

Sapia Partners LLP (the “Firm”) Pillar 3 Disclosure

as at 1 August 2019

The Capital Requirements Directive (CRD) was implemented on 1 January 2007. It comprises three ‘pillars’:

- **Pillar 1 sets out the minimum capital requirements taking into account the firm’s credit, market and operational risks;**
- **Pillar 2 is an assessment of whether additional capital is needed over and above that determined under Pillar 1; and**
- **Pillar 3 requires the Firm to publish its objectives and policies in relation to risk management, and information on its risk exposures and capital resources as well as disclosures with respect to FCA’s relevant “Remuneration Code” applicable to the Firm.**

In accordance with the requirements of Pillar III, this document is intended to disclose information relating to the Firm’s risk and control framework and capital position.

On 1 January 2014, CRD IV, the fourth amendment of the CRD came into effect. All disclosures in the document are based upon data as at 31 March 2018 based on the CRD IV rules.

Frequency of Disclosure

It is the intention of the Company to update its Pillar 3 on an annual basis (after the previous year’s annual accounts have been audited and finalised, unless circumstances warrant a more frequent update). Disclosures will be published as soon as practicable following any revisions. The Company makes its Pillar 3 disclosure via the website www.lawsonconner.com.

The rules in the CRR set out the provision for Pillar 3 disclosures. This document is designed to meet the Firm’s Pillar 3 obligations.

CRR rules allow the omission of where the Senior Management of the Firm 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.

In addition, disclosures may be omitted where Senior Management believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine the Firm’s competitive position. Information is considered to be

confidential where there are obligations binding the Firm to confidentiality with customers, suppliers and counterparties.

The Firm has made no omissions on the grounds that information is immaterial, proprietary or confidential.

Scope and application of the requirements

The rules provide that disclosures are only required where the information would be considered material to a user relying on that information to make economic decisions. The Firm is an “IFPRU €125K Limited Licence Firm”, does not have permission to deal on a proprietary basis. The Firm is an investment management firm as well as a corporate finance advisor and as such has no trading book exposures. The Firm does however have permission to hold and control client money. As a consequence the main risks facing the Firm relate to its operations and its business environment. Whilst the Firm does have some exposure to credit and market risk, this is not considered to be material.

The Firm is not a financial holding company as defined by FCA consolidation rules and therefore is not required to prepare consolidated reporting for prudential purposes. We foresee no impediments to the prompt transfer of capital between group entities should the need arise and there are no differences in the basis of consolidation for accounting and prudential purposes.

Risk management

The Firm is governed by its Members (“Principals”) who determine its business strategy and risk appetite. They are also responsible for establishing and maintaining the Firm’s governance arrangements along with designing and implementing a risk management framework that recognises the risks that the business faces.

The Principals also determine how the risks the business faces may be mitigated and assess on an ongoing basis the arrangements to manage those risks. The Principals meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, business planning and risk management. The Principals 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 of operating a defined and transparent risk management framework. These policies and procedures are updated as required.

The Principals have identified that business, regulatory and operational risks are the main areas of risk to which the Firm is exposed. The Principals formally review their risks, controls and other risk mitigation arrangements annually and assess their effectiveness. Where the Principals identify material risks they consider the financial impact of these risks as part of the Firm’s business planning and capital management and assess whether the amount of regulatory capital is adequate.

Although the Firm believes that the risk management framework outlined herein is appropriate for the size and complexity of the Firm and that the Firm's capital is adequate to meet the risks assessed, it can not guarantee that this will actually be the case in the event any particular risk arises. There will always be some unlikely risks with unusually high impact which may require additional capital should they arise.

The specific types of risks faced by the Firm are;

- Operational risk,
- Business risk,
- Credit risk, and
- Market risk.

Operational risk

This is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. The Firm seeks to minimize operational risk through a controls framework, particularly when engaging in new business ventures or trading new products. The Firm considers risks which may impact the Firm directly or indirectly.

Business risk

Business risk arises from external sources such as changes to the economic environment or one-off economic shocks, and also from internal sources such as poor decisions or suboptimal allocation of capital resulting in poor performance and damage to the Firm's reputation.

An extreme scenario has been modelled in order to assess the impact of adverse economic conditions on our financial position. This enables the Firm to monitor its business risk and to assist in its capital planning.

Credit risk

The Firm is not exposed to credit risk other than in respect of fees/commission receivable and cash held on deposit at large international credit and regulated institutions. Fees are drawn down monthly on activity in the month, received by the Firm in arrears. Consequently the Firm has a limited number of credit exposures in respect of which it uses the simplified standardised approach when calculating risk weighted exposures, in accordance with the provisions in the CRR. Credit risk is not considered to be material for the purposes of this disclosure.

Market risk

The Firm is not exposed to market risk other than foreign exchange risk in respect of its accounts receivable and cash balances held in currencies other than the GBP. The Firm calculates its foreign exchange risk by reference to the provisions in CRR. Foreign exchange risk is not considered to be material for the purposes of this disclosure.

Regulatory capital

The Firm is a Limited Liability Partnership and its capital arrangements are established in its Partnership deed. Its capital contains only Members' capital contributions.

The Firm is a 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. As required by the rules in the CRR the Firm follows the standardised approach to market risk and the standardised approach to credit risk.

The Firm is subject to the Fixed Overhead Requirement ('FOR').

The firm is a limited licence firm and as such its capital requirements are the greater of:

- Its base capital requirement of €125,000; or
- The sum of its market and credit risk requirements; or
- Its Fixed Overhead Requirement

We have not identified credit risk exposure classes or the minimum capital requirements for market risk as we believe that they are immaterial in the context of our business.

We believe that the FOR adequately defines its Pillar 1 capital requirements as market and credit risks are considered to be immaterial. Pillar 1 capital requirements are currently £178,895 which is well within the level of regulatory capital held. The Firm has undertaken risk assessment as part of its Pillar 2 obligations and determined the value to be £201,250.

The applicable capital adequacy requirement is based on the greatest of the Pillar 1 and Pillar 2 disclosure.

The Firm considers this amount to be sufficient regulatory capital to support the business over the planning horizon.

Capital Adequacy Requirements as of 1 April 2019:

Capital Resources Required	£201,250
Capital Resources	<u>£263,175</u>
Capital Surplus / (deficit)	<u>£61,925</u>

Corep Ratios:

CET 1 Capital	£263,175
CET 1 Capital Ratio	10%
% Surplus	<u>£56,806</u>

UK Financial Reporting Council's Stewardship Code for Firms managing investments

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's business strategy involves a wide variety of investment 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. 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 an IFPRU Investment Management Firm and, so, 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.

IFPRU Firms are required make a remuneration disclosure in respect of the whole of their business, i.e. MIFID and AIFMD. The specific requirements of the IFPRU remuneration disclosure are set out in the Firm's Annual Report.

The Remuneration Code (the "**Remuneration Code**") cover(s) an individual's total remuneration, fixed and variable. The Firm incentivises staff through a combination of the two.

The Firm's policy is designed to ensure that it complies with the Remuneration Code and its compensation arrangements:

1. are consistent with and promotes sound and effective risk management;
2. do not encourage excessive risk taking;
3. include measures to avoid conflicts of interest;
4. 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 at the level of senior personnel. Secondly, that a firm must make disclosure that is appropriate to its size, internal organisation and the nature, scope and complexity of its activities.

The Firm is not a 'significant' firm so makes this disclosure in accordance with the second test.

Application of the 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. The Firm's disclosure is made in accordance with the Firm's size, internal organisation and the nature, scope and complexity of its activities. The Firm's full Remuneration Policy is available at the request of investors.

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 (Members/Principals) in line with the Remuneration principles laid down by the FCA.
- 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 may omit required disclosures where Senior Management 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.

Sapia Partners LLP, 1 August 2019

Appendix: Key Risk Overview

Sapia's risk management policy and the risk map considers the following risks:

- Appointed Representative Risk – the risk the Firm is exposed to through its Appointed Representative network. The main risk is around conduct risk, especially marketing of financial promotions, arranging and advice activities. These activities have been identified in aggregate the most prominent risk for the Firm.
- Business Risk - The risk that the business strategy does not address all strategic risks, is not approved at the appropriate level and does not allow Sapia's plans to be carried out so that its objectives can be achieved.
- Compliance & Regulatory Risk - The risk that Sapia suffers financial, reputational or litigation damage through failure to monitor, control and eliminate or substantially reduce regulatory compliance risk.
- Infrastructure and Systems Risk - The risk that IT systems fail to support the transactions Sapia carries out on behalf of its clients. This also encompasses IT systems failing to provide required management and accounting information.
- Market & Transaction Risk - The risk that Sapia's revenue and/or operations might be damaged by adverse market conditions. Sapia does not trade as principal, act as a market maker or hold proprietary positions. The Firm is therefore not subject to proprietary "Position Risk". The Firm is, however, subject to general market risk and the broad economic environment. The Firm does not have any currency exposure. The Firm believes that the market risk requirement shown in its Pillar 1 calculations is adequate.
- Operational Risk. The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Sapia's general risk appetite is low.