PILLAR 3

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').

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 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; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position to encourage market discipline.

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

This Pillar 3 disclosure has been prepared by Portman Square Capital LLP ("The Firm") in accordance with the requirements of BIPRU 11 and is verified by the senior management. Unless otherwise stated, all figures are as at the Firm's 31st March financial year-end.

Pillar 3 disclosures are issued on an annual basis after the Firm's financial year-end and published as soon as practical when the audited annual accounts are finalised.

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 for the purpose of making economic decisions about the Firm.

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.

Where we have chosen to omit information because it is proprietary or confidential we have explained the omission and provided our reason.

-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 "Limited Licence Firm" by the FCA for capital purposes.

It is an investment management firm and as such has no trading book exposures.

-Risk management

The Firm has established a risk management process in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. The risk management process is overseen by the Chief Risk Officer, with the Senior Management team taking overall responsibility for this process and the fundamental risk appetite of the Firm. The Compliance Officer has responsibility for the implementation and enforcement of the Firm's risk principles.

Senior Management meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, business planning and risk management. Senior Management engage in the Firm's risks though a framework of policy 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.

The Senior Management team has identified that business, operational, market and credit are the main areas of risk to which the Firm is exposed. Annually the Senior Management team formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness.

A formal update on operational matters is provided to the Senior Management team on a regular basis. Management accounts demonstrate continued adequacy of the Firm's regulatory capital and are reviewed on a regular basis.

Appropriate action is taken where risks are identified which fall outside of the Firm's 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 business, operational, credit and market risks.

Business risk

The Firm's revenue is reliant on the performance of the existing funds under management and its ability to launch new funds/obtain new mandates. As such, the primary risk posed to the Firm relates to underperformance resulting in a decline in revenue and adverse market conditions hindering the launch of new funds and ultimately the risk of redemptions from the funds managed by the Firm. This risk is mitigated by e.g.

- the use of redemption gates imposed by the funds and;
- the significant levels of capital held by the Firm which will continue to cover all the expenses of the business.

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. These relate to IT systems failure, failure of third-party service providers, key man risk, regulatory breaches, market abuse and building failure. Appropriate polices are in place to mitigate against these risks, which includes taking out adequate professional indemnity insurance, business continuity planning, risk controls and compliance monitoring and training.

Credit risk

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

The number of credit exposures relating to the Firm's investment management is limited. Management fees are drawn monthly from the funds managed and performance fees are drawn annually, where applicable. The Firm considers that there is little risk of default by its clients. All bank accounts are held with large international credit institutions.

However, since the debtors investment management fees due are primarily inter-group this is not considered a significant risk. The Firm considers that there is little risk of default by its sole client and all bank accounts are held with large international credit institutions.

Given the nature of the Firm's exposures, no specific policy for hedging and mitigating credit risk is in place. The Firm uses the simplified standardised approach detailed in BIPRU 3.5.5 of the FCA Handbook when calculating **risk weighted exposures of 1.6% (Cash in Bank) and 8% in respect of its other assets.**

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 to ensure that it can secure additional financial resources in the event of a stress scenario.

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 its holds. Additionally, it has historically been the case that all management fee debtors are settled promptly, thus ensuring further liquidity resources are available to the Firm on a timely basis. The cash position of the Firm is monitored by the Chief Operating Officer on a regular basis.

The Firm maintains a Liquidity risk policy which formalises this approach.

-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:

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

	31/03/22 £'000
Tier 1 capital*	598
Tier 2 capital	0
Tier 3 capital**	0
Deductions from Tiers 1 and 2	0
Total capital resources	**598**
*No hybrid tier one capital is held	

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. The Firm follows the standardised approach to market risk and the simplified standard approach to credit risk.

Limited Licence - 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 limited licence firm and as such its capital requirements are:

- €50,000; and
- The sum of the market & credit risk requirements.

The Firm is not subject to an operational risk requirement.

The basic indicator approach calculates operational risk as a simple 15% of average annual income over 3 years. Where possible this has been based on historic figures.

It is the Firm's experience that the Fixed Overhead Requirement establishes its capital requirements.

STEWARDSHIP CODE

Under Rule 2.2.3R of the FCA's Conduct of Business Sourcebook, the Firm is required to include a disclosure about the nature of its commitment to the UK Financial Reporting Council's Stewardship Code (the "Code") or, where it does not commit to the Code, its alternative investment strategy. The Code is a voluntary code and sets out a number of principles relating to engagement by investors with UK equity issuers. The Firm pursues a multi strategy trading approach that involves a wide variety of products and timeframes and that generally does not involve it trading in single equities. Consequently, while the Firm supports the general objectives that underlie the Code, the provisions of the Code are not relevant to the type of trading currently undertaken by the Firm. If the Firm's investment strategy changes in such a manner that the provisions of the Code become relevant, the Firm will amend this disclosure accordingly.

REMUNERATION CODE

The Firm must comply with the FCA's Remuneration Code ("the Code") as set out in Article 14 of the Alternative Investment Fund Managers Directive ("AIFMD") and SYSC 19B (The AFIM Remuneration Code) and SYSC 19C (the BIPRU Remuneration Code) of the FCA Handbook. The purpose of the Code is to ensure that firms have risk focused remuneration policies, which are consistent with and promote effective risk management and do not expose themselves to excessive risk. The code applies to all "Remuneration Code Staff" of the Firm who comprise of senior management, controlled function staff, risk takers, staff whose professional activities have a material impact on the Firm's profile and any staff whose remuneration is on the same level as staff who hold control functions. The Firm has reviewed all existing employment contracts to ensure they comply with the Code.

Senior management is responsible for setting the Remuneration Policy Statement for all members of staff and the COO is a member of the Senior Management team.

The Code can be applied in a proportionate way and, as such, Senior Management has determined that the following rules are not proportionate to the Firm and have not implemented these detailed rules:

- SYSC 19B 1.17 – retained units, shares and other instruments;
- SYSC 19B.1.18 – deferral; and
- SYSC 19B.1.19, 19B 1.20 – performance adjustment

Variable remuneration is not based solely on the financial performance of the individual. Senior management also considered the individuals overall (non-financial) performance to the whole team and the overall results of the funds or the Firm. The performance of the individual is assessed over the entire year.

- **Quantitative information**

The aggregate remuneration paid to the Firm's Code Staff during the financial year ending on 31 March 2022 was £1,066,000 of which £493,500 was paid to Senior Management Code Staff.

SHAREHOLDER RIGHTS DIRECTIVE

The Firm is considering its position with respect to obligations under the Shareholder Rights Directive and will in due course publish in full an appropriate disclosure regarding its policy, related processes, and engagement with investee companies (as per FCA rules at COBS 2.2B.5 R).