

# HENGISTBURY INVESTMENT PARTNERS LLP

## PILLAR 3, REMUNERATION AND STEWARDSHIP CODE DISCLOSURE

APRIL 2018

### Pillar 3 Disclosure

Hengistbury Investment Partners LLP (the “Firm”) is authorised and regulated by the Financial Conduct Authority (the “FCA”). The Firm is a UK domiciled discretionary investment manager to professional clients and unregulated collective investment schemes. As a Collective Portfolio Management Investment (CPMI) firm, Hengistbury is subject to the requirements of Chapter 11 of the FCA’s IPRU(INV) sourcebook with respect to the management of alternative investment funds (“AIFs”) where the Firm acts as alternative investment fund manager (“AIFM”) pursuant to the Alternative Investment Fund Managers Directive (“AIFMD”). Since the Firm has FCA permission to perform certain other activities aside from acting as AIFM to AIFs, it is also a BIPRU Firm that is subject to certain sections of the FCA’s GENPRU and BIPRU sourcebooks that are derived from the Capital Requirements Directive (“CRD”). The respective regimes run in parallel; inter alia, each regime imposes separate and distinct minimum capital requirements on the Firm.

The provisions of GENPRU and BIPRU requires the Firm to implement three pillars of CRD:

Pillar 1 – Quantitative rules based capital adequacy calculations which sets out the minimum capital requirements for a firm based on its FCA categorisation. These are detailed in GENPRU. In addition, the Firm takes into account minimum capital requirements set out in IPRU (INV).

Pillar 2 – Qualitative risk based approach to assessment of capital adequacy which requires the preparation of an ICAAP that assesses a firm’s major risks and the controls in place to mitigate those risks.

Pillar 3 – Public disclosure of regulatory capital adequacy and regulatory KPIs contained in the ICAAP which will allow market participants to assess key pieces of information on a firm’s capital, risk exposures and risk assessment processes.

The Firm reports on a solo basis. The Firm’s Pillar 3 disclosure fulfils the Firm’s obligation to disclose to market participants key pieces of information on a firm’s capital, risk exposures and risk assessment processes.

### Risk Management

The Firm's Executive Management Committee determines its business strategy and the level of risk acceptable to the Firm. In conjunction with the Chief Operating Officer, they have designed and implemented a risk management framework that recognises the risks that the business faces and how those risks may be monitored and mitigated on an ongoing basis. The Firm has in place controls and procedures necessary to manage those risks.

The Firm considers the following as key risks to its business:

Business risk – This risk represents a fall in assets under management or the loss of key staff which may reduce the fee income earned by the Firm and hinder its ability to finance its operations and reimburse its expenses. Business risks are assessed and mitigated as part of the Internal Capital Adequacy Assessment Process (“ICAAP”).

**Market risk** - The risk is the exposure to foreign exchange fluctuations due to investment management and performance fees being denominated in currencies other than sterling. The Firm operates currency bank accounts permitting it to receive/pay currency directly.

**Operational risk** – This risk covers a range of operational exposures from the risk of the loss of the key personnel to the risk of the provision of investment advice. Legal and reputational risks are also included within the category of operational risk. Operational risks and how they can be mitigated are assessed as part of the ICAAP.

**Credit risk** – This risk relates to the exposure to the Funds for non-payment of management and performance fees and counterparty exposure relating to the Firm's bank balances and any other debtors. This is monitored by the Firm's Chief Operating Officer.

## Regulatory Capital

Since the Firm is a CPMI we have adopted the approach of calculating and comparing the own fund requirement under MiFID as well as the own fund requirement under AIFMD. Since the firm does not currently perform any MiFID activities (since it manages only AIFs) the own funds requirement calculated under MiFID is used for reference purposes only.

Under the **MiFID calculation methodology** the Firm has adopted the following approach:

- Credit risk – the “Standardised Approach” (BIPRU 3.4) and “Simplified Method” (BIPRU 3.5)(per IPRU(INV) this is with respect to “designated investment business” only and as such excludes managing AIFs as an AIFM);
- Market risk – “Non Trading Book” only (BIPRU 7.4 and 7.5)(per IPRU(INV) this is with respect to “designated investment business” only and as such excludes managing AIFs as an AIFM); and
- Fixed Overhead Requirement (“FOR”) (GENPRU 2.1.53).

Pillar 1, also known as the Capital Resources Requirement (“CRR”) is the higher of Base Capital Requirement and Variable Capital Requirement (“VCR”). The VCR is the higher of the sum total of (Credit Risk Capital Component + Market Risk Capital Requirement) and the FOR.

## AIFMD calculation Methodology

A CPMI firm is also subject to a parallel minimum capital requirement as set out in IPRU(INV), also known as the “Own Funds Requirement” (“OFR”) which can be summarised as follows:

The higher of the Funds Under Management Requirement (@0.02% + base capital requirement) and the Own Funds Based On Fixed Overheads (FOR), plus either the Professional Negligence Capital Requirement or the PII Capital Requirement.

The Firm has adopted the “Structured” approach to the calculation of its Pillar 2 ICAAP capital requirement as outlined in the Committee of European Banking Supervisors Paper, 27 March 2006 which takes the higher of Pillar 1 (CRR) and Pillar 2 as the ICAAP capital requirement. The Firm also considers the impact of OFR, in particular where OFR exceeds CRR. The Firm has assessed business risks by modelling the effect on its capital planning forecasts and assessed Credit Risk, Market Risk, Operational Risk, and Liquidity Risk by considering if Pillar 2 capital is required taking into account the adequacy of its mitigation.

## Results of the ICAAP

The ICAAP covers the period from 1st December 2017 to 30th November 2018 and the data upon which it is based is drawn from the financial statements prepared for the Firm's financial period ending 30th November 2017.

The Firm ensures that it maintains adequate capital for its size, nature and complexity of the business based on current total capital of £1,575,000 compared to a minimum capital requirement of £1,525,143. being the higher of Pillar 1 (CRR), OFR, Pillar 2 or the wind down requirement.

As at 30th November 2017 the Firm's regulatory capital position is:

<b>Capital Item</b>	<b>£'000</b>
Tier 1 capital	1,575
Total capital resources, net of deductions	1,575
Own Funds Requirement (Full Scope AIFM)	£1,525

With a regulatory surplus of £50K at financial year end we consider this amount to be sufficient regulatory capital for now to support the business and have not identified any areas which give rise to a requirement to hold additional risk based capital. The requirement for additional capital will be monitored continuously as funds under management increases.

## Remuneration

Given the nature and small size of our business, remuneration for all personnel is set by the Executive Management Committee of the Firm. The Firm formally reviews the performance of all Partners and employees and based thereon determines for each the overall level of remuneration and the split of that between base salary, bonus according to the LLP Agreement and any discretionary additions in compliance with the FCA Rules on remuneration.

Given that the Firm has only one business area, investment management, all remuneration disclosed in our audited financial statements is from this business area.

The Firm has identified "Code Staff" as defined by the FCA being those who have a material impact on the risk profile of the Firm or AIFs managed by the Firm. Although the Firm is subject to the AIFMD Remuneration Code ("the Code"), it has applied proportionality and dis-applied various provisions of the Code where relevant.

There is a requirement for a remuneration statement to form part of the annual report of any Alternative Investment Fund ("AIF") to which the Firm acts as AIFM and which is either domiciled in the European Economic Area ("EEA") or marketed in the EEA. The Firm does not currently act for or market any AIFs domiciled within the EEA and is therefore not required to make such a disclosure.

## Stewardship Code

Under Rule 2.2.3R of the FCA's Conduct of Business Sourcebook, Hengistbury Investment Partners LLP is required to disclose the nature of its commitment to the UK Financial Reporting Council's Stewardship Code (the "Code") or, where it does not commit to the Code, its alternative investment strategy. The Code is a voluntary code and sets out a number of principles relating to engagement by investors with UK equity issuers. Firms which commit to the Code can either comply with it in full or choose not to comply with aspects of the Code, in which case they are required to explain their non-compliance.

### In broad terms, the Code requires institutional investors to:

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.
3. Monitor their investee companies.
4. Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.
5. Be willing to act collectively with other investors where appropriate.
6. Have a clear policy on voting and disclosure of voting activity.
7. Report periodically on their stewardship and voting activities.

The Firm pursues a strategy involving investment in global equities, including UK equities. The Code is therefore relevant to some aspects of the Firm's activity.

### Principle 1: Public Disclosure:

This policy is published so that investors and investee companies are aware of the way in which Hengistbury integrates stewardship activities into the investment process.

Engagement with investee companies is the responsibility of the investment team at Hengistbury. Hengistbury's proxy voting procedures and record keeping are overseen by Hengistbury Operations who will refer, where appropriate, to the portfolio manager for voting decisions.

### Principle 2: Managing Conflicts in Relation to Stewardship

Hengistbury maintains a robust policy on managing conflicts of interest in relation to stewardship which is designed to ensure its decisions are taken wholly in the interest of its clients. All personnel are requested to notify the Chief Compliance Officer (Jonathan Sharp [jsharp@hengistburypartners.com](mailto:jsharp@hengistburypartners.com)) if they become aware of any material conflict of interest arising, including in relation to proxies on behalf of clients. Voting instructions will be subject to assessment and approval by the CCO in such circumstances. A summary of Hengistbury's Conflicts of Interest Policy is available to clients on request from Hengistbury's Chief Compliance Officer.

### Principle 3: Monitor Investee Companies:

Hengistbury's investment decisions are generated by fundamental research whereby analysts monitor investee companies through the review of Annual Reports and Accounts and other company announcements. Analysts will meet with senior management of companies, attend company

meetings and road shows and utilise Broker research. This monitoring process is regularly reviewed by senior management.

Potential problems and issues identified through fundamental analysis are, where appropriate, communicated to appropriate members of the investee company's management or board. However, in seeking to act in the best interests of its clients, Hengistbury may consider it better to reduce or eliminate an investment rather than engage in such dialogue. Hengistbury does not normally wish to be made an insider and pre-communicates to investee companies that it does not wish to be exposed to price sensitive information which is not yet held in the public domain. If Hengistbury becomes an insider, either intentionally or unintentionally, the security will be restricted and a record of the circumstances maintained by Hengistbury's compliance department.

#### **Principle 4: Establish Escalation Guidelines:**

As part of the research process, Hengistbury may look to hold meetings with management to express concerns it may have about the running of an investee company. Hengistbury may consider, on a case by case basis, whether to intervene jointly with other institutions but will only do so where this is considered appropriate and in the best interest of its clients. Hengistbury is unlikely to make public statements, submit resolutions or requisition an EGM. If escalation is required then Hengistbury believes this is best achieved in a confidential manner.

#### **Principle 5: Be Willing to Act Collectively:**

Hengistbury has no objection in principle to collective action by investors and will consider any specific action on a case by case basis. However, in normal circumstances, Hengistbury will tend to act on its own when engaging with or expressing concerns to investee companies.

As a matter of policy, Hengistbury will not agree to vote in concert with another investor unless pre-approved by the Chief Compliance Officer.

#### **Principle 6: Clear Policy on Voting Activity and Disclosure:**

Hengistbury's proxy voting policies and procedures are designed to ensure that it votes proxies in the best interests of its clients. It is not the Firm's policy to automatically support the Board of investee companies particularly where having entered into dialogue with a company an issue has not been satisfactorily resolved and it is felt not to be in the best interests of its clients. A record of all voting instructions is maintained whether in person or via proxy. We do not publicly disclose voting records due to client confidentiality reasons.

#### **Principle 7: Periodic Reporting:**

Subject to underlying client confidentiality and investment strategy reasons, where requested (or as required by law), Hengistbury may disclose to a client or a client's fiduciaries the manner in which voting was exercised on behalf of a client, however, it may not be appropriate to disclose voting actions at a detailed level.

For further information on any of the above please contact:

Jonathan Sharp (jsharp@hengistburypartners.com).

Hengistbury Investment Partners LLP

April 2018