

Montagu Private Equity LLP

Pillar 3 Disclosures

Background

Montagu Private Equity LLP (“Montagu”, “the Firm”) is authorised and regulated by the Financial Conduct Authority (the “FCA”) as a full-scope UK Alternative Investment Fund Manager and is categorised by the FCA for Prudential Regulatory purposes both as a Collective Portfolio Management Investment firm (“CPMI firm”) and a BIPRU firm. Under the BIPRU rules the Firm reports on a solo basis. The Firm’s Pillar 3 disclosures fulfil the Firm’s obligation to disclose to market participants’ key pieces of information on the Firm’s risk management controls, capital position and certain remuneration arrangements.

The Firm is committed to publish the Pillar 3 disclosures on an annual basis.

This document covers the period between 1 January and 31 December 2020.

Basis of Disclosures

These disclosures have been prepared in accordance with the Capital Requirements Directive (“CRD”) and Capital Requirements Regulation (“CRR”).

Given its type of business and regulatory permissions, the Firm is classified as a BIPRU€50k Limited Licence Firm. The capital adequacy framework for BIPRU€50k Limited Licence Firms is set out in the BIPRU Sourcebook of the Financial Conduct Authority Handbook.

The framework consists of the following pillars of regulation:

- Pillar 1: sets out the minimum regulatory capital for credit risk, market risk and operational risk;
- Pillar 2: requires firms to identify and assess the risks that are not covered in Pillar 1 to determine whether higher levels of capital than the minimum requirement should be held; and
- Pillar 3: sets out the disclosure requirements relating to the firms’ capital resources, risk management controls and remuneration arrangements.

Risk Management

The Firm’s Board determines its business strategy and the level of risk acceptable to the Firm. The Firm has additionally implemented a risk management framework that recognises the risks that the business faces and how those risks may be monitored, mitigated and assessed on an ongoing basis. The Firm has in place controls and procedures necessary to manage those risks.

Regulatory Capital

The Firm is a limited liability partnership and its capital arrangements are established in its LLP agreement.

Capital Resources

The Firm's Tier 1 capital resources represent its primary source of funding and as the Firm does not currently have Tier 2 or Tier 3 capital, the Tier 1 capital forms the Firm's regulatory capital.

	to the nearest £'000
Tier 1 Capital	14,036
Deductions	0
Tier 2 Capital	0
Tier 3 Capital	0
Regulatory Capital	14,036

Capital Requirements

- Pillar 1 – Minimum Capital Requirement

As of 31 December 2020, the Firm's minimum capital requirement was £8,406,979. It was determined by its Fixed Overhead Requirement which was the higher than the sum of its credit risk and market risk requirements, as well as the capital required to be held as a result of the ICAAP and winddown analysis.

- Pillar 2 Assessment

As part of the ICAAP, the Firm has conducted an internal assessment of the risks and the additional capital necessary to cover those risks. The Firm has identified the main risks it faces as follows:

Business Risk – This risk covers a range of scenarios including investor defaults and poor investment decisions that result in reduced fee income for the Firm. Through its governance and risk management framework, the Firm believes these risks can be managed via management expertise and decision making, solid investor relationships and a strong and well-diversified investor base.

Economic Risk – This risk represents the impact that a severe economic downturn may have on the Firm's fee income.

Operational Risk – This risk covers a range of operational exposures including the risk of the loss of key personnel and several potential legal and regulatory risks. The Firm's risk management framework aims to identify and mitigate the potential risks that are inherent in its business and establish policies and procedures designed to manage and mitigate them. A key element of this risk management protocol is to ensure that all staff are aware of their individual responsibilities in this respect.

Credit Risk – The Firm is not exposed to significant credit risk as it neither holds client money nor provides credit facilities to clients. The Firm's main exposure to credit risk is

the exposure to banks where cash is deposited. The Firm holds all its cash balances with banks assigned high credit ratings.

Market Risk – The Firm does not hold any trading book, commodity, or foreign currency positions. Its market risk is limited to foreign exchange risk on its accounts receivable in foreign currency. The Firm therefore considers its exposure to market risk to be minimal.

The ICAAP confirmed that the Firm had adequate capital to cover the risks identified.

- Capital Resources Requirement

As determined by the ICAAP, the Firm's capital resources requirement as of 31 December 2020 was **£8,406,979** being the higher of the Pillar 1 minimum capital requirement, Pillar 2 assessment and the winddown requirement.

- AIFMD Capital Requirements

The firm is a full-scope UK Alternative Investment Fund Manager ("AIFM").

As an AIFM, the Firm is required to maintain initial capital of €125,000. The firm is also required to maintain own funds equal to the higher of:

- a) One quarter of a fixed annual overheads plus the Professional Indemnity Insurance (PII) capital requirement; or
- b) Funds under management requirement – this is the base capital requirement plus 0.02% of the amount by which the total value of funds under management exceeds €250million (subject to a cap of €10million).

It was determined that the higher of these two figures was **£8,664,979** being the sum representing one quarter of the firm's fixed annual overheads plus the PII capital requirement.

The firm's overall regulatory capital requirement is therefore **£8,664,979** being the higher of the two capital requirement assessments that the firm is subject to under BIPRU and AIFMD.

Remuneration

Background

For remuneration purposes the Firm is currently subject to the FCA's AIFM Remuneration Code as contained in SYSC19B of the FCA Handbook in relation to the AIFs that it manages. SYSC 19C 1.1A provides that a CPMI firm that is also a full-scope UK AIFM only needs to demonstrate compliance with the AIFMD Remuneration Code (SYSC 19B).

Remuneration Policy

In line with the requirements of AIFMD, the LLP has a remuneration policy which incorporates the relevant principles governing how the company remunerates its members of staff. This policy is reviewed on at least an annual basis.

Remuneration Committee

The LLP has a Remuneration Committee (C Masterson (Chairman), J Gatenby (CEO), D Fischer, E Shuckburgh, G Hislop, C Clifford, G Jabalot, P Ambrosi, M Dunfoy and W Stokhuyzen) that is responsible for discussing and approving all recommendations of remuneration for the LLP group employees and profit allocations to members, as well as ratifying promotions.

Link between pay and performance

As permitted by the General Guidance on the AIFM Remuneration Code, the Firm has decided to disapply the Pay-out process rules on the grounds of proportionality.

The Firm's remuneration arrangements have been designed in a manner that (i) are consistent with and promote sound and effective risk management, (ii) do not encourage risk-taking that is inconsistent with the risk profile of the funds that it manages, and (iii) do not impair compliance with the company's duty to act in the best interest of the investors in the funds.

The Firm's Remuneration Policy links an individual's rewards to the success of the Firm's success as a whole. 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 linked to the overall performance of the Firm, the focus is on consistent investment performance over the long term to ensure sustainability of revenue.

Members are entitled to profit allocations which are determined with reference to the firm's performance that year. The share of profits received by members 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.

Employees participate in an annual performance related, discretionary bonus scheme. The purpose of the scheme is to reward employees for their contribution to the business during the year. The level of bonus payments is determined by the profits of the Firm and the personal performance of the individuals concerned. Where profits are reduced, so is the amount available for annual discretionary bonuses.

Identified Staff

In line with its interpretation of the provisions of the AIFMD and subject to any future change in accordance with applicable laws, regulation and/or guidance, the firm identifies individuals whose professional activities have a material impact on the risk profiles of the company and the funds that it manages ("Identified Staff"), including:

- Directors;
- Senior management;
- Heads of control functions;
- Other risk takers such as: all staff members whose professional activities – either individually or collectively, as members of a group – can have a material influence on the risk profiles of the AIFM or of a fund that it manages;
- Heads of portfolio management, human resources, marketing and administration.

For this period the firm had 35 Identified Staff. Identified Staff consist of both employees and members of the firm.

The table below shows total remuneration for the year ended 31st December 2020 for all Identified Staff divided into two categories, senior management and other staff. The total remuneration figures include all fixed and variable elements of remuneration and profit shares where applicable.

Identified Staff	Total Compensation (to the nearest £'000)
Senior Management	17,930
Other	1,589