Arjun Infrastructure Partners Ltd

Pillar 3 Disclosure

Date: 2 September 2020

Introduction

Regulatory Context

The EU Capital Requirements Directive (“CRD”) sets out the regulatory capital framework which is overseen in the UK by the Financial Conduct Authority (”FCA”) through the General Prudential Sourcebook (“GENPRU”) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”). The FCA regulated firms which are regulated under Alternative Investment Fund Managers Directive (“AIFMD”) will also have to comply with the additional AIFMD capital requirements.

The FCA framework consists of three 'Pillars':

Pillar 1: Minimum capital requirements
Pillar 2: Supervisory review process: the need to assess whether the capital held under Pillar 1 is sufficient to meet the additional risks not covered by Pillar 1
Pillar 3: Disclosure requirements allowing market participants to assess information on a firm’s risks, capital and risk management procedures

The Financial Conduct Authority, in BIPRU 11, outlines the minimum disclosure requirements. The information below satisfies Arjun Infrastructure Partners Ltd. (“the Firm”) Pillar 3 requirement.

Frequency

The Firm will report their Pillar 3 disclosure annually or upon material change. These disclosures are based on the Firm's financial position as at the 31st December 2019. The Pillar 2 (ICAAP) capital requirements are excluded from this summary but are reviewed annually or upon material change.

Media and Location

This disclosure is available at our website https://www.aip-am.co.uk/.

Verification of Disclosures

The information contained in this document has not been audited by the Firm’s external auditors and does not constitute any form of financial statement and must not be relied upon in making any judgment on the Firm. These disclosures have been validated by the Directors.

Confidentiality

The Firm is mindful of the FCA's comments regarding confidentiality and of the comment that both qualitative and quantitative data must be disclosed. As such, the Firm's policy is to disclose that information required under the FCA Rules but to treat further information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm's investments therein less valuable. Further, the Firm will regard information as confidential if there are obligations to clients or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

2. Corporate Background

Background

The Firm is incorporated in the UK and is authorised and regulated by the FCA as a wholesale investment management firm. The Firm's activities place it in CPMI and BIPRU prudential categories.

The following entities are covered by the ICAAP:

- Arjun Infrastructure Partners Limited

This disclosure is made on an individual basis.

3. Disclosures

Capital Resources

The capital requirement of an CPMI/BIPRU firm is the higher of:

1) €125,000 Base Capital Requirement
2) Credit Risk plus Market Risk requirements
3) Fixed Overhead Requirement
4) AIFMD Funds Under Management Requirement
5) The Firm's own Pillar 2 calculation

The Firm's Fixed Overhead Requirement is the highest of these. This is one quarter of the Firm's relevant fixed expenditure, which gives the Firm a capital requirement of £657,000.

For the financial year ending December 2019, the Firm complied fully with all the capital requirements. By end of this financial year, the Firm held the following capital position:

Base capital resources requirement: £106,000

Credit risk + market risk requirements: £357,000

Fixed overhead requirement: £657,000

Actual capital requirement (FOR): £657,000

Tier 1 Capital: £7,683,000

Surplus: 7,026,000

Risk Management

The directors of the Firm, in addition to the risk mapping structure of the ICAAP, are very much involved with the day-today running of the Firm including the continual assessment of risk. They meet on a regular basis to discuss current projections for profitability, regulatory capital management, business planning and risk management. The directors manage the Firm'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.

Risk Management Objective

Our general risk management objective is to develop systems and controls to mitigate risk to a level that does not require the allocation of Pillar 2 capital.

Risk Framework

Risk within the Firm is managed by use of the following:

- The Firm’s risk management policy
- A compliance monitoring programme and ICAAP;
- Risks are considered as part of the Risk Management and Compliance Committee meetings, which are generally held quarterly.

Governance Framework

The Board has delegated day-to-day oversight to the Management Committee and Risk Management and Compliance Committee.

Credit Risk & Counterparty Risk

Credit risk is the risk regarding the counterparty where the Firm place its funds.

The Firm’s Bank has a Moody’s Long Term credit rating of Aa2 (S) and as such is deemed as a rare probability risk of failure, and a low impact as the funds would be segregated and the funds would be able to be easily moved to a different counterparty. As such this risk has not been quantified in the ICAAP.

The Firm’s clients are generally highly rated pension funds and other institutional investors. Fee income can also be deducted from distribution income to investors. As such this risk has not been quantified in the ICAAP.

Market risk

Market Risk is defined as the exposure to the Firm to adverse movements caused by market variables such as interest rates, prices, etc. Due to the nature of the business that the Firm undertakes and the fact that it holds no propriety positions itself, the Firm has no direct exposure to market movements. The risk table analysis considers this risk under the heading Market risk. The Firm has assigned a rare probability and a low impact to this risk. No additional Pillar 2 funding is therefore required.

Liquidity risk

Liquidity risk is defined as the Firm, although solvent, being unable to meet the Firm’s financial requirements as they fall due. Cash flow risk is mitigated by the strength of the Balance Sheet, and the way how the client agreements have been drafted to ensure that the Firm will receive a payment even if a client agreement is terminated.

The Firm has been consistently profit making and has a large amount of authorised capital reserves. Based on the Firm’s capital adequacy FCA return for the reporting period ending 31 December 2019, the excess of capital adequacy equated to £7,026,000.

The Firm also has a liquidity plan, which confirms that if the Firm were to encounter any short-term liquidity issues, the owners, who are also the shareholders, would inject capital into the Firm. The Firm has assigned a rare probability and low impact to this risk and decided that no additional Pillar 2 funding is therefore required.

Interest rate risk

This is the risk associated with their exposures to changes in interest rates. Interest rate changes have an absolute minimal impact on the Firm's activities and would have no real impact even if rates were to move up by 5% or down into negative territory, therefore no additional capital is required under the Pillar 2 rule.

Foreign Exchange Risk

Foreign Exchange Risk is defined as the loss arising from fluctuations in foreign exchange rates.

The Firm does not operate any foreign currency bank accounts. This is covered in the Firm's risk table as part of the liquidity risk due to the risk of a lack of liquidity if income and exposure were in two different currencies.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal, tax and financial crime risks, but excludes reputational, business and strategic risk. The risk table analysis considers these issues under the headings: Conflicts of Interest, Litigation/Legal Risk for client, Strategic Risk, People Risk, Business Continuity and Disaster Recovery, Operational Risk and IT Systems. As these all fall in the risk table of Non – Impactful, no additional capital is deemed required under the Pillar 2 rule.

Concentration Risk

Concentration risk is associated with the Firm's exposure to sectoral, geographic, liability and asset concentrations. The Firm has a broad and expanding client base which helps mitigate concentration risk. Close attention is paid to larger clients with regular formal and informal communication to ensure issues are identified and addressed promptly. Arjun is expanding its investment reach to mitigate market concentration risk. A loss of one of these client relationships would impact the Firm only as lower profits so no additional capital is deemed required under the Pillar 2 rule.

Residual Risk

This risk is the exposure to risks that may result in partial performance or failure of credit risk mitigation techniques for reasons that are unconnected with their intrinsic value. This risk is not applicable to the Firm.

Securitization Risk

This risk does not apply to the Firm as it does not securitize its assets.

Business Risk and Strategic Risk

This is the risk associated with the fluctuating business cycles and economic conditions over a period of time and, if these business or economic conditions deteriorate over time, the ability of the Firm to carry out its business plan and strategy or raise new capital in unfavourable conditions. The Firm has a large amount of surplus working capital and is profitable, as such the chance of needing to raise further funds is considered unlikely in the foreseeable future, therefore no additional capital is required under the Pillar 2 rule.

Risk of excessive leverage

The Firm has no leverage, and this risk does not apply to the Firm.

Insurance Risk

The risk of a loss to the Firm due to insurance underwriting activities. As the Firm has no such obligations, this risk does not apply to the Firm.

Pension Obligation Risk

This is the risk to the Firm caused by its contractual obligations with respect to a pension scheme. The Firm only operates a defined contribution pension scheme and does not bear the risk of future pension obligations inherent in a defined benefit scheme. Consequently, this is not considered to be a significant risk and therefore no additional capital is deemed to be required under the Pillar 2 rule.

Remuneration Code Disclosure

BIPRU 11.5.18R requires that the Firm makes a disclosure of details regarding its remuneration policy.

Given the relatively small size of the Firm, remuneration policy for all staff is set by the board. The Management Committee review remuneration for staff based upon individual, both financial and non-financial criteria, and overall firm performance. Individual performance is also reviewed over an extended period to ensure the long-term objectives of the staff and the Firm is not in conflict. The overall level of remuneration is set in the form of a base salary and a bonus. The resources available for bonuses are directly linked to the performance of the Firm.

Aggregate information

The Firm is authorized and regulated by the Financial Conduct Authority as an CPMI firm and so, it is subject to FCA Rules on remuneration. These are contained in the FCA's Remuneration Code located in the SYSC Sourcebook of the FCA’s Handbook. The FCA defines Remuneration Code

Staff ("Code Staff") in SYSC 19B as senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the specified remuneration brackets whose professional activities have a material impact on the firm's risk profile.

Our disclosure is made in accordance with our size, internal organization and the nature, scope and complexity of our activities. Therefore, we are not required to appoint an independent remuneration committee. The Firm's policy has been agreed by the Senior Management in line with the Remuneration Code principles laid down by the FCA.

Our policy covers all senior management functions (SMFs), compliance officer and MLRO. It is reviewed annually or following a significant change to the business requiring an update to its internal capital adequacy assessment and designed to ensure that we comply with the Remuneration Code and our compensation arrangements:

1. are consistent with and promotes sound and effective risk management;
2. do not encourage excessive risk taking;
3. include measures to avoid conflicts of interest; and
4. are in line with the Firm's business strategy, objectives, values and long-term interests.

Individuals are rewarded based on their contribution to the overall strategy of the business. Investment generation, investment trading, sales & marketing, operations and other factors such as performance, reliability, effectiveness of controls, business development and contribution to the business are taken into account when assessing the performance of the senior staff responsible for the infrastructure of the Firm. Remuneration is made up of salary and discretionary bonuses. The factors to be used in setting bonuses are at the absolute discretion of the Firm depending on firms and individuals' performances. The Firm has chosen not to disclose exact remuneration figures.

The Firm is a proportionality Level 3 firm for the purposes of the FCA's General Guidance on proportionality in relation to its Remuneration Code. Proportionality level three firms are permitted to dis-apply certain principles contained within the FCA's Remuneration Code relating to deferral, form of delivery and performance adjustment. As a result:

- The Firm does not operate a deferral policy
- All variable remuneration is delivered in cash
- Performance adjustment is not applied.