

Harwood Capital LLP

Pillar 3 Disclosure 2018

INTRODUCTION

The European Capital Requirement Directive (“CRD”) and Alternative Investment Fund Management (“AIFMD”) Directives (“the Directives”) establishes a revised regulatory capital framework across Europe governing the amount and nature of capital which credit institutions and investment firms must maintain. In the United Kingdom, the Directive has been implemented by the FCA in its Handbook of rules and guidance, including in particular in the Prudential Sourcebook for Investment Firms (“IFPRU”) and the Interim Prudential Sourcebook for Investment Business (“IPRU (INV)”).

The CRD Directive's framework consist of three 'Pillars':

Pillar 1

This 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 capital is adequate to meet its risk that are not covered by Pillar 1 and is subject to review by the FCA.

Pillar 3

Requires public disclosure of qualitative and quantitative information about the underlying risk management controls and capital position of a firm.

The AIFMD adds further capital requirements based on the Alternative Investment Fund (“AIF”) assets under management and professional liability risks dependant on whether the Firm is either a Full-scope or a Sub-threshold AIFM.

The CRD set out the provision for Pillar 3 disclosure. This document is designed to meet Harwood Capital LLP’s (“the Firm”) Pillar 3 obligations under Part Eight of the Capital Requirements Regulation (“CRR”) by setting out the Firm's risk management objectives and policies.

The rules provide that we may omit one or more of the required disclosures if we believe that the information is immaterial. Materiality is based on the criterion that the omission or misstatement of any information would be likely to change or influence the decision of the reader relying on that information. Where we have considered a disclosure to be immaterial we have stated this in the document.

In addition, we may also omit one or more of the 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 omissions on the grounds that it is proprietary or confidential.

Scope and application of the requirements

The Firm is regulated in the United Kingdom (“UK”) by the Financial Conduct Authority (“FCA”). The Firm is subject to the regulatory requirements of the Prudential Sourcebook for Investment Firms (“IFPRU”). The Firm is designated as an IFPRU P3 flexible portfolio firm (€125k Firm) subject to IFPRU 1.1.9 R, and under the Capital Requirements Regulation (CRR) Article 95, the Firm is required to calculate its Pillar 1 capital requirement as the higher of its Fixed Overhead Requirement (“FOR”) and the sum of credit and market risk capital requirements as set out under the CRR. As the Firm is also Small Authorised UK AIFM it is also subject to the requirements of IPRU-INV Chapter 5 where applicable.

Harwood Capital Management Limited, a Designated Member of the LLP, and the top company of the Harwood group of companies has substantial cash resources and these resources are available to the Firm as and when required.

Frequency and location of disclosure

Disclosures will be issued on an annual basis, at a minimum, and will be made available in to interested parties via Firm's annual report and accounts.

GOVERNANCE ARRANGEMENTS, THE MANAGEMENT BODY AND COMPETENCE

The senior management within the Firm meet on a regular basis and at least quarterly. Such meetings have a formal agenda which countenances enterprise wide issues and the risk appetite of the business. The meetings demonstrate how the Firm oversees and is accountable for the implementation of governance arrangements, thereby ensuring the effective and prudent management of the Firm in line with the FCA rules. Due consideration is given to the appropriate and proportionate segregation of duties and the prevention of conflicts of interest.

The Firm considers that appropriate policies are in place to ensure the fitness and properness of all staff, including the members of the senior management body. Senior management are experienced industry professionals. Any senior appointments are subject to the approval of the management body with due consideration to the reputation, fitness and experience of the candidate as well as the long term strategic goals targets of the business.

All members of the senior management and have disclosed any outside business interests.

Staff competence is assessed on an initial and ongoing basis. All members of senior management other FCA approved persons are required to attest to their ongoing compliance with the fitness and properness obligations of the FCA approved persons' process.

All staff including senior management undergo training on a variety of regulatory topics on an annual basis.

RISK MANAGEMENT

The senior management and the Board of the Firm determine its business strategy and risk appetite along with designing and implementing a risk management framework that recognises the risks that the business faces. They also determine how those risks may be mitigated and assess on an on-going basis the arrangements to manage those risks. The Board consider on a regular basis the profitability of the Firm, its regulatory capital requirements and risk management. The Board manage the Firm's 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 of operating a defined and transparent risk management framework. These policies and procedures are updated as required.

Where the Firm has identified critical risks, which may pose a real threat to the Firm and its business, senior management back test the financial impact of these risks if they were to crystallise. They do this to establish current and future capital needs through contingency financial planning and prudential capital management. The financial data determined by way of back testing the identified risks allows the Firm to determine the appropriateness of the amount regulatory capital adequacy the Firm's Governing body has set side.

The following describe the key risks that the Firm has been exposed to:

Operational Risk

This is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal 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.

The Firm has identified several key operational risks. The greatest of these are dealing errors and potential breaches of investment strategy/restrictions, both of which would require the Firm to make good any losses. Other operational risks include the failure of a third-party service provider (see Credit/Counterparty risk below for mitigation), key man risk, the potential for serious regulatory breaches and market abuse.

The investment strategy/restrictions and any breaches are checked daily, and immediate action is taken if necessary. There have been no dealing errors to date and as a result, no specific capital allocation has been made. The Firm maintains Professional Indemnity cover of £5 million.

The Firm also ensures that appropriate policies are in place to mitigate these other operational risks.

Market Risk

The primary market risk faced by the Firm is a significant and prolonged downturn in equity markets which could cause a large reduction in the funds under management. This would, in turn, affect performance and management fee income.

The Firm ensures that it has sufficient capital and reserves to cover short term loss of profitability and in such an event, would take steps to reduce the cost base.

Notwithstanding the above, 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 GBP.

No specific strategies are adopted to mitigate the risk of currency fluctuations.

Credit/Counterparty Risk

There is the risk that a third party will default on a financial obligation or that fraud could be committed by an employee of one of the counterparties used by the LLP. The LLP performs service

reviews of those counterparties on a regular basis, at least annually, and will spread its exposure to mitigate the risk.

The number of credit exposures relating to the Firm's investment management/broker clients is limited. Management fees are drawn monthly from the funds managed and performance fees are drawn annually where applicable. Commissions are settled promptly at the conclusion of a transaction.

The Firm considers that there is little risk of default by its clients. 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.

REGULATORY CAPITAL RESOURCES

As at 31 December 2018, the LLP's Pillar 1 capital requirement was £1,021,424 as determined by its Fixed Overhead Requirement ('FOR'). Capital Resources as at 31 December 2018 were £1,904,000,000 being Members' Capital.

As reported at 31 December 2018:

	31 December 2018	
	£'000	£'000
Member's Capital		1,904
Credit risk	£408	
Market risk	£301	
Fixed overhead requirement ("FOR")	£1,021	
Total requirement (limited to fixed overhead requirement)		£1,021
Projected Pillar 1 Surplus		£883

The Firm is relatively 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 under its management.

The Firm follows the standardised approach to market risk and the simplified standard approach to credit risk 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 categorised as an IFPRU P3 flexible portfolio firm and its capital requirements are the greater of:

- Its base capital requirement of €125,000; or
- The sum of its market and credit risk requirements; or
- Its fixed overhead requirement

We have identified credit risk and market risk exposures, however these are less than the Firms FOR Exposure .

As the sum of the credit and market risks are less than the FOR, this establishes the total requirement as £1,021,424.

The FOR is based on annual expenses net of variable costs deducted, which include discretionary bonuses paid to staff. The Firm monitors its expenditure monthly and considers any material fluctuations 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 Finance Director and reported to senior management monthly.

CODE STAFF REMUNERATION DISCLOSURE FOR THE YEAR ENDED 31 MARCH 2016

Given the LLP's size and relatively low complexity there is no separate remuneration committee within the Firm. Decisions regarding remuneration are undertaken by the Chief Executive and Chief Operating Officer, with input from other members of the Management Committee.

The Firm is a Limited Liability Partnership in which many staff are partners, necessitating CF4 approval and making them a significant influence function. The Firm has decided to treat all partners as Code Staff, on the basis that they impact the risk profile of the Firm. In addition to the partners, the Compliance Officer (who is also the MLRO), is also treated as Code Staff.

The Firm has defined itself as a Proportionality Tier Four investment firm and adopted a proportioned approach to remuneration policy, dis-applying certain provisions where appropriate, in accordance with FCA guidance.

Remuneration policy

The Firm is authorised and regulated by the Financial Conduct Authority as an IFPRU Limited Licence Firm and, so, it is subject to FCA Rules on remuneration. These are contained in the FCA's Remuneration Codes located in the SYSC Sourcebook of the FCA's Handbook.

The Firm's overall policy is that the remuneration of senior managers and other staff whose actions have a material impact on the firm's risk profile ("Code Staff") should comply with the FCA's Remuneration Code, with an appropriate balance being struck between financial performance and risk management. In particular:

A significant portion of the remuneration of Code Staff is variable based primarily on the Firm's financial and service performance (on behalf of its clients). In addition, the Firm considers each individual's overall performance, using applicable criteria to motivate and reward success. However, the proportion of variable pay is limited, to ensure that it is feasible for no bonus to be paid in years where business performance does not merit this;

Personal reviews of Code Staff are carried out at least annually to assess their performance in meeting individual and strategic objectives. These reviews are reflected in compensation adjustments which take effect from 1 April each year as well as in awards of variable pay; and

No member of Code Staff is involved in deciding his or her own remuneration.

The policy in relation to the various elements of remuneration structures for Code Staff is set out below:

(a) Basic salary

Basic pay for all employees is market related thus ensuring a competitive salary that fairly reflects the market rate, skill, experience and expertise for the role. Individual development and progression is reflected through the annual salary and personal review processes.

(b) Variable pay

Variable pay is comprised of year-end bonuses and/or a share of performance fees. Year-end bonuses are awarded on the basis of overall job related performance and the attainment of established goals. Management gives significant weight to the Firm's revenues and overall investment performance (on behalf of its clients) when determining the amount of such year-end bonus awards. Conversely, such policies are designed so that key investment personnel are paid lower compensation levels in years when the Firm does not perform as well on behalf of its clients.

Aggregate remuneration data

Based on general proportionality, Firms with distinct business divisions should provide this disaggregated information but may exclude this where no such divisions exist. The Firm considers it appropriate to consider the functions of investment management and trading as being within the same business division. All Code Staff are deemed to be Senior Management.

The total aggregate remuneration attributable to Code Staff for the year ended 31 March 2018 was £1,699. Their total fixed pay was £1,563k. Their total variable pay not subject to deferral was £136k.

We may omit required disclosures where we believe that the information could be regarded as prejudicial to the UK or other national transposition of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data.

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