

# LIVINGBRIDGE VC LLP

## Pillar 3 disclosures as at 31 December 2019

### INTRODUCTION AND BACKGROUND

Livingbridge VC LLP (the "**Firm**") is authorised and regulated by the UK Financial Conduct Authority (the "**FCA**"). It is required by Chapter 11 (*Disclosure (Pillar 3)*) of the FCA's Prudential Sourcebook for Banks, Building Societies and Investment Firms ("**BIPRU**") to publish, at least annually, certain disclosures about its capital, risk exposures and risk management processes and remuneration arrangements. This requirement derives from the European Union's Capital Requirements Directive ("**CRD**").

The most recent iteration of the CRD is "**CRD IV**" but, at least in the UK, certain firms are able – because of the nature of the regulated activities which they carry on – to remain subject to the FCA rules implementing the previous iteration of the CRD ("**CRD III**") rather than move to the stricter CRD IV rules. The Firm remains subject to the CRD III rules.

The prudential framework for investment management firms consists of three pillars. Pillar 1 sets out minimum capital requirements, Pillar 2 deals with the Internal Capital Adequacy Assessment Process ("**ICAAP**") (the process through which a firm and its regulator satisfy themselves on the adequacy of capital held by the firm in relation to the risks it faces) and Pillar 3 sets out the disclosures a firm must make about its capital, risk exposures and risk management processes and remuneration arrangements. These disclosures aim to improve market discipline through additional transparency.

### ABOUT THE FIRM

The Firm is an investment management firm, authorised and regulated by the FCA to conduct investment management business. The Firm's primary business activity is to act as the investment manager to FPPE Fund plc. The Firm is categorised by the FCA as a "BIPRU firm". It is not a member of a UK Consolidation Group and so is not required to prepare consolidated reporting for prudential purposes. It has no trading book exposures.

### ABOUT THE DISCLOSURES

This document is designed to satisfy the Firm's Pillar 3 disclosure obligations. The Firm makes the Pillar 3 disclosures on an annual basis. They are made as at the Firm's accounting reference date, which is 31 December, and are published on the Firm's website. The Firm keeps under review on an ongoing basis whether it must make any or all of the disclosures on a more frequent basis.

The Firm may omit one or more of the required disclosures from its public disclosure statement if either: (1) the information provided by such disclosure is not regarded as "material"; or (2) the disclosure includes information which may be regarded as proprietary or confidential.

Information is "material" if its omission or misstatement could change or influence the assessment or decision of a user relying on that information when making economic decisions. Information is "proprietary" if sharing that information with the public would undermine the Firm's competitive position (proprietary information may include information on products or systems which, if shared with competitors, would render a firm's investments therein less valuable). Information is "confidential" if there are obligations to customers/other counterparties binding the Firm to confidentiality.

In the event that a firm omits information from disclosures on the basis that the information is proprietary or confidential, it must state in the disclosures the fact that the specific items of information

are not disclosed and the reason(s) for non-disclosure. It must also, in most cases, publish more general information about the subject matter of the disclosure requirement.

No required information has been omitted from this disclosure statement under the proprietary or confidential information exemption. However, where a disclosure is required under BIPRU 11.5 but the Firm has no information to disclose under that disclosure requirement, no disclosure has been made.

## **VERIFICATION**

The information contained in these disclosures has not been audited by the Firm's external auditors and does not constitute any form of financial statement. It must not be relied upon in making any judgement on the Firm.

## **RISK MANAGEMENT AND PRINCIPAL RISK AREAS**

### **Approach to risk management**

The Firm's risk management processes and associated governance structure are designed to ensure that there is an effective framework in place to identify, manage and monitor risks.

### **Governance structure**

The Firm's Partnership Board is responsible for the oversight of risk management. It takes a conservative approach to risk management and considers all significant risks during strategic planning. The Partnership Board delegates day-to-day responsibility for risk management to the Firm's Audit and Risk committee ("**ARC**").

The ARC was established specifically to assist the Partnership Board to discharge its responsibility for risk management. It meets at least twice a year and comprises Wol Kolade (Managing Partner), Sheenagh Egan (Partner, Chief Operating Officer and Compliance Officer), Adam Holloway (Chairman of the ARC, Partner and Head of Portfolio Value Strategy Group), Andrew Garside (Partner - New Investments), Gareth Davies (Head of Finance) and Jeremy Dennison (Legal Counsel).

The ARC identifies risks and records them in a Risk Register. The Risk Register is used to measure, monitor and control risks. It is reviewed at least annually by the ARC.

The ARC reports on significant risks, including risks identified in the Risk Register, to the Partnership Board twice each year. The Partnership Board retains responsibility for, and monitors the processes put in place by, the ARC.

## **Principal risk areas**

Within the ICAAP framework, the Firm's principal risk areas have been identified as external, legal, operational, credit, market, interest rate, securitisation, residual and insurance risk. Those risk areas are summarised below.

*External risk:* Adverse market events such as recession which could adversely impact the performance of underlying investments of FPPE Fund plc. The Firm has assessed this risk in its ICAAP.

*Legal risk:* Risk of material litigation or dispute arising from a claim against the Firm. The Firm has assessed this risk in its ICAAP and has in place appropriate controls and processes to mitigate such risk.

*Credit risk:* The Firm's main exposures to credit risk is the exposure to banks where cash held is deposited. The Firm holds all its own cash and fee balances with banks assigned high credit ratings. Given the nature of the Firm's exposures, no specific policy for hedging and mitigating credit risk is in place.

*Operational risk:* This is the risk that the Firm has inadequate or failed internal processes, people and systems or operational risks arising from external events. The key operational risks relevant to the Firm include cyber security, damage to the Firm's reputation arising from fraud, regulatory breach, environmental damage, criminal or unethical behaviour, and loss of cash balances due to fraud. The Firm has assessed operational risks in its ICAAP and implemented appropriate mitigating actions to manage them, including through its documented risk management policies and procedures. The Firm's Operational risks, together with details of key mitigating actions, are set out in detail in the Firm's risk matrix. The Firm places strong reliance on the operational procedures and controls that it has in place to mitigate operational risk and seeks to ensure that all staff are aware of their responsibilities in this respect.

*Market risk:* The Firm does not have any market risk exposure. The Firm holds no trading book, commodity or foreign currency positions and this combined with the immaterial nature of the interest rate risk, means that the Firm has no market risk at present.

*Interest rate risk:* The firm does not have any material interest rate risk at present. Interest rates in the United Kingdom are nominal at present and for this reason the Firm earns very little interest income. Interest earned on cash balances is an additional, though not a significant source of income for the Firm. Any downward interest rate changes would not have a significant impact on the total revenue.

*Securitisation risk:* The Firm does not enter into securitisation arrangements and therefore is not exposed to risks associated with such arrangements.

*Residual risk:* The Firm does not employ credit mitigation techniques for the purposes of its business and therefore is not exposed to residual risk.

*Insurance risk:* The Firm has assessed insurance risk in its ICAAP and based on the comprehensive nature of its insurance and the results of stress testing, considers that its cover is adequate.

## **ICAAP**

The Firm's ICAAP determines the Firm's Pillar 2 requirement. The Firm has adopted the Pillar 1 plus approach to the calculation of its ICAAP capital resources requirement. The ICAAP is presented to the

Partnership Board on an annual basis. An additional review of the ICAAP would be undertaken by the ARC, and the results of that review presented to the Partnership Board, in the event of a material change to the Firm's business model or risk exposures.

## CAPITAL RESOURCES AND CAPITAL REQUIREMENT

### Capital resources

The Firm is a limited liability partnership and its capital arrangements are established in its LLP Agreement. The Firm maintains sufficient capital to meet its regulatory capital requirements and takes a prudent approach to the management of its capital base. The main features of the Firm's capital resources as at 31 December 2019 are set out below.

CAPITAL RESOURCES		£'000
Tier one capital	Partnership capital	1,000
	Audited Profit and Loss account	2,672
<b>Total tier one capital</b>		<b>3,672</b>
<i>Deductions</i>		<i>0</i>
<b>Total regulatory capital</b>		<b>3,672</b>

### Capital requirement

As a BIPRU firm, the Firm is required to calculate its variable regulatory capital requirement as the higher of: (1) the sum of its market risk requirement and its credit risk requirement; and (2) its fixed overhead requirement ("FOR").

The Firm has calculated its FOR in accordance with the applicable rules and guidance. Its FOR amounts to £95k as at 31 December 2019. The credit risk and market risk capital requirements of the Firm are greater than the FOR. Therefore, the overall Pillar 1 capital requirement of the Firm is the Credit Risk of £384k.

## REMUNERATION

This section sets out, in accordance with BIPRU 11.5.18R to 11.5.21R, the Firm's remuneration disclosures for the year ending 31 December 2019.

### Remuneration Policy and "proportionality"

The Firm has adopted a Remuneration Policy which complies with the requirements of Chapter 19C (*BIPRU Remuneration Code*) of the FCA's Senior Management Arrangements, Systems and Controls Sourcebook and takes into account the related FCA guidance on "proportionality".

The Firm is required to comply with the FCA's remuneration requirements in a way which is appropriate to its size, internal organisation and the nature, scope and complexity of its activities. The Firm falls within proportionality level three under the FCA's BIPRU Remuneration Code regime.

### Decision-making process

Given that the Firm is a proportionality level three firm, it is not under an obligation to establish a Remuneration Committee. As the Firm does not have a separate Remuneration Committee, the

Partnership Board sets and oversees the Firm's Remuneration Policy, including reviewing the terms of the Policy on at least an annual basis.

### **Staff and Code Staff**

All of the staff of the Firm are either members of the Firm or, in the case of accounting and administrative resources, provided to the Firm by another FCA authorised firm, Livingbridge EP LLP. The Firm does not, therefore, have any direct employees as its staff are either its members or are secondees.

During the year the Firm had 8 individuals who were assessed as "Code Staff".<sup>1</sup> These were the Managing Partner, 6 investment executives and the Chief Operating and Compliance Officer ("COO"). All of these individuals were members of the Firm.

### **Link between pay and performance**

The Firm's Remuneration Policy does not link an individual's rewards to the success of individual Funds or investments but rather to the Firm's success as a whole. The Firm's activities are almost entirely devoted to investing in long term illiquid assets. No one individual is responsible for any single Fund or investment and therefore there is no culture of the 'star fund manager'.

The Firm's Remuneration Policy is designed to foster a team approach and culture and is aligned with the overall aim of the Firm of generating superior performance for its investors. As pay is not linked to the performance of any single Fund but rather to the overall performance of the Firm, the focus is on consistent investment performance over the long term in order to ensure sustainability of revenue.

All Code Staff receive a share of the Firm's profits. The share of profits received by the COO and those members of Code Staff who are responsible for sourcing, completing and managing transactions and making investment decisions is intended to be commensurate to their experience and their contribution to the Firm's activities, competitive by industry standards and retentive. None of the profit share is paid out of individual Funds nor is any element of it guaranteed.

After distributions to Code Staff, sufficient profits are retained in the Firm each year to ensure that it remains adequately resourced. Thereafter, any remaining profits are distributed to the owners of the Firm in line with their membership interests.

### **Aggregate quantitative information**

The Firm has only one business area, which is investment management business. For the year to 31 December 2019, the Firm had 8 Code Staff and paid £2.0m in profit share to Code Staff.