Creating Real Value.

Pillar 3 Disclosure

InfraRed Capital Partners Limited

31 December 2018

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Pillar 3 Disclosure

1. Introduction

The Capital Requirements Regulation and Directive ("CRR/CRD") and the Alternative Investment Fund Managers Directive ("AIFMD") establish a revised regulatory capital framework across Europe governing the amount and nature of capital that must be maintained by investment firms. In the United Kingdom, CRR/CRD and AIFMD have been implemented by the Financial Conduct Authority ("FCA") in its regulations through the General Prudential Sourcebook ("GENPRU"), the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") and the Interim Prudential Sourcebook for Investment Business ("IPRU(INV)").

The regulatory capital 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 it has adequate financial and capital resources to cover the major sources of risk to which its business is (or might be) exposed. Through an Internal Capital Adequacy Assessment Process (ICAAP), a firm links its risk to capital for internal capital management purposes.
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position. This document is designed to meet InfraRed's Pillar 3 disclosure requirements.

2. Scope and application of the Directives

InfraRed Capital Partners Limited (FCA Register reference number 195766) ("IRCP") is a wholly owned subsidiary of InfraRed Capital Partners (Management) LLP and its results are included in the consolidated accounts prepared by the parent company. It is authorised and regulated by the Financial Conduct Authority as an operator of unregulated collective investment schemes and as an investment management firm. IRCP is a BIRPU Limited Licence firm.

For the purposes of this disclosure ("Disclosure"), "InfraRed" refers to InfraRed Capital Partners (Management) LLP and IRCP for so long as the underlying entities are active and registered.

3. Purpose, frequency, verification and location of disclosures

The Disclosure is made to explain the risk profile of IRCP. It does not constitute any form of audited financial statement and has been produced solely for the purposes of the Pillar 3 requirement.

The Pillar 3 Disclosure is reviewed at a minimum on an annual basis and is approved by the Governance Board of IRCP. InfraRed has considered the need for more frequent publication and has decided this is not necessary in light of the characteristics of its business. The Disclosure should not be relied on in making investment decisions in relation to InfraRed.

This Disclosure will be published on InfraRed's website. A statement regarding wider InfraRed remuneration policy can be found in the Annual Report and Accounts of the ultimate parent company.

4. Risk management objectives and policies

IRCP is part of the InfraRed Capital Partners (Management) LLP group ("the Group"). The Managing Partners of the Group ("Managing Partners") are responsible for the Group's risk management framework. This framework exists to identify and evaluate the risks facing the Group and to ensure appropriate controls and processes are in place to manage these risks. It also sets out responsibility for the oversight of the risk management process. An important part of the Group risk management framework is to have documented policies and procedures in place.

InfraRed's approach to risk management builds upon the following core principles:

- Authority to manage the business, including internal controls and risk, is delegated from InfraRed's Managing Partners to the Chief Executive (CEO).

- The CEO delegates primary responsibility for the risk and controls framework within InfraRed to the Deputy Chief Executive Officer (DCEO), along with the independent monitoring and reporting of risk and controls
- Risk Oversight Committee (ROC) supports the DCEO and is the principal committee for the monitoring and reporting of risks and controls.
- Significant risk and control issues are reported to the CEO and the Governance Board of IRCP.

Underpinning this philosophy is the principle of individual responsibility and accountability across InfraRed's business, supported by guidance and training as required. This is subject to independent challenge and oversight by the Risk & Compliance function and the ROC.

Additional risk controls are in place at the level of the investment funds in respect of which IRCP acts as investment manager, controlling the risks specific to those funds. The relevant risk matrices are reviewed quarterly and InfraRed's Risk & Compliance function monitors these tools to ensure they remain up to date and appropriate.

Below are the risk management objectives and policies for InfraRed's material categories of risk. Also included is credit risk, a component of the ICAAP mandated by Pillars 1 and 2. InfraRed does not have a trading book and has no material exposure to market or counterparty risk.

4.1. Business (strategy) risk

Business risk is the risk to InfraRed arising from changes to the internal and external commercial environment, including the risk that the organisation may not be able carry out its business plan and desired strategy. It also includes risks arising from remuneration policy.

The primary impact of business risks on InfraRed is the reduction of profitability from reduced management fees due to the winding down of non-sustainable business lines.

This risk is controlled by the commitment of InfraRed's Managing Partners to only approve business strategies that balance commercial opportunity and the risks associated with growth. InfraRed is committed not to compromise its management of risk and its capital position in order to achieve growth. The new business/product process acts as an important preventive control. Robust management accounting, reporting and monitoring of business lines ensures InfraRed is in a position to detect and respond to deteriorating business performance. The risk is mitigated by InfraRed's ability to adjust its cost base in light of poor operating performance and by the diversity of the fund products in relation to which it acts as advisor or manager.

4.2. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. InfraRed's definition of operational risk includes legal risks.

The majority of the risks affecting InfraRed can be classified as operational risks and therefore most of InfraRed's risk management efforts are focused on mitigating operational risk to acceptable residual levels by maintaining a strong control environment through its risk management framework.

InfraRed employs experienced people, maintains clear segregation of duties and has clear lines of escalation. A Performance Appraisal process promotes the importance of all individuals upholding InfraRed's values which include adhering to standards set by the business. Relevant operational procedures are documented and all individuals are given appropriate induction training. Outsourced relationships are monitored to ensure adherence to contractual obligations and service quality. Business continuity plans are in place and are subjected to regular review and testing. The IT systems used are held onsite and are supported by dedicated resources of the outsourced service provider. In addition, the critical IT systems are mirrored and backed up to a data recovery centre.

A dedicated and experienced Compliance Manager is responsible for providing advice and ensuring the business operates in a compliant manner. Although InfraRed does not have an in-house "legal function", it operates controls to ensure legal risks are considered in all contracts and works with a number of legal service providers where considered necessary.

InfraRed has not incurred any significant losses as a result of operational risks crystallising and has suffered no material instances of fraud.

4.3. Credit risk

For InfraRed, credit risk is the risk of financial loss if a counterparty fails to meet its obligations to repay outstanding amounts as they fall due.

Credit risk for InfraRed primarily arises from (1) its own working capital in liquid deposits and (2) receivables from funds advised by IRCP.

With regards to (1), InfraRed maintains liquid deposits of less than 90 days (covering the forecast minimum capital requirement) with appropriately rated banks or liquidity funds or short term bonds. In relation to (2), credit risk stems largely from the risk of investor default. This underlying risk is mitigated by investors' contractual obligation to commit capital, the forfeiture provisions of limited partnership agreements and the variety and diversity of investors. It is further controlled by an assessment of credit-worthiness prior to accepting investors.

4.4. Reputational risk

Reputational risk is the risk of damage to InfraRed's or its partnership entities' reputation. This could in turn cause a loss of confidence by investors, which could affect InfraRed's ability to generate income, for example by investors not investing in follow-on funds.

InfraRed considers a loss of reputation to be a significant risk to a business operating in the financial services sector. InfraRed believes that the risk to its reputation could arise from poor investment performance, the departure of key individuals, a failing in relation to investor relations or as a result of a failure to manage its other risks. Therefore, InfraRed always endeavours to act with integrity. InfraRed believes it can minimise reputational risk by carefully designing its policies, complying with the obligations of law and regulation, meeting the expectations of investors and other stakeholders, and effectively operating a robust system of internal controls, including controls on external communications.

5. Capital resources

As at 31 December 2018, IRCP held capital resources of £12,003,093. This comprised solely of core Tier 1 capital after deductions.

6. Internal Capital Adequacy Assessment Process (ICAAP)

InfraRed conducts an internal assessment of the amount of capital that is considered adequate to cover the risks facing its current and future activities. Determination of the business strategy includes the projection of financial profitability, capital resources and capital requirements. The key risks to which the business is or might be exposed are considered along with the amount of capital that would be considered adequate to cover InfraRed in the event that those risks were to crystallise.

7. Capital resources requirement

7.1. Pillar 1

In accordance with GENPRU 2.1, IRCP must maintain at all times capital resources equal or in excess of each of the following:

- The base capital resources requirement (€125,000)
- The variable capital requirement

  which is defined as the higher of

  - the fixed overheads requirement or the sum of credit risk and market risk capital requirements.

Under InfraRed's standardised approach to the calculation of credit risk, the credit risk component is set at 8% of the total of relevant risk weighted exposures, which for InfraRed amounted to £1,600,270 as of 31 December 2018.

InfraRed does not have a trading book and has nil exposure to the elements of the market risk capital requirement set out in the GENPRU rules. Accordingly, the overall variable capital requirement, the sum of InfraRed's credit risk and market risk capital requirements, is the figure of £1,600,270. This is considerably lower than the fixed overheads requirement of £8.3m which has been calculated based on 2018 expenditure, and which forms the current Pillar 1 capital requirement.

InfraRed holds capital significantly in excess of its Pillar 1 requirement as at 31 December 2018 and foresees no impediments to continuing to hold capital in excess of the fixed overheads requirement.

7.2. Pillar 2

InfraRed has assessed its Pillar 2 capital requirement as part of the ICAAP, including through the use of scenario tests. The main risks to which InfraRed is exposed are operational and business-related since it primarily acts as an agent to the funds it manage; IRCP does not invest its own capital in these funds. Therefore, InfraRed is not materially exposed to either credit, counterparty, market or liquidity risks and has a zero position risk requirement for commodity and foreign currency in respect of its business activities.

InfraRed has adopted the standardised approach for calculating capital requirements.

On completion of the ICAAP it was concluded that InfraRed’s Pillar 2 requirement does not exceed its Pillar 1 capital requirement.

8. Conclusion

Based on our analysis of risks faced by the business and the capital required to be set aside for those risks, InfraRed is adequately capitalised.