

# Pillar 3 Disclosure

## PILLAR 3 DISCLOSURE

### CHANNEL CAPITAL ADVISORS LLP

#### DECEMBER 2020

- **Amended and Reviewed by Channel Capital Advisors LLP December 2020**

Channel Capital Advisors LLP (the “Firm”) is authorised and regulated by the Financial Conduct Authority and as such is subject to minimum regulatory capital requirements.

The Capital Requirements Directive (the “Directive”) of the European Union establishes the regulatory capital framework across Europe governing the amount and nature of capital that credit institutions and investment firms must maintain.

In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority (“FCA”) in its Handbook of rules and guidance (“FCA Handbook”) through the General Prudential sourcebook (“GENPRU”), the Prudential sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”) and the Interim Prudential sourcebook for Investment Business (“IPRU-INV”).

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. This is achieved through the Firm’s Internal Capital Adequacy Assessment Process and is subject to annual review and update by the Firm; 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 unlikely 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 omission on the grounds that it is immaterial, proprietary or confidential.

## **Scope and application of the requirements**

The Firm is categorised as a Collective Portfolio Management Investment Firm and a BIPRU Firm by the FCA for capital purposes. The Firm is a full-scope UK AIFM (Alternative Investment Fund Manager) pursuant to the AIFMD (Alternative Investment Fund Managers Directive) and the adopting UK legislation. As a result, the Firm is required to meet AIFMD capital requirements and disclosure obligations. The Firm also undertakes other activities which result in it being a BIPRU Firm. It is an investment management firm and as such has no trading book exposures.

The Firm is not a member of a group and so is not required to prepare consolidated reporting for 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. There is a clear delineation between the portfolio management and risk management functions in the Firm.

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 business risks through a framework of policies 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 is summarised as follows:

Capital item £

Tier 1 capital less innovative tier 1 capital 12,646,000 Total tier 2, innovative tier 1 and tier 3 capital 0

Deductions from tier 1 and tier 2 capital 10,234,000

Total capital resources, net of deductions 2,412,000

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

Our Firm is small with a simple operational infrastructure. There is no foreign exchange risk (market risk) and its credit risk is limited to management and performance fees receivable. The Firm applies the simplified standard approach to 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.

As discussed above, the Firm is a Collective Portfolio Management Investment Firm and a BIPRU Firm and as such its minimum capital requirements are the greatest of:

- (i) The funds under management requirement, being €125,000 plus 0.02 per cent of the portfolio of relevant AIFs under management over €250m (subject to a cap of €10million); and
- (ii) The sum of the market and credit risk requirements (in respect of non-AIFMD business); or
- (iii) one quarter of the Firm's relevant fixed expenditure.

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

It is the Firm's experience that the Fixed Overhead Requirement establishes its capital requirements. AIFMs must further either have professional indemnity insurance or have additional own funds appropriate to cover risks arising from professional negligence. The Firm has elected to hold additional own funds.

### **Remuneration code disclosure**

The following remuneration policy disclosure complies with the 'Guidelines on sound remuneration policies under the AIFMD' issued by the European Securities and Markets Authority. The Firm is subject to the AIFM Remuneration Code located in the FCA Handbook (SYSC 19B) and BIPRU Remuneration Code also located in the FCA Handbook (SYSC 19C). As a full-scope UK AIFM which complies with SYSC 19B and also therefore complies with 19C, the Firm is not required to demonstrate compliance with SYSC 19C. This policy 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 services.

Our compensation arrangements:

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

## **Proportionality**

The FCA has sought to apply proportionality by requiring disclosure in a manner that is appropriate to the size, internal organisation and the nature, scope and complexity of firms' activities. The Firm is not considered to be a significant BIPRU firm and, thus, makes this disclosure accordingly.

## **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 or of the AIF (Alternative Investment Fund) the Firm manages.

1. Summary of information on the decision-making process used for determining the firm's remuneration policy.
  1. The Firm's policy has been agreed by the Senior Management in line with the AIFM remuneration principles laid down by the FCA. Due to the size, nature and complexity of the firm, we are not required to appoint an independent remuneration committee. The Firm's policy will be reviewed as part of annual processes and procedures, or following a significant change to the business requiring an update to its internal capital adequacy assessment.
  2. The Firm's ability to pay a bonus is based on the performance of the Firm overall and derived after any AIF managed returns have been calculated by client appointed third party administrators.
  3. There is limited involvement of the Firm in deriving asset prices.
  4. Summary of how the Firm links pay and performance.
2. Individuals are rewarded based on their contribution to the overall strategy of the business.
3. Other factors such as performance, reliability, effectiveness of controls, business development and contribution to the business are taken into account when assessing the performance of the senior staff responsible for the infrastructure of the Firm.
  1. The partners do not receive any fixed remuneration by way of salary. Remuneration of partners is by way of profit share under the LLP structure which is by its nature variable rather than fixed. Partnership profits allocated to members of the LLP are disclosed in aggregate in the report and accounts, which are publicly available via Companies House.
  2. The controlling partners meet on an annual basis shortly after the financial year end to discuss the extent to which any profit distribution is appropriate.

## **A note on materiality**

A Firm must regard information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions.

A Firm must regard information as proprietary information if the sharing of that information with the public would undermine its competitive position.

Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm's investment in them less valuable.

A firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the firm to confidentiality.

The Committee of European Banking Supervisors (CEBS) has stated that it is unlikely that the disclosure of information relating to remuneration would be confidential or proprietary for firms that have been allowed to aggregate the information due to proportionality. Where there is a limited number of AIFM Remuneration Code Staff then the Firm may consider such omissions.