

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

as at 20 June 2017

The Capital Requirements Directive (‘the Directive’) of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain. In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority (‘FCA’) in its regulations through the General Prudential Sourcebook (‘GENPRU’) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (‘BIPRU’).

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 its company website

The FCA framework consists of three ‘Pillars’:

- Pillar 1 sets out the minimum capital amount that meets the firm’s credit, market and operational risk;
- Pillar 2 requires the firm to assess whether its Pillar 1 capital is adequate to meet its risks and is subject to annual review by the FCA; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet our Pillar 3 obligations.

We are permitted to omit required disclosures if we believe that the information is immaterial such that omission would be likely to change or influence the decision of a reader relying on that information.

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 made no omissions on the grounds that it is immaterial, proprietary or confidential.

Scope and application of the requirements

Sapia Partners LLP (“the Firm”) is authorised and regulated by the Financial Conduct Authority and as such is subject to minimum regulatory capital requirements. The Firm is categorised as a limited

licence firm by the FCA for capital purposes. It is an investment management firm and corporate finance advisor and as such has no trading book exposures.

The Firm is not a financial holding company as defined by FCA regulations and so 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 risk our 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, and business planning and risk management. The Principals manage the Firm’s risks business through a framework of policy and procedures having regard to 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 Principals have identified that business, operational, market and credit risks are the main areas of risk to which the Firm is exposed. Annually the Principals formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness. Where the Principals identify material risks they consider the financial impact of these risks as part of our business planning and capital management and conclude whether the amount of regulatory capital is adequate.

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.

Our 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. 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 capital requirements and hence market and credit risks are considered to be immaterial. Our capital requirements are currently £95,000 which is well within the level of regulatory capital held. We consider this amount to be sufficient regulatory capital to support the business and have not identified any areas which give rise to a requirement to hold additional risk based capital.

The Firm undertakes additional risk assessment as part of its Pillar 2 obligations. The potential financial liabilities are reflected in its ICAAP report.

Sapia Partners LLP, 3rd July 2017