

## Pillar 3 Disclosure

The Capital Requirements Directive ('CRD') and Alternative Investment Fund Management Directive ('AIFMD') of the European Union establish 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 CRD and AIFMD have been implemented by the Financial Conduct Authority ('FCA') in its regulations through the General Prudential Sourcebook ('GENPRU'), the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU'), The Interim Prudential Sourcebook for Investment Business ("IPRU (INV)").

The CRD 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 AIFMD adds further capital requirements based on the Alternative Investment Fund ('AIF') assets under management and professional liability risks.

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

The Pillar 3 disclosure document has been prepared by Abraxas Capital Management Limited ('The Firm') in accordance with the requirements of BIPRU 11 and is verified by the board. Unless otherwise stated, all figures are as at the 31<sup>st</sup> December financial year-end.

Pillar 3 disclosures will be issued on an annual basis after the year end and published as soon as practical on the Firm website.

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.

We have made no omissions on the grounds that it is immaterial, proprietary or confidential.

### **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 MIFID Investment Firm and Collective Portfolio Management Investment Firm ('CPMI') Firm' by the FCA for capital purposes.

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 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 Senior Management team take overall responsibility for this process and the fundamental risk appetite of the firm. The team 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 through 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.

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 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.

### **Business 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 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 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 systems failure, failure of a third-party provider, potential for serious regulatory breaches and market abuse. Appropriate policies are in place to mitigate against these risks, which includes business continuity planning, compliance training for employees, and the use of compliance consultancy services.

## Credit risk

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

Management fees are drawn monthly and quarterly 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.

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.

## Market risk

The Firm has foreign exchange risk in respect of its accounts receivable and cash balances held in currencies other than GBP.

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

The Firm calculates its foreign exchange risk by reference to the rules in BIPRU 7.5.1 of the FCA Handbook and applies an 8% risk factor to its foreign exchange exposure.

### **Professional liability risk**

The Firm has a legal responsibility for risks in relation to investors, products & business practices including, but not limited to; loss of documents evidencing title of assets of the AIF; misrepresentations and misleading statements made to the AIF or its investors; acts, errors or omissions; failure by the senior management to establish, implement and maintain appropriate procedures to prevent dishonest, fraudulent or malicious acts; improper valuation of assets and calculation of unit/share prices; and risks in relation to business disruption, system failures, process management. The Firm is aware of, and monitors, a wide range of risks within its business operations and towards its investors. The Firm has in place appropriate internal operational risk policies and procedures to monitor and detect these risks. This is reviewed annually.

The Firm's holds additional own funds equating to 0.01% of the total AIF assets under management.

### **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 deposit it holds and support it receives from the parent company. 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 Board on a quarterly basis, and the Firm would be able to call on the parent for further capital as required.

The Firm maintains a ICAAP which formalises this approach.

## Regulatory capital

The Firm is a Limited Liability Company, Full Scope UK AIFM and CPMI firm.

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

	31/12/2021 £000
<b>Tier 1 capital*</b>	633
<b>Tier 2 capital</b>	0
<b>Tier 3 capital</b>	0
<b>Deductions from Tiers 1 and 2</b>	0
<b>Total capital resources</b>	<b>633</b>
<b>*No hybrid tier one capital is held</b>	

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

Limited License - 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, Full Scope, CPMI Firm and as such its capital requirements are the higher of:

- €125,000 + 0.02% of AIF AUM over €250m; and
- The sum of the market & credit risk requirements; or
- The fixed overheads requirement ('FOR') which is essentially 25% of the firm's operating expenses less certain variable costs.
- Plus the professional negligence capital requirement which is calculated as 0.01% of AIFs under management.

The FOR is calculated, in accordance with FCA rules, based on the firm's previous years audited expenditure. The firm has adopted the simplified standardised approach to credit and market risk and the above figures have been produced on that basis. The firm is not subject to an operational risk requirement.

## Capital requirement

The Firm's Pillar 1 capital requirement has been determined by reference to the Firm's Fixed Overheads Requirement ('FOR') and calculated in accordance with Article 95 and the [EBA Final draft technical standards](#) as referenced in IPRU(INV) 11.3.3A. The requirement is based on the

FOR since this exceeds the total of the credit and market risk capital requirements it faces and also exceeds its base capital requirement of €125,000 plus 0.02% of AIF AUM over EUR 250M. The FOR is based on annual expenses net of variable costs deducted, which include discretionary bonuses paid to staff, allowable commission and fees. The Firm monitors its expenditure on a quarterly basis and takes into account any material fluctuations in order 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 Chief Operating Officer and reported to senior management on a quarterly basis.

## UK Financial Reporting Council's Stewardship Code

Under Rule 2.2.3R of the FCA's Conduct of Business Sourcebook, The Firm is required to include on this website 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 Firm pursues a global macro and global opportunities investment strategy and, as a result, does not currently invest in single UK equities. Consequently, while the Firm supports the 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 investment strategy changes in such a manner that the provisions of the Code become relevant, the Firm will amend this disclosure accordingly.

## Remuneration disclosure

The Firm is authorised and regulated by the Financial Conduct Authority as a Collective Portfolio Management Investment ('CPMI') Firm and is therefore 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.

CPMI Firms are required make a remuneration disclosure in respect of the whole of their business i.e. MIFID and AIFMD. The specific requirements of the AIFMD remuneration disclosure are set out in the Annual Report of the AIF(s).

The Remuneration Code ('the RemCode') cover(s) 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 portfolio management services to its clients and to act as a manager of alternative investment funds.

Our policy is designed to ensure that we comply with the RemCode and our compensation arrangements:

1. are consistent with and promotes sound and effective risk management;
2. do not encourage excessive risk taking and risk-taking which is inconsistent with the risk profiles or instruments of incorporation of the AIFs they manage;
3. include measures to avoid conflicts of interest;
4. are in line with the Firm's business strategy, objectives, values and long-term interests.

## Proportionality

Enshrined in the European remuneration provisions is the principle of proportionality. The FCA has sought to apply proportionality in the first instance by instituting two tests. Firstly, a firm that is significant in terms of its size must disclose quantitative information referred to in BIPRU 11.5.18R at the level of senior personnel. Secondly, a firm must make disclosure that is appropriate to the size, internal organisation and the nature, scope and complexity of their activities.

The firm is not 'significant' (that is to say has relevant total assets <£50bn\*) and so makes this disclosure in accordance with the second test (BIPRU 11.5.20R(2)).

\* average total assets on the last three accounting dates.

## 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. Our disclosure is made in accordance with our size, internal organization and the nature, scope and complexity of our activities.

The Firm's full Remuneration Policy is available at the request of investors.

1. Summary of information on the decision-making process used for determining the firm's remuneration policy including use of external benchmarking consultants where relevant.
  - The Firm's policy has been agreed by the Senior Management in line with the 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 process and procedures, or following a significant change to the business requiring an update to its internal capital adequacy assessment.
  - The Firm's ability to pay bonus is based on the performance of Firm overall and derived after its

fund's managed returns have been calculated by client appointed third party administrators.

- The Firm provides the valuation prices for the valuation of assets held by the AIFs, governed by a Valuation Policy and in accordance with the AIF offering documents. Conflicts of Interest, if any, are managed and mitigated accordingly.

## 2. Summary of how the firm links pay and performance.

- Individuals are rewarded based on their contribution to the overall strategy of the business.
  - a. Investment Generation
  - b. Investment Trading
  - c. Sales & Marketing
  - d. Operations
- 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.

## 3. In accordance with CRD III and CEBS guidance the Firm takes a proportionate approach to its Remuneration Code disclosures in line with the nature, scale and complexity of the Firm and as such has chosen not to disclose exact remuneration figures in regards to the remuneration of the nine Code Staff identified by the Firm's Policy. Furthermore, all discretionary remuneration is directly related to the performance of our managed entities and as such staff interests are intrinsically aligned with the interest of the Firm and its Clients vis-à-vis remuneration and performance.

## 4. Firm profits and employee remuneration are disclosed in aggregate in the report and accounts of the Firm.

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.