

**COVALIS CAPITAL LLP**  
**(the 'Firm')**  
**Pillar 3 disclosure requirements**

## Regulatory Disclosures

All references to the 'Firm' are to Covalis Capital LLP which is authorised and regulated by the Financial Conduct Authority ('FCA').

### **1. Pillar 3 Disclosure**

#### **Overview**

The Capital Requirements Directive ('CRD') and Alternative Investment Fund Managers Directive ('AIFMD') 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 CRD and the AIFMD have 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') and the Interim Prudential Sourcebook for Investment Business ('IPRU(INV)'). The framework 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.
- 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 as stipulated by the Alternative Investment Fund Managers Directive.

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

The Pillar 3 disclosure document has been prepared by the Firm in accordance with the requirements of BIPRU 11 and is verified by the Executive Committee. Unless otherwise stated, all figures are as at the financial year-end, 31 December 2020.

Pillar 3 disclosures will be issued on an annual basis after the year end and published as soon as practical with the annual accounts.

The members are permitted to omit required disclosures if they 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.

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In addition, the members may omit required disclosures where they believe that the information is regarded as proprietary or confidential. In the view of the members, proprietary information is that which, if it were shared, would undermine their competitive position. Information is considered to be confidential where there are obligations binding them to confidentiality with their customers, suppliers and counterparties.

**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 Firm ('CPMI') by the FCA for capital purposes. It is an investment management firm and as such has no trading book exposures.

The Firm is a member of a UK Consolidation Group in the UK and so is required to prepare consolidated reporting for prudential purposes at the level of the immediate parent.

Although a subsidiary part of a wider group, the Firm is managed on a "stand-alone" basis for liquidity purposes and does not foresee any impediments to the prompt transfer of capital between group entities should the need arise. There are no differences in the basis of consolidation for accounting and prudential purposes.

The Firm has an Executive Committee that is responsible for the management of the business and affairs of the Firm, including ensuring that it has effective systems and controls in place to identify, monitor and manage risks arising in the business.

The Executive Committee is responsible for oversight of the Firm's risk management process, assessment of the fundamental risk appetite of the Firm and implementation and enforcement of the Firm's risk principles.

The Executive Committee also determines how the risk that the Firm faces may be mitigated and assesses on an ongoing basis the arrangements to manage those risks.

The Executive Committee meets to discuss current projections for profitability, cash flow, regulatory capital management, business planning and risk management.

It manages the Firm's risks through a framework of policies 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 but are reviewed at least annually.

The Executive Committee has identified that business, operational, market and credit risks are the main areas of risk to which the Firm is exposed.

The Executive Committee annually reviews the risks, controls and other risk mitigation arrangements and assess their effectiveness.

Where the Executive Committee identifies material risks it considers the financial impact of these risks as part of the Firm's business planning and capital management and concludes whether the amount of regulatory capital is adequate.

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Management accounts demonstrate continued adequacy of the Firm's regulatory capital and are reviewed on a regular basis.

Appropriate action is taken where the identified risks fall outside of the Firm's risk tolerance levels or where the need for remedial action is required in respect of identified weaknesses in the Firm's mitigating controls.

**Risks**

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

**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 including risk of loss due to 1) inadequate policies and procedures; 2) failure of systems; 3) failure by counterparties and service providers; and 4) key person risk.

Legal and reputational risks are also included within the category of operational risk. Operational risk and mitigants are assessed as part of the ICAAP.

**Credit risk**

The Firm is exposed to credit risk in respect of its debtors, investment management fees billed and cash held on deposit.

The Firm has more than one bank account, all of which are held with large international credit institutions.

The monitoring of credit risk is overseen by the Group's Chief Financial Officer and Chief Compliance Officer.

**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 sterling.

Hedging strategies may be used from time to time to mitigate against potential foreign exchange losses and these are monitored by the Group's Chief Financial Officer and Chief Compliance Officer.

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.

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**Liquidity risk**

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 that financial resources can only be secured at excessive cost.

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 and support it receives from its affiliates.

Additionally, it has historically been the case that debtors settle promptly, thus ensuring further liquidity resources are available to the Firm on a timely basis.

The Firm mitigates its risks through active business planning. Annual budgets are prepared for review and cash flow projections and comparison of actual spend versus predicted are regularly reviewed and updated by the Chief Financial Officer. Budgets are typically 12-month forecasts.

**Regulatory capital**

The Firm is a Limited Liability Partnership and its capital arrangements are established in its Partnership deed. Its capital is summarised as follows:

<b>Capital</b>	<b>£</b>
Members' capital	2,388,505
Members' other interests – other reserves classified as equity	-
Net assets attributable to Members	<u><u>2,388,505</u></u>

The main features of the Firm's capital resources for regulatory purposes are as follows:

<b>Capital item</b>	<b>£</b>
Tier 1 capital less innovative tier 1 capital	2,388,505
Total tier 2 innovative tier 1 and tier 3 capital	—
Deductions from tier 1 and tier 2 capital	(10,529)
Total capital resources net of deductions	<u><u>2,377,976</u></u>

The Firm has a simple operational infrastructure. It does not have significant risks from foreign exchange. Its credit risk arises from fees receivable. The Firm follows the standard approach to market risk and credit risk. The Firm is subject to the Fixed Overhead Requirement and is not required to calculate an operational risk capital charge though it considers this as part of its process to identify the level of risk based capital required.

The Firm is a CPMI firm and as such its capital requirements are the higher of:

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- The capital requirements under AIFMD which are as follows:
  - Higher of:
    - €125,000 plus 0.02% of Assets under management above €250,000,000; and
    - The fixed overheads requirement ('FOR') which is essentially 25% of the Firm's operating expenses less certain variable costs.

AND

- The capital requirements under MiFID which are as follows:
  - Higher of:
    - Its base capital requirement of €50,000; or
    - Variable capital requirement of the higher of:
      - The sum of its market and credit risk requirements; or
      - Its Fixed Overhead Requirement.

As at 31 December 2020, the Firm has calculated its FOR in accordance with the rules and guidance set out in GENPRU 2.1.53R to GENPRU 2.1.59G, which amounts to £1.44 million. The credit and market risk capital requirements of the Firm amount to less than the FOR. Therefore, the overall Pillar 1 capital requirement of the Firm is the FOR and Professional Indemnity Insurance Capital Requirement.

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 Compliance Officer and reported to the Executive Committee on a periodic basis.

## **2. Remuneration Code Disclosure**

The Firm is authorised and regulated by the FCA as a CPMI (Collective Portfolio Management Investment firm) and therefore is subject to the FCA rules on remuneration under AIFMD. These are contained in the FCA's Remuneration Code located in the SYSC 19B Sourcebook of the FCA's Handbook. The Remuneration Code (the 'Remuneration Code') covers an individual's total remuneration, fixed and variable. The Firm incentivises staff through a combination of the two.

The Firm's business is to provide investment management and other services to the funds for which it has been delegated responsibilities to provide such services.

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

1. are consistent with and promotes sound and effective risk management;

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

**Proportionality**

The principle of proportionality is enshrined in the European remuneration provisions. The FCA applies proportionality in the first instance by categorising firms into 3 Levels. The Firm falls within the FCA's third proportionality level and, as such, this disclosure is made in line with the requirements for a Level 3 firm.

**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.

In accordance with CRD IV the Firm takes a proportionate approach to its Remuneration Code disclosures in line with the chosen nature, scale and complexity of the Firm.

Furthermore, discretionary remuneration is often related to the performance of the Firm and as such staff interests are intrinsically aligned with the interests of the Firm and its clients.

**Remuneration Policy and Practices.**

- The Firm's policy has been agreed by the Executive Committee in line with the Code principles of the FCA.
- Due to the size, nature and complexity of the Firm, it is not required to appoint an independent remuneration committee.
- 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 has an ESG Sustainability Investment Policy as well as an ESG Framework Policy both which inform the Executive Committee on how successful the Firm has adhered to the ESG principles.
- The Firm has a discretionary bonus scheme potentially open to all staff and code staff. The discretionary bonus, which takes into account both quantitative and qualitative aspects which includes consideration of the ESG policies mentioned above, is calculated and approved by the Executive Committee. The Firm aims to pay any bonus in full shortly after the year end, subject to the requirements of the Remuneration Code.

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- As a Level 3 firm, the Firm is not required to implement any deferral strategies.

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.

We may omit required disclosures where we believe that the information could be regarded as prejudicial to the requirements of processing of personal data and on the free movement of such data.

We have made no omissions on the grounds of data protection.