

MIFIDPRU Annual Disclosures

Kestrel Partners LLP

For the Financial Year Ended 31/03/2023

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1. Overview

Introduction

This Disclosure document sets out the governance arrangements of Kestrel Partners LLP (“Kestrel”, “the Firm”), own funds and own funds requirements as required by MIFIDPRU 8.

Background

The Investment Firms Prudential Regime (IFPR) came into force on 1 January 2022 and applies to all MiFID investment firms authorised in the UK.

Under the IFPR’s firm categorisation, Kestrel is categorised as a non small and non-interconnected firm (non-SNI).

The public disclosure is an important part of the IFPR because it increases transparency and confidence in the market and gives stakeholders and market participants an insight into how the Firm is run.

2. Governance arrangements

Management Board

The Firm has governance arrangements, which include a clear organisational structure with appropriate lines of responsibility and effective processes to identify, manage, monitor and report the risks that it is, or might be, exposed to.

The Firm is managed by its Management Board whose reporting lines are defined within the organisation structure. The firm ensures that the members of the Management Board are of sufficiently good repute; possess sufficient knowledge, skills and experience to perform their duties (as well as a sound understanding of the Firm's activities and main risks). The Firm ensures that it dedicates sufficient human and financial resources to the induction and training of members of the Management Board.

Risk management is implemented and overseen by Kestrel's Management Board.

The Management Board meets once a month.

Management Board roles and non Exec Directorships

The table below relates to the appointments of partners, in both executive and non-executive capacities, held at external commercial organisations as at 30/09/2023.

SMF / Role	Name	Number of Other External Directorships
SMF 1	Max Royde	6
SMF 27	Oliver Scott	2
SMF 16, 17	David Prance	0
SMF27	Chris Errington	1
SMF 27	Sebastian White	1

Diversity

The Firm recognises that diversity of the Management Board improves the quality and objectivity of the decision-making process by bringing new voices to the table. It fosters innovation, creativity and a better understanding of client insights through a greater variety of problem-solving approaches, perspectives and ideas.

The Firm approaches diversity in the broadest sense, recognising that successful businesses embrace diversity at all levels, including the Management Board and senior management. The Firm's Management Board considers diversity aspects including but not limited to:

- Ethnicity
- Gender
- Educational and professional background
- Age
- Geographical provenance

Conflicts of Interest

Kestrel has a Conflicts of Interest Policy which identifies the circumstances which constitute or may give rise to a conflict of interest entailing a material risk of damage to the interests of one or more clients, whilst specifying the procedures to be followed and the measures to adopt to manage the conflicts. The Management Board reviews Kestrel's conflicts of interest register and policy periodically and at least annually.

3. Own Funds Disclosure

Kestrel's regulatory capital consists of Common Equity Tier 1 (CET 1) capital, which is comprised of share capital, other audited reserves and retained earnings.

Kestrel is required by MIFIDPRU 8.4 to provide a breakdown of its Own Funds instruments and to provide information on how these reconcile with the Firm's balance sheet. Furthermore, the Firm is required to disclose a description of the main features of the Own Fund instruments it has issued.

The firm does not hold any Additional Tier 1 (AT1) or Tier 2 (T2) Capital. The table below summarises the firm's capital and liquidity situation against its regulatory capital requirements as at 31/03/2023.

Table 1 - Composition of regulatory own funds		As at 31/03/2023 ('000s)
	Own Funds Total	1,416
	T1 Total	1,416
	CET 1 Total	1,416
1	Paid up capital instruments	698
2	Share premium accounts	0
3	Retained earnings	718
4	Accumulated other comprehensive income	0
5	Other reserves	0
6	Funds for general banking risk	0
	Less	
7	Losses for the current financial year	0
8	Intangible assets	0
9	Deferred tax assets that rely on future profitability	0
10	Deduction of holdings of CET 1 instruments of financial sector entities	0
	AT 1 Total	0
11	Capital instruments (where the conditions laid down in Article 52(1) are met)	0
12	Share premium accounts (related to the instruments above are met)	0
	Less	
13	Art 56 deductions (inc holdings)	0
	T2 Total	0
14	Capital instruments (where the conditions laid down in Article 63 are met and to the extent specified in Article 64)	0
15	Share premium accounts (related to the instruments above are met)	0
	Less	
16	Art 66 deductions (inc holdings)	0

Table 2 - Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements			
	Balance sheet as in audited financial statements	Under regulatory scope	Cross reference to Table 1
	As at 31/03/2023 ('000s)	As at 31/03/2023 ('000s)	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements			
Retained earnings	718	718	3
Accumulated other comprehensive income	0	0	4
Other reserves	0	0	5
Funds for general banking risk	0	0	6
Total			
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements			
Total			
Shareholders' Equity			
Paid up capital instruments		698	1
Share premium accounts		0	2
Total			

Table 3 Main Features of Own Funds Instruments	
Initial Capital	Instrument Type: Amount Recognised in Regulatory Capital: Nominal amount of instrument: Accounting Classification:
Reserves	Instrument Type: Amount Recognised in Regulatory Capital: Nominal amount of instrument: Accounting Classification:
Retained Earnings	Instrument Type: Amount Recognised in Regulatory Capital: Nominal amount of instrument: Accounting Classification:

4. Own Funds Requirements

Kestrel must disclose its K-Factor requirement and Fixed Overheads Requirement amounts in relation to its compliance with the requirements set out in MIFIDPRU 4.3 (Own Funds Requirements).

Own Funds Requirement	As at 31/03/2022 ('000s)
Permanent Minimum Requirement (PMR)	75
Sum of K-AUM, K-CMH and K-ASA	65
Sum of K-COH and K-DTF	1
Sum of K-NPR, K-CMG, K-TCD and K-CON	0
Fixed Overhead Requirement (FOR)	416
IFPR Capital Requirement	416

Overall financial adequacy rule

Kestrel must at all times, hold own funds and liquid assets which are adequate, both as to their amount and their quality, to ensure that:

- The firm is able to remain financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities; and
- The firm's business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

Risk of harms analysis

The Firm analyses its risk of harms to clients, market and itself through its risk assessment framework. Fundamental to this is the Firm's risk and harms matrix which identifies risks that the firm's business could give rise to. Each categorised risk holds a description of the harm that crystallisation of the risk event could visit on the three broad categories of entities interacting with the firm; clients, market and firm itself. Each categorised risk is then graded with measures of harm and severity of consequence before and after controls and mitigations are put in place.

This methodology also codifies a means of allocating capital provision at the risk category level in order to inform the Firm of its own analysis capital requirement in comparison to its Own Funds requirement.

The current methodology for capital allocation involves the allocation of impact bands on a per risk driver basis, alongside harm mitigation costs. Within each category of risk (i.e. group of drivers), the highest impact is taken as a basis for capital allocation.

Wind Down Capital Requirement

The firm has carried out wind-down simulation within its ICARA with the aim of establishing the amount of regulatory capital and liquidity needed to ensure the firm winds down in an orderly manner. As part of the wind-down simulation, the firm identifies the cost and time for the firm to effectively wind down its operations if a significant stressed event was to either breach the Own Funds requirement or, if for whatever reason, the firm's management body decided to cease operations.

5. Remuneration Code Disclosure

Kestrel Partners LLP (“Kestrel” or “the Company”) is subject to the MIFIDPRU Remuneration Code. This section provides further information on our remuneration policy.

Kestrel offers investment management and advisory services. All senior management positions are held by Partners who are on the Management Board.

Approach to Remuneration

Kestrel’s approach to remuneration of staff, whether they are classed as Material Risk Takers or not (see below), is designed to contribute to sound risk management and a healthy firm culture.

Employees have the opportunity to share in the success of the Company in years of good performance and also accept reduced levels of variable (bonus) pay in times of poor performance or losses.

The decisions of the governing body on setting remuneration are based on, amongst other things, risk management, supporting business strategy, objectives, values and long-term interests, avoiding conflicts of interest, governance, control functions, and measurement of performance. The remuneration procedures and practices are set so as to be consistent with, and promote, sound and effective risk management.

Decision Making / Remuneration Committee

Kestrel does not have a Remuneration Committee. The Managing Board are responsible for Kestrel’s remuneration policy including:

- Determining the framework and policy for remuneration and ensuring it does not encourage undue risk taking.
- Agreeing any major changes in remuneration structures.
- Reviewing the terms and conditions of any incentive arrangements and, in particular, considering the appropriate targets for any performance related remuneration.
- Considering and recommending the remuneration policy for the senior employees taking into account the appropriate mix of salary and discretionary bonus.
- In determining remuneration arrangements, the Managing Board will give due regard to best practice and any relevant legal or regulatory requirements including the MIFIDPRU Remuneration Code.

Link between Pay & Performance

Partners' profit shares and competitive salaries form the basis of Kestrel's remuneration package. In addition, there is an element of variable pay for employees which is partly based on individual performance and partly on the firm's performance versus budget. The levels of the variable rewards for each employee may differ.

Partners receive a set priority profit share ('PPS') each month but this would be clawed back on a pro-rata basis if profits do not cover the total PPS and may also be clawed back for disciplinary reasons.

Variable remuneration, which includes the Partners' profit shares, is considerably reduced where subdued or negative financial performance occurs.

Kestrel's Remuneration Policy provides a framework to ensure all staff are fairly and competitively rewarded in return for a high level of service to the firm and its client. In setting remuneration levels, Kestrel recognises the importance of attracting and retaining experienced staff. The amount of fixed remuneration paid to an employee will be based on market rates relevant to the employee's role and their knowledge, experience, and competencies. Discretionary bonuses are made to employees to reward them based on the value to the firm of the long-term benefit the individual is providing to the firm. The principal objective in determining variable bonus awards is to reward individual contribution to the firm whilst ensuring that such payments are consistent with promoting the long-term objectives of the firm.

Characteristics of Remuneration Policy and Practices

Remuneration typically comprises of fixed and discretionary variable elements. Fixed remuneration consists of base salary and other potential required contributions (e.g. workplace pension contributions) made to an employee for their services.

The discretionary performance bonus is a measure of the added value brought to an individual's role within the Company. It is an annual variable amount determined as a result of a qualitative and/or quantitative assessment of the individual's performance within their role. It also takes into account the performance of their business line and the performance of the Company.

Kestrel will ensure that remuneration and similar incentives will not be solely based on quantitative commercial criteria. Consequently, the Firm will take into account appropriate qualitative criteria which shall encompass adherence with relevant regulations, fair treatment of clients and the quality of services provided to clients. These qualitative factors may result in no variable bonus being paid.

The Company will ensure it always maintains a balance between fixed and variable components of remuneration, so as to mitigate any conflicts of interest between the Company, its staff and its clients.

The following remuneration characteristics have also been applied, particularly in respect of MRTs:

Guaranteed Variable Remuneration

Kestrel does not award guaranteed variable remuneration to MRTs.

Severance Pay

Kestrel does not make severance payments to MRTs.

Material Risk Takers

The Company has identified Material Risk Takers (MRTs) in accordance with the criteria set out in SYSC 19G.5.3 for the definition of material risk takers for remuneration purposes. The Company has developed and applied internal qualitative and quantitative assessments against the defined criteria to identify those individuals that have a material impact upon the Company's risk profile.

The MRTs are the members of the Management Board. For the performance year to 31 March, 2023, there were 5 MRTs identified in Kestrel.

Remuneration for year ending 31/03/2023 '000s

Senior Management remuneration (GBP)	
Fixed remuneration	2,225
Variable Remuneration	252
Total Remuneration for Senior Management	2,477
Other Staff remuneration (GBP)	
Fixed remuneration	579
Variable Remuneration	43
Total Remuneration for other staff	622

This document was reviewed and approved by the Partners on 11 September 2023.