

## Arcus Investment Limited - Pillar 3 Disclosure and Policy

### Introduction

#### Regulatory Context

The Pillar 3 disclosure of Arcus Investment Limited (“the Firm”) is set out below as required by the FCA’s “Prudential Sourcebook for Banks, Building Societies and Investment Firms” (BIPRU) specifically [BIPRU 11.3.3 R](#). This is a requirement which stems from the Capital Requirements Directive (“CRD”) which represents the European Union’s application of the Basel Capital Accord. The regulatory aim of the disclosures is to improve market discipline.

#### Frequency

The Firm will be making Pillar 3 disclosures annually. The disclosures will be as at the Accounting Reference Date (“ARD”) of 30 September 2019.

#### Media and Location

The disclosure will be published on the Firm’s website: [www.arcusinvest.com](http://www.arcusinvest.com)

#### Verification

The information contained in this document has not been audited by the Firm’s external auditors, as this is not a requirement, and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Firm.

#### Materiality

The Firm regards information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If the Firm deems a certain disclosure to be immaterial, it may be omitted from this Statement.

#### Confidentiality

The Firm regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm’s investments therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, the Firm will disclose such and explain the grounds why it has not been disclosed.

### Summary

The CRD requirements have three pillars. Pillar 1 deals with minimum capital requirements; Pillar 2 deals with Internal Capital Adequacy Assessment Process (“ICAAP”) undertaken by a firm and the Supervisory Review and Evaluation Process through which the Firm and Regulator satisfy themselves of the adequacy of capital held by the Firm in relation to the risks it faces and; Pillar 3 which deals with public disclosure of risk management policies, capital resources and capital requirements.

The Firm is a Full Scope UK AIFM of non-EEA Alternative Investment Funds (non-EEA AIFs) with permission to manage individual portfolios of investments and therefore carries the Collective Portfolio Management Investment firm (“CPMI” firm) prudential categorisation. As a result of the Firm’s permission to manage individual portfolios of investments the Firm is

subject to applicable provisions within the BIPRU sourcebook. It acts solely as agent, therefore the main protection to its customers is provided through client money and asset arrangements. The Firm's greatest risks have been identified as business and operational risk. The Firm is required to disclose its risk management objectives and policies for each separate category of risk which include the strategies and processes to manage those risks; the structure and organisation of the relevant risk management function or other appropriate arrangement; the scope and nature of risk reporting and measurement systems; and the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

The Firm has assessed business and operational risks in its ICAAP and set out appropriate actions to manage them.

A number of key operations are outsourced by the Firm's clients, typically the Funds that the Firm provides portfolio management services to, to third party providers such as administrators reducing the Firm's exposure to operational risk. The Firm has an operational risk framework (described below) in place to mitigate operational risk. The Firm's main exposure to credit risk is the risk that management and performance fees cannot be collected and, therefore, credit risk is considered low. The Firm holds all cash balances with reputable banking institutions.

Market Risk exposure has been assessed by the Firm and is limited to the Firm's exposure to any assets held on the Firm's Balance Sheet denominated in a foreign currency. The Firm's Reporting Currency is GBP and all foreign currency assets are converted into GBP on a regular basis.

## **Background to the Firm**

### **Background**

The Firm is incorporated in the UK and is authorised and regulated by the FCA as an AIFM Fund Manager with permission to manage individual portfolios of investments. The Firm is subject to BIPRU as a result of its permission to manage individual portfolios of investments in addition to alternative investment funds.

The following Arcus entity is covered by the ICAAP:

- Arcus Investment Limited

The Firm is a solo regulated entity, BIPRU Firm without an Investment Firm Consolidation Waiver.

## **BIPRU 11.5.1**

### **Disclosure: Risk Management Objectives and Policies**

#### **Risk Management Objective**

The Firm has a risk management objective to develop systems and controls to mitigate risk to within its risk appetite.

## Governance Framework

The following people have management and oversight responsibility:

- Mark Pearson, Director
- Edward Cartwright, CEO, Director, Head of Risk
- Lucy King, Director, CO

The Governing Body is responsible for the entire process of risk management, as well as forming its own opinion on the effectiveness of the process. In addition, the Governing Body decides the Firm's risk appetite or tolerance for risk and ensures that the Firm has implemented an effective, on-going process to identify risks, to measure its potential impact and then to ensure that such risks are actively managed. Senior Management is accountable to the Governing Body for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Firm.

## Risk Framework

Risk within the Firm is managed in the following way:

- The Firm has a conservative approach to risk;
- The Firm has identified its risks and recorded them in a 'Risk Register';
- The Firm has undertaken scenario Analysis and Stress Tests on the most significant risks identified. This informs the Firm how risks are likely to behave and what, if any, impact there is likely to be the Firm's balance sheet;
- The Firm also performs quarterly stress testing at fund level;
- The Firm has an internal control framework in place to govern its processes and procedures and to mitigate any risks.

### BIPRU 11.5.4

**Disclosure:** Compliance with BIPRU 3, BIPRU 4, BIPRU 6, BIPRU 7, BIPRU 10 and the Overall Pillar 2 Rule

### BIPRU 3 (Credit Risk)

For its Pillar 1 regulatory capital calculation of Credit Risk, under the credit risk capital component the Firm has adopted the Standardised approach ([BIPRU 3.4](#)) and the Simplified method of calculating risk weights ([BIPRU 3.5](#)).

### Credit Risk calculation

Credit Risk Capital Requirement	Rule	Capital Component
Credit risk capital component	BIPRU 3.2	£7,373,544
Counterparty risk capital component	BIPRU 13 & 14	£0
Concentration risk capital component	BIPRU 10	£0
<b>Total</b>		<b>£7,373,544</b>

	Rule	Exposure	Risk Weight	Risk weighted exposure amount
Banks etc short-term	BIPRU 3.4.39	£1,697,159	20%	£339,432
Exposure to Corporates/Debtors	BIPRU 3.4.52	£950,512	100%	£950,512
Fixed assets	BIPRU 3.4.127	£3,445	100%	£3,445
Accrued Investment management fees	BIPRU 3.4.128	£1,008,538	100%	£1,008,538
Prepayments & Other	BIPRU 3.4.128	£142,061	100%	£142,061
Investment in own funds	BIPRU 3.4.118	£59,528,849	150%	£89,293,274
<b>Total</b>		<b>£63,330,565</b>		<b>£91,737,261</b>
<b>Credit Risk Capital Component</b>		<b>8% of risk weighted exposure</b>		<b>£7,338,981</b>

#### **BIPRU 4 (Advanced Credit Risk Approach)**

The Firm does not adopt the Internal Ratings Based approach and hence this is not applicable.

#### **BIPRU 7 (Market Risk)**

The Firm has Non-Trading Book potential exposure only ([BIPRU 7.4](#), [7.5](#)).

#### **Overall Pillar 2 Rule**

The Firm has adopted the “Structured” approach to the calculation of its ICAAP Capital Resources Requirement as outlined in the Committee of European Banking Supervisors Paper, 25 January 2006.

The Governing Body has delegated review of the ICAAP to the Arcus Group Management Committee. The Committee review this document annually when a material change to the business occurs.

#### **BIPRU 11.5.8**

**Disclosure:** Credit Risk and Dilution Risk

The Firm is primarily exposed to Credit Risk from the risk of non-collection of advisory and sub-advisory fees. It holds all cash and performance fee balances with Banks assigned high credit ratings. Consequently risk of past due or impaired exposures is minimal. A financial asset is past due when a counterparty has failed to make a payment when contractually due. Impairment is defined as a reduction in the recoverable amount of a fixed asset or goodwill below its carrying amount.

#### **BIPRU 11.5.12**

**Disclosure:** Market Risk

The Firm has Non Trading Book potential exposure only ([BIPRU 7.4](#) & [7.5](#)).

Please note: Although as per GENPRU 2.1.46R, Credit Risk Capital Requirement and Market Risk Capital Requirement are only required to be calculated in respect of our designated investment business (which does not include our activities as an AIFM) the Firm has decided to adopt a more prudent approach and calculate the Credit Risk Capital Requirement and Market Risk Capital Requirement in respect of our whole investment business.

## Market Risk calculation

Weight	PRR	Rule	Position	Risk	
Foreign currency position risk requirement		BIPRU 7.5	£1,281,020	8%	£102,482
<b>Total</b>			<b>£1,281,020</b>		<b>£102,482</b>

### BIPRU 11.5.2

**Disclosure:** Scope of application of directive requirements

The Firm is subject to the disclosures under the [Banking Consolidation Directive](#).

However, it is not a member of a UK Consolidation Group and consequently, does not report on a consolidated basis for accounting and prudential purposes.

### BIPRU 11.5.3

**Disclosure:** Capital Resources

The Firm is a firm subject to BIPRU without an Investment Firm Consolidation Waiver, deducting Material Holdings under ([GENPRU 2 Annex 4](#)). As at 30<sup>th</sup> September 2019 Tier 1 Capital comprises of Capital, Share Premium Accounts, and Audited Reserves. The Firm is subject to the capital requirements set out in IPRU(INV) Chapter 11 and also BIPRU/GENPRU. The Firm has the following capital resources:

Tier 1 Capital	£55,727,237
Deductions	£0
Tier 2 Capital	£0
Deductions	£0
Capital Resources	£55,727,237
Tier 3 Capital	£0
Deductions	£0
<b>Total Capital</b>	<b>£55,727,237</b>

### BIPRU 11.5.5

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by [BIPRU 11.5.4R \(3\)](#).

### BIPRU 11.5.6

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by [BIPRU 11.5.4R \(3\)](#).

### BIPRU 11.5.7

This disclosure is not required as the Firm does not have a Trading Book.

**BIPRU 11.5.9**

This disclosure is not required as the Firm does not make Value Adjustments and Provisions for Impaired exposures that need to be disclosed under [BIPRU 11.5.8R \(9\)](#).

**BIPRU 11.5.10**

**Disclosure:** Firms calculating Risk Weighted Exposure Amounts in accordance with the Standardised Approach

This disclosure is not required as the Firm uses the Simplified method of calculating Risk Weights ([BIPRU 3.5](#)).

**BIPRU 11.5.11**

**Disclosure:** Firms calculating Risk Weighted Exposure amounts using the IRB Approach

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit and therefore is not affected by [BIPRU 11.5.4R \(3\)](#).

**BIPRU 11.5.13**

**Disclosure:** Use of VaR model for calculation of Market Risk Capital Requirement

This disclosure is not required as the Firm does not use a VaR model for calculation of Market Risk Capital Requirement.

**BIPRU 11.5.15**

**Disclosure:** Non-Trading Book Exposures in Equities

This disclosure is not required as the Firm does not have a Non-Trading Book Exposure to Equities.

**BIPRU 11.5.16**

**Disclosures:** Exposures to Interest Rate Risk in the Non-Trading Book

Although the Firm has substantial cash balances on its Balance Sheet, there is currently no significant exposure to Interest Rate fluctuations.

**BIPRU 11.5.17**

**Disclosures:** Securitisation

This disclosure is not required as the Firm does not Securitise its assets.

**BIPRU 11.5.18****Disclosure: Remuneration**

The Firm applies the AIFM remuneration proportionality rule across its business. The Governing Body is responsible for the Firm's remuneration policy. All variable remuneration is adjusted in line with capital and liquidity requirements.

**Remuneration for year ended 30.09.19 (BIPRU 11.5.18(6))****Remuneration Code Staff Remuneration by Business Area (BIPRU 11.5.18(6))**

<b>Business Area</b>	<b>Total Remuneration</b>
Portfolio Management	£0
Non-Portfolio Management	£392,249

**Aggregate Quantitative remuneration by Senior Management and other Remuneration Code Staff (BIPRU 11.5.18(7))**

<b>Type of Remuneration Code Staff</b>	<b>Total Remuneration</b>
Senior Management (SIF)	£392,249
Other Remuneration Code Staff	£0
<b>Totals</b>	<b>£392,249</b>

**Arcus Investment Limited****03 February 2020**