement ('FOR').
- Pillar 2 - requires firms to undertake an overall internal assessment of their capital adequacy, taking into account all risks to which the firm is exposed and whether additional capital should be held to cover risks not adequately covered by Pillar 1 requirements. This is achieved through the Internal Capital Adequacy Assessment Process ('ICAAP') and, potentially by the Supervisory Review and Evaluation Process of the FCA.
- Pillar 3 – aims to improve market discipline by requiring firms to publish certain details of the risks they are facing, their capital resources and risk management procedures.

The United Kingdom financial regulatory body, the Financial Conduct Authority ('FCA') has incorporated the new framework into its existing rules and guidance through the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

BIPRU 11 relates specifically to the Pillar 3 disclosure requirements affecting firms subject to the CRD. This document discloses those requirements, as laid out in BIPRU 11.5, detailed below:

- BIPRU 11.5.1R – the risk management objectives and policies for each separate risk referred to under BIPRU 11.5.1R to 11.5.17;
- BIPRU 11.5.2R – the scope of application of directive requirements;
- BIPRU 11.5.3R – information regarding capital resources;
- BIPRU 11.5.4R – information regarding compliance with the BIPRU rules and the overall Pillar 2 rule;
- BIPRU 11.5.12R – regarding disclosures relating to market risk.

Information which is regarded as proprietary or confidential, or immaterial, is not included. Information should be considered as material if its omission or misstatement could change or influence the assessment or decision of a user relying on it to make economic decisions. Proprietary or confidential information could include information which, if shared with competitors, would render a firm's investments less valuable or if the information comprises obligations to customers or other counterparty relationships binding a firm to confidentiality.

Scope of application of directive requirements

The Pillar 3 disclosures set out in this document pertain to Parvus Asset Management Europe Limited (the 'Firm'), a BIPRU investment firm, regulated by the FCA.

The Firm is a subsidiary of Parvus Asset Management Limited ('PAM LTD'), which is a wholly owned subsidiary of Parvus Asset Management (Cayman) Limited, neither of which are regulated.

For the purposes of the CRD, the Firm is neither consolidated nor deducted from PAM LTD as per BIPRU 8.5.

There are no current or foreseen material practical or legal impediments to prompt the transfer of capital resources or repayment of liabilities between the parent undertaking and its subsidiary undertakings. The Firm's capital resources are in excess of the required minimum and it is not affected by a solo consolidation waiver.

Risk management objectives and policies

The governing body for the risk framework within the Firm is the board of directors (the 'Board'). The Board is responsible for establishing and implementing a risk management framework that takes into account the risks that the Firm is likely to meet. The Firm's risk management framework incorporates an analysis of the impact of each material risk on the business, the probability of each risk occurring and the procedures in place for mitigation.

BIPRU 11.5. (4-17) lists several risk categories for which the risk strategy must be disclosed. From those listed, the Firm has identified credit, market and operational risks as currently applicable to its business. All risks identified, including business risk, liquidity risk, reputational risk, etc., are reviewed regularly as part of the Firm's ICAAP. Any perceived changes to these risks are acted upon as appropriate.

Credit Risk

The Firm is exposed to credit risk through its cash deposits, trade debtors, intercompany balances and prepayments. Credit exposure arising from the Firm's monthly management fees are collected directly from the offshore manager, thus there is minimal risk of default or late payment. The risk of the non-payment of management and incentive fees from the funds is mitigated by the appointment of an independent funds' administrator.

The Firm will hold all cash with banks with whom the Firm has strong, well-established relationships and which typically have a minimum Moody's or S&P rating of investment grade. It does not have any external investments.

The Firm uses the standardised approach to calculating credit risk exposures, i.e. 8% of the risk weighted credit exposure. Under this approach the Firm calculated its total credit risk to be £1.4m.

Market Risk

Market risk is limited only to foreign exchange risk arising from a currency mismatch between the Firm's management fees and its functional currency. The management fee is converted to Sterling immediately upon receipt, limiting the exposure to less than three weeks. As the currencies involved are highly liquid (Sterling, Dollar and Euro), and the potential fluctuations relatively immaterial, the Firm does not believe it is necessary to hedge this exposure.

The Firm uses the general rule in BIPRU 7.5 for calculating market risk exposures, i.e. 8% of the risk weighted market exposure. Under this approach the Firm calculates its foreign currency PRR and total market risk to be £1.3m.

Operational Risk

Operational risk is defined as the risk of loss, due to inadequate monitoring systems, management failure, defective controls, fraud, and/or human errors. The Firm has in place a companywide risk management framework which outlines responsibilities and escalation procedures for the identification and management of risks, as outlined in the risk policy. As part of this risk management framework, the Firm explicitly considers whether each identified key operational risk should be **'taken'** (i.e. accepted with no changes to business processes and controls), **'treated'** (i.e. its impact or likelihood of occurrence reduced by improvements in the control environment) or **'transferred'** (i.e. insured). The responsibility for ensuring that operational risk management is performed in line with this 'take, treat or transfer' approach rests with the Board.

The driver of the Pillar II capital is operational risk. The operational risk has been estimated from first principles using a number of approaches, detailed in the Firm's ICAAP. The Firm has calculated that its Pillar II Operational Risk is £6.4m.

Fixed Overhead Requirement

The Firm has determined the Fixed Overhead Requirement (FOR) to be £496k.

Capital Resources

The total value of tier 1 capital resources as at 31 December 2016 was £12.3m. The tier 1 capital consists of £451k share capital, £66k non-distributable reserves, £11.8m retained earnings and £55k capital held in a share-premium account. No tier 2 or 3 capital resources are required.

The Firm's regulatory capital requirement was approximately £2.7m determined by the higher of the base capital requirement, credit plus market risk requirement, and FOR. The Firm thus holds £9.6m of surplus capital.

FCA Remuneration Code (the "Code")

In accordance with the Financial Conduct Authority (FCA) AIFM Remuneration Code as described in SYSC 19B of the FCA Handbook and in accordance with The European Securities and Markets Authority's (ESMA) Guidelines on sound remuneration policies under the AIFMD the Firm has a remuneration policy which is consistent with and promotes sound and effective risk management.

The Firm's remuneration policy applies to senior management, staff engaged in control functions and risk takers whose professional activities have a material impact on the risk profile of the Firm and the funds it manages, and any other staff receiving total remuneration that takes them into the same remuneration bracket as senior management.

Under the FCA and ESMA guidelines the Firm has determined that it is not a 'significant firm' and consequently has not set up a remuneration committee; however the Firm's governing body undertakes this role. The decisions of the governing body on setting remuneration are based on, amongst other things, risk management, supporting business strategy, objectives, values and interests and avoiding conflicts of interest, governance, control functions, and measurement of performance.

The Firm's governing body considers remuneration in the context of a wider agenda including retention, recruitment, motivation and talent development and the external market environment. It also receives updates on regulatory developments and general remuneration issues, as well as market and benchmarking data.

Information on the link between pay and performance

The various components of total remuneration (which comprise base salary and variable bonus) are considered and are balanced appropriately having regard to the overall Firm performance and fund performance and is less focussed on individual profit and loss.

Firm performance and the input of the individual are the significant contributors to the determination of variable bonus awards. The principal objective in determining variable bonus awards is to reward individual contribution to the Firm whilst ensuring that such payments are warranted given business results. In this context performance can include financial and non-financial measures, risk measures and other relevant factors. There is a focus on differentiation so that any rewards are determined according to the contribution of individuals. Bonus pools and individual awards are subject to the discretion of the board of directors and it is possible that in any year no variable bonus will be awarded, either at all, or to particular individuals.

Quantitative information on remuneration

The Firm considers that it has a single business area (investment management). The aggregate remuneration of the individuals engaged in this business area for the period was £41m, which is comprised of 8 Code staff. The aggregate remuneration includes the aggregate fixed remuneration of £242k and £41m of total variable remuneration in cash form.

UK Stewardship Code Disclosure Statement

Under COBS 2.2 of the FCA Handbook, all FCA authorised firms are required to make a public disclosure in relation to the nature of their commitment to the above Code ("the Code"), which was published by the Financial Reporting Council ("FRC") in July 2010.

The Code aims to enhance the quality of engagement between institutional investors and the companies they invest in with the intention of improving long term returns for shareholders and the efficient exercise of governance responsibilities. The FRC recognises that not all parts of the Code will be relevant to all institutional investors and that smaller institutions may judge some of the principles and guidance to be disproportionate. Firms may either comply with the Code or choose not to comply with certain aspects of the Code, in which case an explanation of non compliance is required. If a firm does not commit to the Code, it must state, in general terms, its alternative investment strategy.

On behalf of the funds that it manages, the Firm invests in securities issued in, but not limited to the entirety of the European Union. The Code is therefore applicable only to some aspects of the Firm's trading (UK equities), but this represents just a small proportion of the firm's business. At times, the funds may hold no UK equities. Although the Firm supports the Code's objectives, the Firm has taken the decision not to commit to the specific principles of the Code.

The Firm invests in various asset classes and jurisdictions. The current policy of the Firm in engaging with issuers and their management is determined by the Chief Investment Officer and the investment team. The Firm takes a consistent approach to engaging with the issuers and their management in all the jurisdictions the Firm invests in. It is therefore not deemed appropriate to comply with any voluntary codes of practice in individual jurisdictions.