Marwyn Investment Management LLP ("MIM", "Marwyn" and the "Firm")

1. Overview

The EU Capital Requirements Directive IV ("CRD IV") and the Capital Requirements Regulation ("CRR") created an updated regulatory framework for Europe based on the provisions of the Basel III Capital Accord. Article 95(2) of the CRR permits national competent authorities to apply certain requirements of the Banking Consolidation Directive (Directive 2006/48/EC) and the Capital Adequacy Directive (Directive 2006/49/EC) to firms that are outside the scope of the CRD. In the United Kingdom, these requirements have been implemented by the Financial Conduct Authority ("FCA") in its regulations through the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"). The framework is structured around three "pillars":

Pillar 1 Minimum Capital Requirements

This sets out the minimum capital requirements that firms are required to meet for both credit and market risks, and the fixed overheads requirement.

Pillar 2 Risk assessment and further capital requirement review

This requires the firm to review the risks that apply to it and take a view on whether additional capital should be held against these risks, over and above the Pillar 1 capital requirement; and to act accordingly as part of the Internal Capital Adequacy Assessment Process ("ICAAP").

Pillar 3 Disclosure of approach to risk assessment, measurement, control and reporting

This aims to facilitate market discipline by developing a set of disclosure requirements which will allow market participants to assess key information on risk exposure and the risk assessment process.

The purpose of this document is to provide the Pillar 3 disclosures required in BIPRU Chapter 11 (the "Rules") for MIM, a BIPRU €50,000 limited licence firm regulated by the FCA.

1.1 Omission of immaterial, proprietary or confidential information

The FCA Rules permit the omission of one or more of the required disclosures if such information is considered immaterial, proprietary or confidential. Materiality is based on the criterion that where the omission or misstatement of information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions, then that information is deemed to be material. Proprietary information is that which, if it were shared, would undermine Marwyn's competitive position. Information is considered to be confidential where there are obligations binding Marwyn to confidentiality with investors in the Marwyn Funds, its client Marwyn Asset Management Limited and counterparties with whom MIM has a relationship. No information has been omitted from these disclosures on the grounds that it is immaterial, proprietary or confidential.

1.2 Verification

These disclosures have been prepared in order to comply with regulatory requirements to provide information on the Firm's risk management objectives and policies, its capital position, its approach to assessing the adequacy of its capital and its exposure to credit, market, business and liquidity risk. They are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion in the Firm's annual report. They should not be relied on in making investment decisions in relation to the firm or the Marwyn Funds.

1.3 Location & frequency of publication

These disclosures will be issued on an annual basis and published on Marwyn's website, shortly after completion of the annual audit and reported as at the accounting reference date, which is 30 November.

2. Risk Management Framework

The Management Committee (which comprises the Marwyn Partners) (the "Committee") has ultimate responsibility for risk management. The Committee reviews Marwyn's risk assessment, which identifies the risks that affect Marwyn, on at least a quarterly basis. The Committee has identified that business risk, operational risk, credit risk, market risk and liquidity risk are the main risks to which the Firm is exposed. The Committee oversees the policies and procedures put in place to control and mitigate these risks and receives reporting on the ongoing monitoring of these at each quarterly meeting. A further review is also performed, and reported on annually, through the detailed consideration of the ICAAP.

2.1 Business risk

Marwyn considers risks arising from the nature of its business, such as the risk of fund income falling due to poor investment decisions, reduction in funds under management and reputational damage.

A failure to properly manage business risks could impact on Marwyn's regulatory capital (e.g. through a loss of fee income). Business risks are managed and controlled by the Committee, through the use of experienced and highly skilled people and the day to day involvement of the Partners, the wider deal teams involved in providing corporate finance advice to the Marwyn Fund portfolio companies and an experienced and well qualified finance team. If and where required, such teams are supported by external advisors.

2.2 Operational risk

Operational risk is the risk of potential loss arising to Marwyn from fraud, human error, inadequate controls or failure in internal processes and systems, or from external events.

Failure to follow internal processes and procedures could have a significant effect on the risk exposure of Marwyn. This is mitigated by the Firm having in place a clear and concise compliance, operating procedures manual on which regular training is provided. The Firm also operates a risk focused compliance monitoring plan which tests the operation of internal controls and procedures with the findings being reported to the Committee.

2.3 Credit risk

Credit risk is the risk arising from the possibility that Marwyn will incur financial loss from the failure of its customers or counterparties to meet their obligations as and when they fall due.

Marwyn's credit risk arises from bank deposits and receivables (of which the significant trade receivable is investment advisory fees receivable from Marwyn Asset Management ("MAML") as manager of the Marwyn Funds).

In relation to bank deposits, Marwyn only deposits money with reputable counterparties with substantive EEA operations.

MAML as manager receives its management fee from the Marwyn Funds. The cash flow position of the Funds is under regular review by MIM LLP and the risk of the Funds not being able to meet their obligation to pay management fees to MAML is considered low. MAML is itself a regulated business, regulated by the Jersey Financial Services Commission, and therefore itself has strict capital adequacy ratios to maintain. The risk of MAML not being in a position to pay MIM its advisory fee out of management fees received by MAML is also considered low.

As at 30 November 2018, Marwyn's credit exposure was mainly against banks and receivables and its credit risk requirement as at 30 November 2018 was £69.4k.

2.4 Market risk

Market risk is the risk of potential reduction in income resulting from a decrease in the value of the Marwyn Funds NAV which would have a corresponding impact on the management fees earned by MAML and therefore the advisory fee payable from MAML to MIM LLP. As the majority of the investments held by the Marwyn Funds are in listed securities, fluctuations in their quoted prices will have an effect on the NAV of the Marwyn Funds. Significant negative movement in the value of the Marwyn Funds' portfolio companies will have a negative effect on the management fees and hence advisory fee earned by MIM LLP.

MIM LLP as investment advisor actively monitors the portfolio companies and recommends to MAML as manager appropriate actions based on the strategy of the Marwyn Funds. The risk of market volatility in the short term is accepted, with the Marwyn Funds investing on a longer term basis alongside the portfolio company management teams.

2.5 Liquidity risk

Liquidity risk is the risk that Marwyn does not have sufficient financial resources to meet its obligations as and when they fall due, or would have to do so at excessive costs. Liquidity risk can arise from mismatches in the timing of cash flows resulting from unexpected or exceptional circumstances. Marwyn's liquidity risk is relatively low due to the regular and relatively predictable nature of cash flows.

Marwyn believes that it has sufficient risk management systems and controls in place to manage these risks.

3. Disclosure of Capital Resources (BIPRU 11.5.3)

Marwyn's policy has always been to maintain a buffer of capital over what is required by FCA criteria. Marwyn has adequate capital for its size and the complexity of its business.

3.1 Compliance with Pillar 1 requirement

As a BIPRU Limited Licence €50,000 firm, Marwyn is required to maintain a Pillar 1 requirement equal to the greater of:

- the base capital requirement of €50,000 consisting of common equity tier 1 capital, or
- the sum of its credit and market risk requirements (variable capital requirement), or
- its fixed overhead requirement.

The Firm's Pillar 1 capital requirement is currently determined by its fixed overhead requirement. Marwyn's Pillar 1 capital requirement based on the audited financial statements for the year ended 30 November 2018 is calculated as £266k.

3.2 Compliance with Pillar 2 requirement

The Firm's overall approach to assessing the adequacy of internal capital is set out in its Internal Capital Adequacy Assessment Process (ICAAP).

The ICAAP process involves separate consideration of risks to capital resources combined with stress testing using scenario analysis. The level of capital required to cover risks is a function of impact and probability. Impact is assessed by modelling the changes in income, expenses and cashflow caused by potential risks crystallising over a 3 year time horizon.

Marwyn's current Pillar 2 regulatory capital requirement is £362k, which is calculated by aggregating the net financial effect of its operational risk scenarios.

3.3 Capital Resources

Based on the audited financial statements as at 30 November 2018, Marwyn's tier 1 capital consists of fully paid LLP capital accounts of £499k. It has no tier 2 capital. There are also no deductions from tier 1 capital. With a total capital resources requirement of £362k, Marwyn holds a surplus of £137k.

Marwyn's capital requirements are monitored on an ongoing basis to ensure that at any time there is always sufficient capital available.

4. Remuneration Disclosures (BIPRU 11.5.18R)

Marwyn is required to make Pillar 3 disclosures in relation to remuneration at least annually. Marwyn has applied the FCA's requirements in a way and to an extent that is appropriate to its size, internal organisation and the nature, scope and complexity of its activities.

4.1 Decision making process

Partner and staff remuneration is reviewed at least annually, by the Firm's Finance Committee. Marwyn does not operate a separate Remuneration Committee as it is not considered proportionate due to the size of the business and number of employees.

4.2 Code Staff

SYSC 19C requires the Firm to identify and maintain a record of all staff that have a material impact on the risk profile of the firm. Marwyn's Code staff have been identified as its three partners, being the individuals with responsibility for (a) the day-to-day running of the Firm and also (b) the delegated authority to make investment recommendations to MAML in relation to the Marwyn Funds. The Chief Financial Officer and the Compliance/MLRO roles for Marwyn are performed by Marwyn partners.

4.3 Risk alignment and link between pay and performance

The Remuneration Policy of Marwyn is carefully considered and reviewed on at least an annual basis by the Management Committee with its implementation being the responsibility of the Finance Committee. The objective of the Remuneration Policy is to support Marwyn in attracting, retaining and motivating our people to deliver on our strategic ambitions and values (including sound and effective risk management) and to incorporate measures to avoid conflicts of interest and excessive risk taking. The Remuneration Policy considers the level and balance of both fixed and variable remuneration, including long term incentive plans, that support the Firm in achieving its objectives.

The Remuneration Policy can be found here.

4.4 Remuneration Disclosure

In accordance with BIPRU 11.5.18R, Marwyn is required to disclose in relation to its Code staff, aggregate quantitative data on remuneration. The partners of Marwyn received variable drawings of £580k in aggregate in relation to the provision of their services.

During the year, the long term incentive relating to the BCA Marketplace plc ("BCA") portfolio company was realised. Information in this regard was released to the market by BCA and can be found by following this link: https://otp.tools.investis.com/clients/uk/bca_marketplace1/rns/regulatory-story.aspx?cid=911&newsid=959509. The total number of shares received through the long term incentive scheme were allocated between Code Staff as set out in the constitutional documents of the scheme.