Parvus Asset Management Europe Limited

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based on 31 December 2019 Audited Accounts

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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 11.5.7R – 11.5.10R – information regarding credit and counterparty risk;

- BIPRU 11.5.12R – information regarding disclosures relating to market risk;

- BIPRU 11.5.18R – remuneration disclosure.

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' or 'Parvus'), 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.

Following the implementation of the Alternative Investment Fund Managers Directive ("AIFMD") on 22 July 2013, Parvus has been approved by the FCA as an Alternative Investment Fund Manager ("AIFM"). This means that, in addition to having to meet regulatory capital requirements based upon the retention of sufficient regulatory capital to meet an expenditure based requirement, the Firm is also subject to a capital requirement based upon its assets under management. Although, as an AIFM, the Firm is subject to the capital requirements of the AIFMD, it continues to be categorised as a BIPRU Firm and is still subject to the Pillar 3 disclosure requirements.

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 11.5.1R requires the Firm to disclose its strategies and processes for managing credit risk and market risk. These are discussed herein.

In addition, GENPRU 1.2.30 (2) lists several risk categories for the management of which the Firm must have in place sound, effective and complete processes, strategies and systems. From those listed, the Firm has identified credit, market, and operational risk as currently the major ones applicable given the nature and scale of the business. All other risks identified, including business risk, liquidity risk, reputational risk, pension risk etc., are reviewed regularly as part of the Firm's ICAAP and are considered to have less significant impact. Any perceived changes to the level of materiality of these risks are acted upon as appropriate.

Calculation of Capital Requirements

The Firm is required to calculate its overall capital requirement as the highest of the Pillar 1 capital requirement, risk quantification through the ICAAP (Pillar 2) and the wind-down requirement. The Pillar 2 requirement is Parvus' own assessment of the minimum amount of capital deemed adequate to be held against the identified risks.

Pillar 1 Capital Requirement

The Pillar 1 minimum capital requirement is calculated as the higher of the base capital requirement, the credit plus market risk capital requirement or the fixed overhead requirement. As at 31 December 2019, Parvus' Pillar 1 capital requirement was £741k.

The components of the Pillar 1 capital requirement are as follows:

Credit Risk

The Firm is exposed to credit risk through its cash deposits, trade debtors, intercompany balances and prepayments. With regards to credit exposure arising from the Firm's monthly management fees, there is minimal risk of default or late payment as these are collected directly from the offshore manager. In addition, 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 Pillar 1 credit risk capital requirement to be £381k.

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 Pillar 1 foreign currency PRR and market risk capital requirement to be £360k.

Fixed Overhead Requirement

The Firm has determined the Fixed Overhead Requirement (FOR) to be £541k.

Pillar 2 Capital Requirement - Internal Assessment of Capital Adequacy

The Firm makes an internal assessment of its capital adequacy by considering the capital required to cover unexpected losses which might arise from, amongst others, the following risk types:

- Credit Risk
- Market Risk
- Operational Risk
- Regulatory Risk
- Reputational Risk
- Business Risk

As at 31 December 2019, the Firm's ICAAP capital requirement was £1.5m.

Capital Resources

The total value of tier 1 capital resources as at 31 December 2019 per the audited financial statements was £6.8m. The tier 1 capital consists of £294k share capital, £235k non-distributable reserves, £6.3m retained earnings and £42k capital held in a share-premium account. No tier 2 or 3 capital is held.

As at 31 December 2019, Parvus' wind-down requirement was lower than the Firm's Pillar 1 and Pillar 2 capital requirement. As such, the highest figure was that under Pillar 2 against which the Firm held a surplus capital of £5.3m.

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 £28m, comprising 6 Code staff. The aggregate remuneration includes the aggregate fixed remuneration of £125k and £28m of total variable remuneration in cash form.

UK Stewardship Code Disclosure Statement

Under COBS 2.2.3 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"), a revised version of which was published by the Financial Reporting Council ("FRC"), and which came into effect in January 2020.

The Code defines stewardship as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. 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.

Although the Firm supports the Code's objectives, the Firm has taken the decision not to commit to the specific principles of the Code.

Investment approach and engagement

The Firm invests in various asset classes and jurisdictions globally. 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 in which the Firm invests.

Investor communication

The Firm communicates closely with its funds and the fund investors as to the holdings in the funds through newsletters and other investor communications.