Pillar 3 Disclosure

1 Introduction

Anavio Capital Partners LLP (“Anavio” or the “Firm”) is required by the FCA to disclose information relating to the regulatory capital it holds and the major risks it faces, allowing market participants to assess key information and the Firm’s risk management processes, and to encourage market discipline.

The Capital Requirements Directive (CRD) created a revised regulatory capital framework across Europe covering how much capital financial services firms must retain. In the United Kingdom, rules and guidance are provided in the General Prudential Sourcebook (GENPRU) for Banks, Building Societies and Investments Firms (BIPRU).

The provisions of GENPRU and BIPRU requires the Firm to implement three Pillars of CRD:

- **Pillar 1** – Quantitative rules-based capital adequacy calculations set out the minimum capital requirements for as firm based on its FCA categorisation, and to ensure the Firm meets its credit, market, and operational risk capital requirement. These are detailed further in GENPRU and IPRU (INV).

- **Pillar 2** – Qualitative risk-based assessment of capital adequacy which requires the preparation of an ICAAP to assess a Firm’s major risks and to further determine whether there are adequate systems and controls in place to mitigate those risks.

- **Pillar 3** – Public disclosure of key information, including regulatory capital adequacy, allowing market participants to assess the Firm’s capital position, risk exposures and risk management processes.

Rule 11 of BIPRU sets out the provisions for Pillar 3 disclosure. The rules provide that companies may omit one or more of the required disclosures if such omission is regarded as immaterial. Information is considered material if its omission or misstatement could change or influence the decision of a user relying on the information. In addition, companies may also omit one or more of the required disclosures where such information is regarded as proprietary or confidential. The Firm believes that the disclosure of this document meets its obligation with respect to Pillar 3.

2 Firm Overview

Anavio is incorporated in the UK and is authorised and regulated by the FCA as a Full Scope Alternative Investment Fund Manager and is categorized by the FCA for prudential regulatory purposes both as a Collective Portfolio Management Firm ("CPMI") and a BIPRU firm.

Anavio has established a Management Committee which is responsible for the day-to-day management and oversight of the Firm. It is composed of:

- Dario Sacchetti
- Daniel Horsley
- Jon Howard

The Management Committee is responsible for the day to day management of the Firm including risk management, as well as forming its own opinion on the effectiveness of the processes, systems and controls. In addition, the Management Committee determines the level of Anavio's risk appetite, or tolerance for risk, and ensures that the Firm has implemented an effective risk framework, to monitor ongoing risks and to ensure that such risks are actively managed. Senior management is accountable to the Management Committee for designing, implementing and monitoring the risk management processes.

3 Capital Resources and Requirements

Pillar 1 - Capital Resources

Anavio was authorised by the FCA on 2nd July 2015 and held regulatory capital resources comprised solely of core Tier 1 capital.

The Firm has calculated its BIPRU capital resources in accordance with GENPRU 2.2:

The firm is required to as a CPMI firm to maintain 'own funds' which equal or exceed the higher of:

- Funds under management requirement of €125,000 plus 0.02% of the AIF AUM exceeding €250,000,000;
- The sum of its market and credit risk requirements; or
- Own funds based on its Fixed Overhead Requirement (which is essentially 25% of the firm's operating expenses less certain variable costs);
- PLUS PII Capital requirement based on the excess for professional liability risk.

As at accounting reference 30 November 2018, the Firm's Pillar 1 capital requirement was £256,592.50

Pillar 2 - Satisfaction of Capital Requirements

The Firm has adopted the "Structured" approach to the calculation of its Pillar 2 Minimum Capital Requirement as outlined in the Committee of European Banking Supervisors Paper, 27 March 2006 which takes the higher of Pillar 1 and 2 as the ICAAP capital requirement. It has assessed Business Risks by modeling the effect on its capital planning forecasts and assessed Operational Risk by considering if Pillar 2 capital is required taking into account the adequacy of its mitigation.

Since the Firm's Internal Capital Adequacy Assessment Process (ICAAP or Pillar 2) process has not identified capital to be held *over* and *above* the Pillar 1 requirement, the capital resources detailed above are considered adequate to continue to finance the Firm over the next year. No additional capital injections are considered necessary and the Firm expects to continue to be profitable.

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 Firm's Risk Committee.

As risks are identified within the business, appropriate controls are put in place to mitigate these and compliance with them is monitored on a regular basis. The frequency of monitoring in respect of each risk area is determined by the significance of the risk. The Firm does not intend to take any risks with its own capital and ensures that risk taken within the portfolios that it provides advice to is closely monitored. The results of the compliance monitoring performed is reported to the Management Committee by the Compliance Officer.

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. These relate to disruption of the office facilities, system failures, trade failures and failure of third party service providers. Appropriate policies are in place to mitigate against risks, including appropriate insurance policies and business continuity plans.

Market Risk

Since the Firm holds no trading book positions on its own account, and all bank accounts are in GBP, EUR and USD and all fee income is in EUR and USD, the Firm’s exposure to foreign currency risk is not significant. Since the settlement of debtor balances take place without undue delay, the timing of the amount becoming payable and subsequently being paid is such that it is not considered to present a material risk to the Firm. The Firm has excluded Market risk on the basis that it is not a material risk to the Firm.

Credit Risk

The main credit risk to which the Firm is exposed is in respect to the failure of its debtors to meet their contractual obligations. The majority of the Firm's receivable is related to investment management activities. The Firm believes its credit risk exposure is limited since the Firm’s revenue is ultimately related to management fees received from funds. These management fees are drawn throughout the year from the funds managed. Other credit exposures include bank deposits and office rental deposits.

The Firm undertakes periodic impairment reviews of its receivables. All amounts due to the Firm are current and none have been overdue during the year. As such, due to the low risk of non-payment from its counterparties, management is of the opinion that no provision is necessary. A financial asset is overdue when the 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.

The Firm has adopted the standardised approach to credit risk, and therefore follows the provision within BIPRU 3 standardised credit risk of the FCA handbook. The Firm applies a credit risk capital component of 8% to its non-trading book risk weighted exposure. As the Firm does not make use of an external credit rating agency, it is obligated to use a risk weight of 100% to all non-trading book credit exposures, except cash and cash equivalents which are held by investment grade firms and currently attract a risk weighting of 20%.

4 Results of the ICAAP

The ICAAP covers the period from 1 December 2018 to 30 November 2019 and the data upon which it is based is drawn from the Financial Statements prepared for the Firm's financial period ending 30 November 2018.

The Firm ensures that it maintains adequate capital for its size, nature and complexity of the business. As set out in Figure 2, the Firm's minimum capital requirement is £256,592.50 being the higher of Pillar 1 (CRR), OFR, Pillar 2 or the wind down requirement.

The Firm maintains Total Capital After Deductions of £356,128 which results in a Variable Capital Requirement Surplus of £99,535.50 as illustrated in Figure 3.

As of 30th November 2018, the Firm's regulatory capital position is:

Capital Item	£'000
Tier 1 capital	356
Total capital resources, net of deductions	356
Own Funds Requirement	257
Surplus	99

With a regulatory surplus of £99K at financial year end we consider this amount to be sufficient regulatory capital for now to support the business and have not identified any areas which give rise to a requirement to hold additional risk-based capital. The requirement for additional capital will be monitored continuously as funds under management increases.

5 Remuneration Disclosures

The Firm has adopted a remuneration policy and procedures that comply with the requirements of chapter 19B of the FCA's Senior Management Arrangements, Systems and Controls Sourcebook (SYSC), and in accordance with ESMA's Guidelines on sound remuneration policies. The Firm have considered all the proportionality elements in line with the FCA Guidance.

Remuneration is designed to ensure that the firm does not encourage excessive risk taking and staff interests are aligned with those of its clients.

The Executive Committee is directly responsible for the overall remuneration policy which is reviewed annually. Variable remuneration is adjusted in line with capital and liquidity requirements as well as the Firm's performance. The Executive Committee will review the remuneration strategy on an annual basis together with the remuneration of senior management and material risk takers, ("Code Staff").

The Firm only has one “business area”, namely its investment management business. For the purposes of this disclosure, remuneration does not include amounts paid to Code Staff who are members of the Firm and receive a profit share based on pre-determined profit allocation percentages. The Firm has decided not to make a disclosure of remuneration paid to other Code Staff given the small number of individuals who receive remuneration within the meaning of this disclosure. The Firm believes that a disclosure of such information would be inconsistent with the data protections principles and the Firm’s confidentiality obligations to its staff members.