CAPITAL REQUIREMENTS DIRECTIVE
Pillar 3 Disclosure

1. Background

The Basel II Capital Accord has been implemented by the European Union through the Capital Requirements Directive ("CRD"). The CRD details the standard regulatory capital framework for the financial services industry within the EU. It was implemented in the UK through changes to the Financial Conduct Authority ("FCA") Handbook of Rules and Guidance, and specifically through the creation of the General Prudential Sourcebook ("GENPRU") and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"). It consists of three "pillars":

- **Pillar 1** specifies the minimum capital requirements of firms to cover credit, market and operational risk;
- **Pillar 2** requires firms and the FCA to assess the need to hold additional capital to cover risks not covered under Pillar 1; and
- **Pillar 3** requires a set of disclosures to be made which enable market participants to assess information on a firm's capital, risk exposures and risk management procedures. The Pillar 3 disclosures are required to be made under Chapter 11 of the FCA's *Prudential Sourcebook for Banks, Building Societies and Investment Firms* ("BIPRU") and are to be made public on an annual basis for the benefit of the market. It requires that a firm subject to the provisions of the Directive must disclose the relevant information required under this rule unless the information is believed to be immaterial, proprietary or confidential. It should be noted that the information within this document has not been audited by the Firm's external auditors.

2. Capital Requirement

DELFF Management Ltd, 'DELFF', as a BIPRU Limited Licence 50K firm maintains sufficient capital to meet its regulatory requirements. In line with these requirements, the Company maintains the higher of Pillar 1 and Pillar 2 (ICAAP) capital requirements. The adequacy of the capital held by DELFF Management is assessed, at least annually, as part of the Individual Capital Adequacy Assessment Process (ICAAP) and is subject to formal approval by the Board of Directors. The Company is authorised and regulated in the UK by the Financial Conduct Authority as an Investment Management Firm.

DELFF's **Pillar 1** capital resource has been determined as being its Fixed Overhead Requirement, which is the greater of:

- Base capital requirement of €50K; or
- Fixed Overhead Requirement; or
- The sum of credit and market risk capital requirements.

As of 31st December 2020, DELFF Pillar 1 minimum capital requirement amounted to £383k. The fixed overhead requirement exceeded both the base and the sum of the market risk and

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credit risk capital requirement and has been calculated in accordance with the FCA's *General Prudential Sourcebook* ("GENPRU").

Compliance with the rules in BIPRU and Pillar 2 Rule Requirements:

DELFF's overall approach to assessing the adequacy of our internal capital is set out in our Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP process involves separate consideration of risks to our capital combined with stress testing analysis to determine whether any additional capital is required for Pillar 2.

The Firm's ICAAP assesses the amount of capital required to mitigate the risks to which DELFF is exposed over a 12-month time horizon. The ICAAP considers the impacts of future business plans a well as potential adverse scenarios (such as market downturns or significant operational errors) on the capital resources of DELFF, so that regulatory capital requirements are always met. DELFF has calculated its capital requirement in accordance with the relevant FCA rules and the final level of capital is calculated as the Base Capital Requirement. On completion of the ICAAP process it was concluded that no additional Pillar 2 capital is required.

Capital Adequacy
Capital Resources: As at 31st December 2020 the Firm held regulatory capital resources of £280K. This comprised solely of core Tier 1 capital.

3. Key Risk

DELFF Management Ltd has implemented a risk management process in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising from the business. A risk management matrix has been produced to quantify risks within the business. Risk management is fundamental to help avoid losses and achieve fund performance and corporate profit. The following risks are assessed within the ICAAP and throughout the business:

Credit Risk: This is the current or prospective risk to earnings identified and capital arising from an obligor's failure to meet the terms of any contract. DELFF has minimal exposure to risk in this category. The credit risk exposure mainly relates to cash balances and money market deposits held with banks and financial institutions. This risk is mitigated using highly rated banks.

Market Risk: This is the current or prospective risk to earnings or value arising from adverse movements in investment instrument prices, including equities, commodities, foreign exchange and interest rates. This risk can arise from open positions in bonds, securities, currencies, commodities, or derivatives. DELFF does not trade on its own account.

Operational Risk: This is the risk, direct or indirect, of loss resulting from inadequate or failed internal processes, people, and systems or from external events. DELFF has identified a few key operational risks to manage. These relate to loss of key members of staff, systems failure, and failure to follow investment guidelines or restrictions, mispricing of a fund net asset value, failure in the IT infrastructure, inadequate business continuity planning and likelihood of failure or weakness in the systems and controls procedures for the prevention of market abuse. This also includes legal, compliance/regulatory risk and reputational risk. DELFF seeks to avoid

operational and IT risks: the Firm has set up a solid internal infrastructure and can manage these risks with the documented
processes, controls procedures and contingencies it has in place.

Business Risk: This is the risk from changes to a firm's internal and external environment and includes the risk that the firm may not be able to carry out its business plan and desired strategy.
The Firm has assessed that the key business risks relate to the failure to adopt an appropriate business strategy or failure to deliver it. Our Pillar 2 business risk assessment principally takes the form of a fall in assets under management following a market downturn that leads to lower management fees.

Concentration Risk: This is the risk arising from a lack of diversity in business activities i.e., the risks associated with large exposures from individual commercial relationships, reliance upon a single transaction/income type and exposure to a substantial client.

Interest Rate Risk: This is the risk of potential adverse movements in interest rates and the impact these have on planned future cash flows The Firm has no outstanding loans or debt. Interest income does not form a significant part of revenue or costs.

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FCA REMUNERATION DISCLOSURE

As a BIPRU limited licence firm, DELFF Management Limited (DELFF) is within scope of the FCA' Remuneration Code (the "Code"), which governs the application of remuneration policies and practices within the firm in order to promote sound and effective risk management. The Firm is classified as a Level 3 firm, which allows for a proportional approach to be taken in the application of the Code. In addition, DELFF is required to make certain remuneration disclosures under the Basel Pillar 3 framework, as encapsulated in BIPRU 11.

Whilst appreciating the contribution that can be made by a remuneration committee, DELFF considers that such a body would not be proportionate to the size and complexity of the business.

The role of setting remuneration policy (the "Policy") is undertaken instead by DELFF's governing body, with input and the monitoring of the application of the policy provided by the firm's Compliance Officer. The Policy is reviewed at least annually by the governing body, using all available information, for example risk metrics and financial performance reports.

Remuneration for Code Staff consists of either fixed ('salary') or a reimbursement of expenses for work completed on behalf of the firm. There are no bonus schemes and no other variable components. Salary is set in line with market rates in order to retain and if necessary attract appropriately skilled staff.

The governing body reserve the right to introduce bonus or other variable rate schemes but in doing so they would be performance related, taking into consideration both success in meeting individual targets, and the overall results of the firm, especially the accrual of success-related fee income. Individual targets would not relate solely to financial criteria, but would also look at skills acquisition, compliance with regulatory obligations, and adherence to effective risk management over both the short and long term time horizon.

Such bonuses would normally be paid in the year that they are declared as the total salary and the variable element would be unlikely to breach the criteria where deferral for later payment is required. Such payments would not be considered unless the firm was either in profit or had made a profit in the financial period and would be consistent with the underlying principles of the Remuneration code as implemented in the Firm's policy.

DELFF's business falls within one business area: the provision of marketing, advisory and administration services to specific investment management firms. Aggregate remuneration data is provided on a firm-wide basis. For the financial year ended 31 December 2019, aggregate remuneration awarded to senior management within the single marketing and administration services business area was all of a fixed nature, was minimal and certainly less than £1 million.