



## Regulatory Disclosures

### **Pillar 3 Disclosure**

The Capital Requirements Directive (“CRD”) and Alternative Investment Fund Management Directive (“AIFMD”) of the European Union establish a 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 Thunderbird Partners LLP (the “Firm”) in accordance with the requirements of BIPRU 11 and is verified by the Partners. Unless otherwise stated, all figures are as at the 31 March financial year-end. This is the Firm’s accounting reference date. 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 omitted certain data on the grounds of materiality.

## **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 (“CPMI”) Firm by the FCA for capital purposes. The Firm is an investment management firm and, as such, has no trading book exposures.

The Firm is not a member of a group and, as such, 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 Risk Officer, with the Partners taking overall responsibility for this process and the fundamental risk appetite of the Firm. The Chief Compliance Officer has responsibility for the implementation and enforcement of the Firm’s risk principles.

The Partners meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, business planning and risk management. The Partners 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 Partners have identified that business, operational, market and credit 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.

A formal update on operational matters is provided to the Partners on a monthly basis. Management accounts demonstrate continued adequacy of the Firm’s regulatory capital and 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.

Specific risks applicable to the Firm come under the headings of business, operational, credit and market risks.

## **Business risk**

The Firm’s revenue is reliant on the performance of the existing funds under management. As such, the risk posed to the Firm relates to underperformance resulting in a decline in revenue, adverse market conditions and ultimately the risk of redemptions from the funds managed by the Firm. This risk is mitigated by the redemption provisions of the funds which provide for gradual redemptions under most circumstances. Furthermore, there are significant levels of capital held by the Firm which will continue to cover all the expenses of the business.

### **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 valuation and trading errors, loss of key staff and systems failure. 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 cash held on deposit. The number of credit exposures relating to the Firm's investment management clients is limited. The Firm considers that there is little risk of default by its clients. 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.

### **Market risk**

The Firm takes no market risk other than foreign exchange risk in respect of its accounts receivable and cash balances held in currencies other than GBP. No specific strategies are adopted in order to mitigate the risk of currency fluctuations. The Firm calculates its foreign exchange risk by reference to the rules in BIPRU 7.5.1 of the FCA Handbook and applies an 8% risk factor to its foreign exchange exposure.

### **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 Partners 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 ("PII"), where single claims are covered for an amount exceeding the required 0.7% of total AIF assets under management, and aggregate cover is for an amount exceeding the required 0.9%. The PII deductible is held in Own Funds.

## Liquidity risk

The Firm is aware that liquidity may be compromised during periods of stress and investment management firms need to establish reliable sources of financing in order to enhance financial stability in volatile market conditions. The Firm is required to maintain sufficient liquidity to ensure that there is no significant risk that its liabilities cannot be met as they fall due or to ensure that it can secure additional financial resources in the event of a stress scenario. The Firm retains an amount it considers suitable for providing sufficient liquidity to meet the working capital requirements under normal business conditions. The Firm has always had sufficient liquidity within the business to meet its obligations and there are no perceived threats to this given the cash deposits it holds. 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 Financial Officer on a regular basis. The Firm maintains a liquidity risk policy which formalises this approach.

## Regulatory capital

The Firm is a Limited Liability Partnership and its capital arrangements are established in its Partnership deed. The main features of the Firm's capital resources for regulatory purposes are as follows:

	<b>31 March 2020 £000</b>
Tier 1 capital*	1,785
Tier 2 capital	-
Tier 3 capital	-
Deductions from Tiers 1 and 2	-
<b>Total capital resources</b>	<b>1,785</b>
*No hybrid tier one capital is held	

The Firm is small with a simple operational infrastructure. Its market risk is limited to 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 standardised approach to market risk and the simplified standard approach to credit risk. As discussed above, the Firm is a CPPI firm and as such its capital requirements are the higher of:

- €125,000 + 0.02% of AIF AUM exceeding €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 AIF assets exceeding €250m managed by the firm, including assets acquired through the use of leverage, whereby derivative instruments shall be valued at their market value. The FOR is calculated, in accordance with FCA rules, based on the firm's previous years audited expenditure. 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 FOR and calculated in accordance with Article 95 and the EBA final draft technical standards as referenced in IPRU (INV) 11.3.3A. 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 €125,000 plus 0.02% of AIF AUM exceeding €250m.

The FOR is based on annual expenses net of variable costs deducted. 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 Chief Financial Officer and reported to the Partners on a periodic basis.

### **Remuneration**

The Firm is authorised and regulated by the Financial Conduct Authority as a CPMI firm and so, it is subject to FCA Rules on remuneration. These are contained in the FCA's Remuneration Code located in the SYSC Sourcebook of the FCA's Handbook. The Remuneration Code ("the RemCode") covers an individual's total remuneration, fixed and variable. The Firm incentivises staff through a combination of the two.

The Firm provides investment management services to funds managed by the Firm.

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

1. are consistent with and promote sound and effective risk management;
2. do not encourage excessive risk taking;
3. include measures to avoid conflicts of interest; and
4. are in line with the Firm's business strategy, objectives, values and long-term interests.

## **Proportionality**

Enshrined in the European remuneration provisions<sup>1</sup> is the principle of proportionality. The FCA have 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, a firm must make disclosures that are appropriate to the size, internal organisation and the nature, scope and complexity of its activities.

The Firm is not ‘significant’ (i.e. relevant total assets < £50bn<sup>2</sup>) 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. Due to the size, nature and complexity of the Firm, we are not required to appoint an independent remuneration committee.

The Firm’s policy has been established in line with the RemCode principles laid down by the FCA. The Firm’s policy will be reviewed as part of its 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 bonuses is based on the overall performance of the Firm.

Individuals are rewarded based on their contribution to the overall strategy of the business, including but not limited to, investment idea generation, trading, operations and compliance. Other factors such as performance, reliability, adherence to and development of effective controls, contribution to the business and adherence to the risk and compliance policies and procedures are taken into account when assessing the performance of the senior staff responsible for the infrastructure of the Firm.

Any compensation amount is disclosed in our accounts filed with Companies House.

We may omit required disclosures where we believe that the information could be regarded as prejudicial to the UK or other national transposition of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 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.

## **UK Financial Reporting Council’s Stewardship**

COBS 2.2.3R of the FCA Handbook requires the Firm to disclose whether it conforms to the UK Financial Reporting Council’s Stewardship Code (the “Code”). Adherence to the Code is voluntary. The Firm operates a global long/short strategy which involves a wide variety of investment

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<sup>1</sup> Article 92(2) of the Capital Requirements Directive

<sup>2</sup> Average total assets on the last three accounting dates



products and timeframes. Therefore, while the Firm supports the principles of the Code, it does not consider it appropriate to conform to the Code at this time.

### **Shareholder Rights Directive**

The Firm is considering its position with respect to obligations under the Shareholder Rights Directive and will in due course publish an appropriate disclosure confirming whether it intends to 'comply or explain' (as per COBS 2.2B.5 R).

Separately, the Firm already maintains an effective strategy for determining if, when and how any voting rights held in client portfolios are to be exercised, to the exclusive benefit of the portfolio and its underlying investors concerned. The strategy includes:

- Monitoring relevant corporate actions;
- Ensuring that the exercise of voting rights is in accordance with the investment objectives and policy of the relevant portfolio; and
- Preventing or managing any conflicts of interest arising from the exercise of voting rights.

Therefore, regardless of outcome, the Firm expects to continue fulfilling its fiduciary obligation to its clients.