

## 1. Introduction

The European Capital Requirements Directive ("CRD") introduced capital adequacy standards and an associated supervisory framework in the EU based on the Basel II rules. It affects banks, building societies as well as certain investment firms. The Directive was introduced into the UK by the Financial Services Authority. The new framework consisted of three 'pillars'.

### Pillar 1

- The minimum capital required by a firm to meet credit, market and operational risk.

### Pillar 2

- A regular assessment of a firm's regulatory capital, through a process known as the Internal Capital Adequacy Assessment Process ("ICAAP"), which determines whether the amount of internal capital is sufficient to cover all the risks to which the firm is exposed or whether additional capital needs to be held against the risks not covered in Pillar 1.

### Pillar 3

- This introduces public disclosure of qualitative and quantitative information and is aimed to encourage market discipline by providing market participants access to key information on a firm's capital, risk exposures and risk management processes.

The rules in BIPRU 11 set out the Pillar 3 requirements. This document is designed to meet the Pillar 3 requirements. The rules permit Alvento Capital Partners LLP to omit any information that is considered immaterial, such that its omission would be unlikely to change or influence the decision of those relying on that information. In addition, Alvento Capital Partners LLP may omit required disclosures which it regards as propriety or confidential. Propriety information is that which may undermine Alvento Capital Partners LLP's competitive position if it is shared. Information is considered to be confidential where there are obligations binding Alvento Capital Partners LLP to confidentiality with its customers, suppliers and counterparties.

No omissions have been made on the grounds that it is immaterial, propriety or confidential.

## 2. Scope and application

Alvento Capital Partners LLP is authorised and regulated by the Financial Conduct Authority (the "FCA") and as such is subject to minimum capital requirements, based on its categorization as Collective Portfolio Management Investment Firm ("CPMI").

Alvento Capital Partners LLP serves or, in the future may serve, as the investment manager to various funds and other investment vehicles and accounts.

Alvento Capital Partners LLP does not form part of a consolidation group for prudential purposes. The LLP was authorised by the FCA on 1<sup>st</sup> June 2015.

## 3. Risk Management and the Risk Management Process

Alvento Capital Partners LLP is governed by an Executive Committee (the "Executive Committee"). The Executive Committee includes Alvento Capital Partners LLP Chief Investment Officer.

For various reasons, the Executive Committee considers that from a regulatory capital perspective, Alvento Capital Partners LLP is a relatively low risk organization. For example Alvento Capital Partners LLP does not directly take custody of any investor assets.

Due to the small size of Alvento Capital Partners LLP and its relatively low risk profile, the Executive Committee considers that Alvento Capital Partners LLP does not warrant the need for a separate risk management function within Alvento Capital Partners LLP. Risk management is undertaken by the Risk Committee with the assistance

of the CIO together with support from the operations team. In addition, Alvento Capital Partners LLP retains external professional services firms for expert advice and consultation, as and where considered appropriate. The Executive Committee of Alvento Capital Partners LLP, through formal and informal meetings, is actively involved in determining Alvento Capital Partners LLP business strategy and implementing process to mitigate risks. Alvento Capital Partners LLP risk profile is assessed, as part of the ICAAP process, at least annually and more frequently as and when the need arises, at the discretion of the Executive Committee.

The Executive Committee also determines how the risks Alvento Capital Partners LLP faces may be mitigated and assesses the arrangements to manage those risks on an ongoing basis. The Executive Committee meets both formally and informally to discuss current projections for profitability, cash flow, regulatory capital management, business planning and risk management. The Executive Committee manages Alvento Capital Partners LLP business and identifies risks through a framework of policy and procedures taking account of relevant laws, standards, principles and rules (including FCA principles and rules) with the aim of operating a defined and transparent risk management framework. These policies and procedures are updated as required. The Executive Committee has identified that credit, business and operational, and market risks are the main areas of risk to which Alvento Capital Partners LLP is exposed. The Executive Committee formally review the risks, controls and other risk mitigation arrangements and assesses their effectiveness. Where the Executive Committee identifies material risks, it considers the financial impact of these risks as part of Alvento Capital Partners LLP business planning and capital management and concludes whether the amount of regulatory capital is adequate.

#### **4. Credit Risk**

##### *Client Concentration*

Alvento Capital Partners LLP's clients may include funds and other investment vehicles and accounts. This may result in a high client concentration risk. Alvento Capital Partners LLP is financially dependent upon the Funds and separate accounts. Their continued support is enshrined in their management agreements.

#### **5. Business and Operational Risk**

Operational risk is defined by the FCA as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. The Management Committee has identified relevant risks and related mitigation and controls as part of its ICAAP review.

Alvento Capital Partners LLP has policies and procedures and ongoing operational and related compliance monitoring to help identify weaknesses and potential control failures which are required to be reported promptly when observed to the Executive Committee.

#### **6. Market Risk**

The Executive Committee believes that Alvento Capital Partners LLP's market risks, which include the potential effects of a long term downturn in financial markets and foreign currency exchange risk, would not have a direct material effect on Alvento Capital Partners LLP due to its funding relationship with the Funds.

#### **7. Regulatory Capital**

Alvento Capital Partners LLP capital position as at the year ended 31 March 2020 was as follows:

Capital Item	£'000
Tier 1 Capital	564
Total Tier 2 and Tier 3 Capital	405
Deductions	nil
Total Available Capital after Deductions	563

The LLP is a relatively small firm with a simple operational infrastructure. The LLP's market risk is mainly limited to foreign exchange risk on its foreign currency cash balances. In addition, the LLP is subject to credit risk on management and performance fees receivable from the Funds. The LLP follows the standardised approach to market risk and the simplified standard approach to credit risk. The LLP is subject to the Fixed Overhead Requirement and is not required to calculate operational risk capital though it considers this as part of its process to identify the level of risk based capital required

Alvento Capital Partners LLP is a Collective Portfolio Management Investment Firm ("CPMI"). for the purposes of the FCA's capital requirements rules and, as such, its minimum capital requirement is the greatest of:

- The base capital requirement of €125,000;
- The sum of its market and credit risk requirements; and
- The 13 Week Fixed Overheads Requirement ("FOR").

The Executive Committee considers that the available capital at 31 March 2016 more than adequately exceeds the minimum capital requirement of the FOR.

The LLP's capital requirements for regulatory purposes as at the year ended 31 March 2016 is summarised as follows:

Requirement Item	£'000
Base capital requirement	111
Sum of market and credit risk requirement	46
Fixed overhead requirement	405
Total Available Capital after Deductions	563

As at 31 March 2016 the LLP's regulatory requirement is £405 and the LLP's regulatory capital of £563 exceeds the minimum capital requirement by £158. As such, the LLP's regulatory capital exceeds its requirement by 39%.

### **Commitment to the UK Stewardship Code**

Under Rule 2.2.3R of the FCA's Conduct of Business Sourcebook, Alvento Capital Partners LLP ("Alvento") 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 Code is a voluntary code and sets out a number of principles relating to engagement by investors with UK equity issuers.

Alvento acts as the investment manager to one or more private investment funds and other accounts (collectively the "Alvento Clients"). Alvento's investment strategy is such that the Alvento Clients may hold long positions in equities, including UK equities. The Code is therefore relevant to some aspects of Alvento's trading on behalf of the Alvento Clients.

While Alvento generally supports the objectives that underlie the Code, it has chosen not to commit to the Code. Alvento's investment strategy involves the Alvento Clients holding positions in a variety of asset classes and in a variety of jurisdictions globally. Alvento's approach in relation to engagement with issuers (and members of their management teams) in all of the jurisdictions in which the Alvento Clients invest is determined on a case-by-case basis. Consequently, Alvento does not consider it appropriate to commit to any particular voluntary code of practice relating to any individual jurisdiction.