

## Introduction

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CdR Capital Ltd ("CdR") is required by the Financial Conduct Authority ("FCA") to disclose information relating to the capital it holds and each material category of risk it faces to assist users of its accounts 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 FCA framework consists of three "Pillars":

- **Pillar 1** sets out the minimum capital requirements that companies need to retain to meet their credit, market and operational risk;
- **Pillar 2** requires companies to assess whether their Pillar 1 capital is adequate to meet their risks and is subject to annual review by the FCA. To do this CdR is required to undertake an Internal Capital Adequacy Assessment (ICAAP);
- **Pillar 3** requires companies to develop a set of public disclosures which will allow market participants to assess key information about CdR's underlying risks, risk management controls and capital position. These disclosures are seen as complimentary to Pillar 1 and Pillar 2.

The AIFMD also adds further capital requirements based on the assets under managements of any AIFs (Alternative Investment Funds) and professional liability risks.

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. CdR believes that the disclosure of this document meets its obligation with respect to Pillar 3. The Pillar 3 disclosures will be issued on an annual basis after the year end and published as soon as practical once the audited annual accounts have been finalized.

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

## CdR Overview

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CdR 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. CdR is not a member of a group and so is not required to prepare consolidated reporting for prudential purposes.

The disclosures contained in this document relate to the business of CdR, whose principal activity is to provide discretionary investment management to professional clients and eligible counterparties. The risks to which CdR is exposed are principally business and operational in nature and are managed according to CdR's operational and compliance risk guidelines.

The Governing Body of CdR has the daily management and oversight responsibility. It generally meets quarterly and is currently comprised of Leila Kotlar-Bouget and Paul Feldman. The Governing Body is responsible for the business strategy and the entire process of risk management, as well as forming its own opinion on the effectiveness of the process. In addition, the Governing Body determines CdR's risk appetite/tolerance for risk and ensures that CdR has implemented an effective, ongoing process to identify risks, to measure their potential impact and then to ensure that such risks are actively managed and/or mitigated.

The Governing Body meets on a regular basis to discuss current projections for profitability and regulatory capital, business planning and risk management. Senior management is accountable to the Governing Body for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day business activities of CdR.

## **Risk Management**

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The Governing Body manages CdR's risks through a framework of policy and procedures having regard to 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. CdR 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 Governing Body.

The Governing Body has identified those business, operational, market and credit risks to which CdR is exposed. Annually the Governing Body formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness. Where it identifies material risks they will model the financial impact of these risks as part of our business planning and regulatory capital management process and conclude whether the amount of regulatory capital is adequate. Management accounts are reviewed on a regular basis in order to demonstrate continued adequacy of CdR's regulatory capital.

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. CdR does not intend to take any risks with its own capital and ensures that risk taken within the portfolios it manages is closely monitored. The results of the compliance monitoring performed is reported to the Governing Body by the Compliance Officer.

## **Credit Risk**

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

## **Market Risk**

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CdR is relatively small with a simple operational infrastructure. It carries no market risk, other than foreign exchange risk on its accounts receivable in foreign currency, and credit risk from the fees discussed previously. CdR follows the standardized approach to market risk and the simplified standard approach to credit risk.

## Operational Risk

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CdR 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. It is subject to the Fixed Overhead Requirement and is not required to calculate an operational risk capital charge.

CdR has identified a number of key operational risks. These relate to disruption of the office facilities, system failures, trade failures, failure of third party service providers and key man. Appropriate policies are in place to mitigate against these risks, including appropriate insurance policies and business continuity plans.

## Capital Resources and Requirements

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### Pillar 1

CdR is a CPMI firm and as such its capital requirements are the greater of:

- Funds under management requirement of €125,000 plus 0.02% of the AIF AUM exceeding €250,000,000; OR the sum of its market and credit risk requirements; or
- The Fixed Overhead Requirement ("FOR", 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.

It is CdR's experience that FOR establishes the major portion of its Pillar 1 capital requirement.

As at the end of June 2022, CdR's capital resources for regulatory purposes (based on unaudited June 2022 and following the 2021 audit) was GBP 1,372,000 CdR's Pillar 1 capital requirement was £795,000. As such it has an excess of capital versus its Pillar 1 requirement.

## Satisfaction of Capital Requirements

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### Pillar 2

CdR 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 modelling 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 CdR's Internal Capital Adequacy Assessment Process (ICAAP or Pillar 2) process has not identified that any capital needs to be held over and above the Pillar 1 requirement, the capital resources detailed above are considered adequate to continue to finance it. At this time no additional capital injections are considered necessary. This position will be continually monitored and discussed by the Governing Body during its regular meetings.

## Remuneration Disclosures

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CdR 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. CdR has 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 the clients.

The Governing Body is directly responsible for the overall remuneration policy and strategy which is reviewed annually. Variable remuneration is adjusted in line with capital and liquidity requirements as well as CdR's performance.

CdR ensures that its remuneration structure promotes effective risk management and balances the fixed and variable remuneration components for all Code and Non-Code staff. Total Remuneration is based on balancing both financial and non-financial indicators together with the performance of CdR and the staff member's business unit. CdR will monitor the fixed to variable compensation to ensure SYSC 19B is adhered to with respect to Total Compensation where applicable.

Enshrined in the European remuneration provisions is the principle of proportionality. The FCA has sought to apply proportionality in the first instance by categorising firms into three levels. CdR falls within the FCA's proportionality level three and as such this disclosure is made in line with the requirements for a level three firm. Given the size and nature of the business CdR considers that it does not need to maintain a separate Remuneration Committee. Remuneration of the senior officers in risk management and compliance functions is directly overseen by the Governing Body. The need for a separate Remuneration Committee will be reviewed in the event of a material change to CdR.

CdR currently sets the variable remuneration of its staff in a manner which takes into account individual performance and the overall results of CdR. As permitted for firms falling within proportionality level three, CdR takes into account the specific nature of its own activities (including the fee-based nature of its revenues) in conducting any ex-ante risk adjustments to awards of variable remuneration and, given the nature of its business, has disapplied the requirement under the Remuneration Code to make ex-post risk adjustments.

In accordance with SYSC 19B, CdR makes the following quantitative remuneration disclosure for code staff.

### **Code Staff Quantitative Remuneration**

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CdR is required to disclose aggregate information on remuneration in respect of its Code Staff, broken down by business area and by senior management and other Code Staff. Senior management and members of staff whose actions have a material impact on the risk profile of CdR are classified as Code Staff. The relatively small size and lack of complexity of its business is such that the CdR only has the one business area, investment management and client introductions and does not regard itself as operating, or needing to operate, separate 'business areas' and the following aggregate remuneration data should be read in that context. The aggregate remuneration of Code Staff for the year ending December 2021 was £1,995,000.