FCA Pillar 3 disclosures

for the year ended 31 March 2021

The Capital Requirements Directive ('CRD') and the Alternative Investment Fund Managers Directive ('AIFMD') of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain. In the United Kingdom, the CRD and the AIFMD have been implemented by the Financial Conduct Authority ('FCA') in its regulations through the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU') and the Interim Prudential Sourcebook for Investment Business ('IPRU(INV)').

The FCA framework consists of three 'Pillars':

- Pillar 1 sets out the minimum capital amount that meets the firm's credit, market and operational risk;

- Pillar 2 requires the firm to assess whether its capital reserves, processes, strategies and systems are adequate to meet Pillar 1 requirements and further determine whether it should apply additional capital, processes, strategies or systems to cover any other risks that it may be exposed to; and

- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position.

The AIFMD adds further capital requirements as stipulated by the Alternative Investment Fund Managers Directive.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This section is designed to meet the Pillar 3 obligations of Goodhart Partners LLP ("the LLP").

The Pillar 3 disclosure document has been prepared by the LLP in accordance with the requirements of BIPRU 11 and is verified by the board. Unless otherwise stated, all figures are as at 31 March 2021 financial year-end.

The LLP is permitted to omit required disclosures if it believes that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information.

In addition, the LLP may omit required disclosures where it believes that the information is regarded as proprietary or confidential. In the LLP's view, proprietary information is that which, if it were shared, would undermine its competitive position. Information is considered to be confidential where there are obligations binding the LLP to confidentiality with its customers, suppliers and counterparties.

The LLP has made no omissions on the grounds that it is immaterial, proprietary or confidential.

Scope and application of the requirements

The LLP is authorised and regulated by the Financial Conduct Authority and as such is subject to minimum regulatory capital requirements. The LLP is categorised as a Collective Portfolio Management Investment Firm ('CPMI') by the FCA for capital purposes. It is an investment management firm and as such has no trading book exposures.

Risk management

The LLP is governed by its members ("Principals") who in conjunction with the Board are responsible for determining the business strategy and its risk appetite. They are also responsible for establishing and maintaining the LLP's governance arrangements along with designing and implementing a risk management framework that recognises the risks that the business faces.

The Principals and the members of the Board also determine how the risks the business faces may be mitigated and assess on an ongoing basis the arrangements to manage those risks. They meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, and business planning and risk management. The Board manage the LLP's business risks though 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.

The Board have identified that business, operational, market and credit risks are the main areas of risk to which the LLP is exposed. Annually, the Board formally review the risks, controls and other risk mitigation arrangements and assess their effectiveness. Where they identify material risks they consider the financial impact of these risks as part of the business planning and capital management and conclude whether the amount of regulatory capital is adequate.

Professional liability risk

The LLP has a legal responsibility for risks in relation to investors, products & business practices including, but not limited to; loss of documents evidencing title of assets of the LLP; misrepresentations and misleading statements made to the LLP or its investors; acts, errors or omissions; failure by the senior management to establish, implement and maintain appropriate procedures to prevent dishonest, fraudulent or malicious acts; improper valuation of assets and calculation of unit/share prices; and risks in relation to business disruption, system failures, process management.

The LLP is aware of, and monitors, a wide range of risks within its business operations and towards its investors. The LLP also has in place a 'Professional Indemnity Insurance' policy that meets the requirements of AIFMD.

Regulatory capital

The LLP is a Limited Liability Partnership and its capital arrangements are established in its Partnership deed. Its capital is summarised as follows:

Capital	£'000
Members' capital	**2,803**
Members' other interest – other reserves classified as equity	**(1,119)**
Retained earnings	**0**
Net assets attributable to members	**1,684**

The main features of the LLP's capital resources for regulatory purposes are as follows:

Capital item	£'000
Tier 1 capital less innovative tier 1 capital	**1,684**
Total tier 2 innovative tier 1 and tier 3 capital	**—**
Deductions from tier 1 and tier 2 capital	**(924)**
Total capital resources net of deductions	**760**

The LLP is small with a simple operational infrastructure. Its market risk is limited to foreign exchange risk on its accounts receivable in foreign currency, and credit risk from fees receivable. The LLP follows the standardised approach to market risk and credit risk. The LLP is subject to the Fixed Overhead Requirement and is not required to calculate an operational risk capital charge though it considers this as part of its process to identify the level of risk based capital required.

The LLP is a CPMI firm and as such its capital requirements are the higher of:

- The capital requirements under AIFMD which are as follows:
  - Higher of:
    - €125,000 plus 0.02% of Assets under management above €250mn; and
    - The fixed overheads requirement ('FOR') which is essentially 25% of the Firm's operating expenses less certain variable costs.

  AND

- The capital requirements under MiFID which are as follows:
  - Higher of:
    - Its base capital requirement of €50,000; or
    - Variable capital requirement of the higher of:
      - The sum of its market and credit risk requirements; or
      - Its Fixed Overhead Requirement.

As at 31 March 2021, the LLP's assets under management under AIFMD were €417mn and the capital requirement after deducting the minimum threshold of €250mn is £208k which exceeds the fixed overheads requirement of £228k.

The variable capital requirement under MiFID was £123k representing the credit and market risk capital requirement.

Remuneration disclosure

Governance

The purpose of the Remuneration Code is to ensure firms establish, implement and maintain remuneration policies, procedures and practices that are consistent with, and promote, sound and effective risk management.

The Remuneration Code applies to 'Remuneration Code Staff' ('Code Staff'). This includes senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on the LLP's risk profile.

The LLP has considered the contribution that can be made by a remuneration committee. In order to take a proportionate approach given the size and non-complex nature of both the activities undertaken and the organisation, The LLP has decided that the Board will undertake the role which would otherwise be undertaken by a remuneration committee. This is in line with guidance provided by the FCA for tier 4 firms under the Remuneration Code. The Board will be responsible for setting the LLP's policy on remuneration.

The LLP's Remuneration Policy will be reviewed, at least, annually by the Board to ensure that it remains consistent with the Remuneration Code Principles and the LLP's objectives. The Board will use all information available to it in order to carry out its responsibilities under the Code, for example, information on risk and financial performance. In addition, the Compliance Officer, as part of the LLP's regulatory monitoring, will include a review of the implementation of this Policy by the LLP.

Link between pay and performance

Remuneration at the LLP is made up of fixed ('salary') and variable ('bonus') components for employees. Members receive a share of the profits of the partnership which is the profit generated by the business as a whole, the percentage allocated to each member is based upon his/her percentage share in the Partnership, and is paid from profits after ensuring FCA capital and liquidity requirements and the working capital needs of the LLP have been considered thereby ensuring the LLP is financially viable going forward.

Salary is set in line with the market at a level to retain, and when necessary attract, skilled staff.

Any bonus paid is designed to both reflect the performance of a person in contributing to the success of the LLP and their success in meeting, or exceeding, targets that have been set by the LLP on an individual basis.

Where remuneration is performance-related then in addition to the performance of the individual the LLP will also take into account the performance of the business unit concerned and the overall results of the LLP. Performance assessment will not relate solely to financial criteria but will also include compliance with regulatory obligations and adherence to effective risk management. In keeping with the LLP's long term objectives, the assessment of performance will take into account longer-term performance and payment of any such performance related bonuses may need to be spread over more than one year to take account of the LLP's business cycle.

The measurement of financial performance will be based principally on profits and not on revenue or turnover.

Awards will reflect the financial performance of the LLP and as such variable remuneration may be contracted where subdued or negative financial performance occurs. The LLP will not ordinarily make any variable remuneration awards should the LLP make a loss. In exceptional circumstances such payments may need to be considered. In such cases the governing body, in conjunction with the Compliance Officer, will consider and document whether such an award would be in keeping with the Remuneration policy.

Quantitative remuneration information

The LLP 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. The relatively small size and lack of complexity of the LLP's business is such that the LLP only has the one business area, investment management, 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.

Aggregate remuneration includes fixed and variable elements of remuneration to the extent available for allocation, but excludes profit shares allocated to members, in excess of any Basic Profit Share, in respect of their interests as owners of the business.

The below table discloses a breakdown of remuneration for remuneration code staff as defined in SYSC 19B, AIFM Remuneration Code, of the FCA handbook. Given the nature and scale of our business, individual Code Staff are not split out into separate business areas and we operate instead as a single business unit.

The LLP was authorised as an AIFM on 29 September 2014. The quantitative disclosures required under Article 22 of AIFMD in accordance with the European Securities and Markets Authority ("ESMA") guidance for the year ended 31 March 2021 are as follows:

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for the year ended 31 March 2021

Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the LLP			
	Senior Management £	**Other members of staff £**	**Totals £**
Fixed remuneration	£389,204	£211,400	£600,040
Variable remuneration	£7,867	£129,309	£137,176
Number of staff	2	2	4

For the year ending 31 March 2021, benefits in kind included in variable remuneration amounted to £9,309. During the year there were no sign-on or severance payments made to employees.

This remuneration disclosure is made under the Basel Pillar 3 framework and as required under the FCA Rules (BIPRU 11.5.18).