Pillar 3 Disclosure

Background

This is the Pillar 3 Disclosure made in accordance with the UK Financial Conduct Authority (FCA) Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

The European Capital Requirements Directive (CRD) created a regulatory capital framework consisting of three 'pillars' namely;

- Pillar 1 – which sets out the minimum capital requirements that firms are required to meet for;
- Pillar 2 – which requires firms to take a view on whether additional capital should be held against capital risks not covered by Pillar 1; and
- Pillar 3 - which requires firms to publish certain details of its risks, capital and risk management process.

Disclosure Policy

The rules in BIPRU 11 provide that Kestrel Partners LLP (the "Firm") may omit one or more of the required disclosures if it believes that the information is immaterial. Materiality is based on the criteria that the omission or misstatement of material information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions. Where the Firm considers a disclosure to be immaterial, this will be stated in the relevant section.

The Firm is also permitted to omit one or more of the required disclosures where it believes that the information is regarded as proprietary or confidential. Proprietary information is that which, if it were shared, would undermine the Firm's competitive position. Information is considered to be confidential where there are obligations binding the Firm to confidentiality with its clients and counterparties.

Unless stated as otherwise, all figures contained in this disclosure are based on the Firm's audited annual reports for the year ending 31 March 2021.

Other Disclosures

The Firm is a BIPRU Limited licence €50k firm.

This Pillar 3 Disclosure is reviewed on an annual basis as a minimum.

The information contained herein has not been audited by the Firm's external auditors and does not constitute any form of financial statement.

Risk management objectives and policies

The Firm's risk management policy reflects the FCA requirement that the Firm must manage a number of different categories of risk. These include: liquidity, credit, market, interest rate, business and operational risks.

Risk Appetite

The Firm has set its risk appetite as low and ensures that controls are in place to monitor and mitigate any risks identified.

1. **Liquidity risk**

   The Firm manages all cash and borrowing requirements to ensure that the Firm has sufficient liquid resources to meet the continued operating needs of the business. This is supported by a robust budgeting and forecasting process which has the full involvement of the senior management team.

2. **Credit risk**

   The main credit risks for the Firm relate to cash at bank and investment management and performance fees; being the risk that the bank becomes insolvent or a client unable to pay its fees. Given the Firm manages a fund and client accounts, from which the fees are paid, on a discretionary basis, the Firm has total oversight on the liquidity of this fund and the clients' accounts and their ability to pay the fees. The Firm considers this risk to be minimal.

3. **Interest rate risk**

   The Firm has no borrowings and with interest rates being so low exposure to interest rate risk in respect of cash at banks is minimal.

4. **Business risk**

   The Firm's Pillar 2 business risk assessment principally takes the form of a fall in assets under management ('AUM') following a market downturn that leads to reduced AUM from redemptions or performance leading to lower management fees, although other risks are also considered. To mitigate our business risk, we analyse the impact on profit of a significant contraction of the business. This is carried out periodically. Given roughly 95% of the AUM is in a fund and client account that have 12-month redemption notice periods the stress test reflects that there is minimal medium term business risk.

5. **Operational risk**

   The Firm operates a robust risk management process which is reviewed annually by the Board. The Firm's Compliance Oversight is responsible for periodic reviews and recommending any changes to the Board.

The main sources of operational risk include: Key man and Employee loss, IT security, outsourcing of IT and operations, regulatory non-compliance and fraud/error. The Firm has procedures and controls in place to mitigate these risks.

6. **Other risks**

   The Firm operates a simple business model. Accordingly, many of the specific risks identified by the FCA do not apply.

<u>Capital resources</u>

Pillar 1 requirement

In accordance with GENPRU 2.1.45R, the Firm's capital requirement is the higher of our fixed overhead requirement ('FOR') and the sum of our credit risk capital requirement ('CRR') and our market risk capital requirement. The market risk requirement is zero as the Firm does not hold investments (with the exception of the illiquid assets). Our Pillar 1 capital requirement is, therefore, our FOR which exceeds the CRR.

The Pillar 1 capital requirement for the Firm was £339,000 as at 31 March 2021. The Firm holds regulatory capital of £400,000 which is in accordance with the Capital Requirements Directive and is all Tier one capital.

Pillar 2

Our overall approach to assessing the adequacy of our internal capital is set out in our ICAAP. The ICAAP process involves separate consideration of risks to our capital combined with stress testing using scenario analysis.

Our assessment of the minimum amount of capital that we believe is adequate against the risks identified under Pillar 2 is less than our Pillar 1 requirement. The firm has minimal exposure to market, credit, liquidity or other risks and, therefore, believe additional capital is not required.

<u>Remuneration Code (the "Code")</u>

The Firm is a limited activity BIPRU firm. It is a proportionality level three firm, as described in the FCA's General Guidance on Proportionality dated September 2012, for the purpose of the Code. The following disclosures are required to be made under BIPRU 11:

1. ***The decision-making process for determining the remuneration policy***

   The Partners of the Firm are responsible for 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 new incentive schemes and in particular, considering the appropriate targets for any performance related remuneration schemes.
   - Considering and recommending the remuneration policy for the senior employees taking into account the appropriate mix of salary, discretionary bonus and share based remuneration.

In determining remuneration arrangements, the Partners will give due regard to best practice including recruitment, motivation, talent development and any relevant legal or regulatory requirements including the BIPRU Remuneration Code. The Partners also take market pay rates into consideration.

2. Link between pay and performance

Competitive salaries form the basis of the Firm's remuneration package to employees. In addition, there is an element of variable pay/profit participation for staff/Partners which is based on either the whole Firm's performance or a combination of the Firm's and the individual's performance. Whilst most of the variable reward components are awarded to individuals across the Firm, the structure, balance and amounts may differ. Variable remuneration is considerably reduced where subdued or negative financial performance of the Firm occurs. The link between performance and pay is inevitable in a small firm, but the Firm's risk-averse strategy and robust risk management policies mitigate any risks. There are no deferral arrangements but performance fees, where relevant, are only paid when each investor redeems and is, therefore, paid on that investor's crystallised gains.

3. Quantitative information on remuneration

The Firm only has one "business area" namely its asset management business. There are 6 Code staff all of whom, fall into the "senior management" category and 2, being Portfolio Managers, into the risk takers. The total "remuneration" (as defined in the FCA Rules) awarded to the Firm's senior management during the year to 31 March 2021 which was all paid in cash was £2.9m of this£0.6m was fixed remuneration. There is no outstanding or deferred remuneration.

This Pillar 3 Disclosure was approved by the Partners on 24 May 2021.