



Colchester[®]
GLOBAL INVESTORS

Capital and Risk Policy Disclosure

30 June 2022



Introduction

On 1st January 2022, the Investment Firms Prudential Regime (IFPR) came into force together with the public disclosure requirements for non-SNI MIFIDPRU firms which are set out in MIFIDPRU 8. There are specific transitional provisions for remuneration disclosures whereby firms may comply with the previous rules applicable to the firm (i.e., Pillar 3 requirements of BIPRU 11), where their performance period starts before 1 January 2022. The FCA has also introduced transitional provisions allowing firms not to make risk management or investment policy disclosures where the accounting reference date falls on or before 30 December 2022. Colchester's accounting reference date is 30 April 2022.

MIFIDPRU 8 requires firms to publish disclosures on:

- Own Funds (Financial Strength)¹
- Governance & Risk Management²
- Remuneration (Culture)³
- Investment Policy⁴

The disclosures in this document are made in respect of Colchester Global Investors Limited ("Colchester") in compliance with the rules and guidance set out in the FCA Handbook and in accordance with Colchester's disclosure policy. The information contained here is current as at 30 June 2022 unless otherwise indicated and has been prepared on a consolidated basis. This disclosure has been subject to internal review but has not been verified by external auditors.

Note on Disclosure

The FCA advises that the firm's qualitative disclosures under MIFIDPRU 8 should be appropriate to "its size and internal organisation, and to the nature, scope and complexity of its activities".

The Firm

Colchester is an independently-owned firm providing discretionary investment management services to institutional clients on a separate account basis or through commingled funds established and operated by Colchester. The business is managed by a small team of investment professionals, two of whom are executive directors. The Board is joined in its quarterly meetings by two non-executive directors and a further executive director. The Board oversees strategic direction of the firm and the implementation of an effective risk culture across the group. It accomplishes its risk mandate directly and through the executive committees it has established.

Risk management

Colchester's Risk Management Framework emphasises and balances strong central oversight and control of risk with clear accountability for, and ownership of risk within each operational area, including a risk oversight committee. Line management in the business is accountable for risk management which, together with the risk, compliance and internal audit functions,

¹ Applicable from 1st January 2022

² Governance applicable from 1st January 2022. Risk policy disclosures from 1st May 2022

³ Pillar 3 disclosures to 30th April 2022.

⁴ From 1st May 2023

form our "three lines of defence". This structure supports the flow of information between the operational areas, the members of the management team (who represent each significant business function).

Colchester's risk management framework focuses principally on the business and operational risks described below. The firm's risk management process consists of a cycle of risk identification and assessment, control evaluation and action planning, action completion, measurement and reporting, monitoring and assurance and board level review. The process runs typically on an annual cycle but is embedded in existing governance structures with the close involvement of senior management and does not operate in isolation. Reporting to senior management on risk management issues is the responsibility of the firm's Business Risk Committee which meets on a quarterly basis and comprises key members of the firm's management involved in investment management, operations, marketing & client services, compliance and finance.

The Board assumes common responsibility for the Risk Appetite which is considered to the aggregate level and types of risk Colchester is willing to assume measure by its risk tolerance to achieve its strategic objectives and desires. The Risk Appetite is reviewed and monitored on a continual basis. Colchester has an overall low risk appetite, which is considered to be appropriate to the nature, scale and complexity of Colchester's business. The Risk Framework and the Risk appetite statements are reviewed annually by the Board.

MIFIDPRU 8.2 requires that a regulated firm discloses its risk management objectives and policies for the categories of risk addressed by:

- Own Funds requirements (MIFIDPRU 4)
- Concentration Risk (MIFIDPRU 5)
- Liquidity (MIFIDPRU 6)

Other categories of risk considered applicable to the business include credit, market, business and operational risk.

Own Funds Requirement

Colchester's capital resources are set out below. In accordance with MIFIDPRU 4, Colchester's own funds requirement is determined as being the higher of its own funds held, its fixed overhead requirement and its permanent minimum requirement.

	Firm £'000	Group £'000
Own Funds Held		
Ordinary Share Capital	1,280	1,280
CET1 Funds held (net of deductions)	20,678	31,523
Total Own Funds	21,958	32,803
Own Funds Requirement	1,083	1,083
Higher of:		
Permanent Minimum Requirement	75	300
Fixed Overhead Requirement	4,395	4,396
Total K-Factor Requirement	5,605	5,980
K-AUM Requirement	5,605	5,980
Surplus Capital Resources	16,353	26,823

MIFIDPRU 8.5.2 further requires firms to assess the adequacy of its own funds and liquid assets in accordance with the Overall Financial Adequacy Rule (OFAR) in MIFIDPU 7.4.7R. Core requirements incorporated into the Internal Capital Adequacy Risk Assessment ('ICARA') process are to ensure the firm has in place appropriate systems and controls to monitor and, if appropriate, reduce on an on-going basis all material harms that may be caused to clients and counterparties, the markets in which the firm operates or to the firm itself.

The own funds and liquid assets must be sufficient to meet:

- The potential impact of material harms as identified in Colchester's risk appetite statement;
- Colchester's projections of its future requirements; and
- The impact of stressed situations as identified by Colchester which may include outsourcing risk.

The ICARA process involves separate consideration of risk to the firm's capital combined with stress testing using scenario analysis. Impact is assessed by modelling changes to income, expenditure and capital caused by the crystallisation of a number of identified risk events over a given period.

Concentration Risk

Under MIFIDPRU 4, firms must consider all positions or exposures, intragroup exposures, location of client money and securities when dealing on their own account. Colchester does not deal on its own account and therefore concentration risk from these exposures is not applicable. Colchester must also consider:

- The location of the firm's own cash
- Concentration of Earnings

Colchester's concentration risk has been identified as follows:

- Client concentration
- Product/Market/Geography
- Key Person

Under the MIFIDPRU 4 requirement, the Board considers the use of two highly reputable, highly rated deposit taking institutions as prudent in terms of diversification of deposit and concentration risk. Additional comfort is drawn from the fact that this includes one US and one UK institution.

Addressing both the MIFIDPRU 4 requirement on concentration of earnings and Colchester's assessment of concentration risk, Colchester has implemented a strategic diversification in the geographical distribution of clients, with expansion in existing markets and new product development continuing to enhance the diversification and robustness of the income stream. For the year-ended 30th April 2022, revenue earned is fully diversified, with no one separate account mandate contributing more than 10% of income.

Key Person risk is addressed under 'Business Risk' below.

Liquidity Risk: This refers to the risk that a firm may have insufficient liquid resources to cover cash flow imbalances or fluctuations in funding and be unable to meet its obligations as they fall due. Colchester maintains assets in liquid form in such proportion and composition as will always enable it to meet its liabilities as they arise, and in practice the business has little liquidity risk.

MIFIDPRU 6 requires Colchester to hold an amount of core liquid assets that are at least equal to the sum of one third of its fixed assets requirements. Core liquid assets may include short-term UK bank deposits, units in short term regulated money market funds, UK government bonds/gilts and trade receivables. Credit Risk potentially arises from clients or counterparties failing to meet their obligations as they fall due. Under MIFIDPRU 6, trade receivables may only be included in core liquid assets subject to them being receivable within 30 days, that they account for no more than 1/3 of the FOR and are subject to a minimum haircut of 50%.

Provision for the non-payment of fees is governed by the agreements in place with clients, the terms of which are subject to confidentiality clauses. Credit risk arising in relation to prepayments is not considered material for the purposes of this disclosure.

Market risk: this refers to the risk that the value of, or income arising from, assets and liabilities varies as a result of changes in interest rates, exchange rates or other market prices. Colchester has no trading book, does not invest in commodities and its market risk is therefore limited to that arising from foreign exchange fluctuations due to some assets and liabilities being denominated in currencies other than sterling.

Assets denominated in currencies other than sterling include Colchester's investments in the shares or units of the commingled funds it operates. Under MIFIDPRU 6, Colchester is required to apply a haircut of 50% of the value of the investment to factor in this risk. Colchester does not actively seek foreign exchange exposures.

Business risk: this refers to the risk that a firm may not be able to carry out its business plan or desired strategy and could, as a result, incur higher than expected costs or suffer losses. The principal business risks facing Colchester are:

- **Legal and regulatory risks:** Colchester is subject to direct regulation in the United Kingdom, the United States of America, the Bahamas, the Dubai International Financial Centre, Ireland, South Africa, South Korea and Singapore in its provision of investment management services, as well as being exempt from regulation in a number of other jurisdictions. The regulatory standards applicable to the business are subject to continuous revision arising from legislative changes in all of the jurisdictions in which Colchester operates. Compliance imposes costs on the business, and failure to comply with applicable regulation could materially affect Colchester's ability to operate.
- **Performance risks:** Colchester's attractiveness to new clients is largely dependent on an established performance track record. A significant or prolonged downturn in relative performance could materially affect Colchester's ability to attract new business or to retain existing clients.
- **Investment risk:** being outperformance or client outflows as a result of a change in asset allocation choice.
- **Key person risk:** Colchester's investment management process relies on the involvement of a small number of key investment professionals. The loss of more than one of these individuals could materially impact Colchester's ability to continue to meet client expectations.

Operational risk: this refers to the risk of loss, or breach of contractual requirements, resulting from inadequate or failed internal processes, people or systems, human error or other external factors. This includes the risk of loss or breach arising from the inadequate supervision of third-party service providers. Financial and/or reputational damage to the firm may arise through an operational failure or error. Compensating control and review procedures have been implemented where material risks of such losses exist, and Colchester has in place professional indemnity insurance of an amount customary in the industry taking into consideration the size and nature of the business, its customers and assets under management. Colchester is not required to calculate an operational risk capital requirement.

Governance Arrangements

SYSC 4.3 requires senior personnel to ensure compliance with regulations, have effective policies and procedures, implement governance arrangements, including segregation of duties and preventing conflicts of interest, oversee the carrying out of the firm's business and ensure competency and training of employees.

Colchester manages the investments of a number of clients, and therefore potential conflicts of interest may arise in a number of areas. In line with applicable regulatory requirements, the Company maintains a Code of Ethics, which includes details of the circumstances which may constitute an actual or potential conflict of interest, and the measures adopted by the Company to identify, manage and prevent these conflicts having an adverse effect on the interests of its clients.

MIFIDPRU 8.3.1R requires disclosure of the number of directorships (executive and non-executive) held by each member of the management body, subject to certain exemptions in MIFIDPRU 8.3.2R relating to directorships within the same group as the Firm, and directorships of organisations which do not pursue predominantly commercial objectives. None of Colchester's directors hold any directorships which would require disclosure under these regulations.

When considering the above points, Colchester assesses both the individual and the management body as a whole. It will review the broad set of qualities and competences required when Senior Personnel also seek to promote a policy of diversity in the management body taking into consideration characteristics of the members of the management body, including their age, gender, geographical provenance and educational and professional background to an extent that is possible and appropriate (to the size and scale of the business).

Remuneration Policy Disclosures

Colchester's performance period covered by this Disclosure commenced prior to 1 January 2022 (1 May 2021), and therefore existing disclosure requirements continue to apply until the next performance period which commenced on 1 May 2022 and ending on 30 April 2023.

Colchester is a limited licence firm and, as at 30th April 2022, is subject to the FCA's "General Guidance on Proportionality: The BIPRU Remuneration Code (SYSC 19C) & Pillar 3 Disclosures on Remuneration (BIPRU 11)". Colchester is a full scope Alternative Investment Fund Manager (AIFM) and so is subject to the AIFMD rules (SYSC 19B) as well as the BIPRU rules. The FCA states that adherence to SYSC 19B can be taken as evidence of adherence with SYSC 19C.

In developing its remuneration policy Colchester has reviewed and applied the proportionality guidance as set out in the Guidelines on Sound Remuneration Policies as published by the European Securities and Markets Authority (ESMA) under the AIFMD. The rules and guidance published by ESMA are incorporated within the FCA rules published in SYSC 19.

The following disclosures are required from such firms:

- a) **Link between pay and performance:** the firm's articles of association define the total remuneration pool (i.e., the sum of all salaries, pensions, benefits, discretionary bonuses and related employment taxes payable to all group employees) as 60% of PBRT⁵ for each financial year. A variation to PBRT policy requires the prior consent of 75% of each class of shareholders. The use of a PBRT model ensures that the aggregate spend on variable remuneration directly reflects the group's performance.
- Fixed remuneration is comprised principally of salaries but also includes appropriate employee benefits which are provided to all employees. All Code Staff receive a salary that reflects their talent, skills, competencies and contribution relative to the market for their roles. Colchester believes that salaries are sufficient to cover employees' key financial needs.
- b) **Decision-making process for determining the remuneration policy:** responsibility for the determination of variable remuneration payable to staff rests with the Board which has established broad parameters which seek to reward individuals in each operating company on a consistent basis year on year having regard to individual performance, length of service and total remuneration. Variable remuneration payments are made by Colchester and its operating subsidiaries only in the form of cash bonuses.
- c) **Code Staff Criteria:** Code Staff are those in positions of senior management and additionally risk-takers and other staff in controlled functions.
- d) **Quantitative Remuneration Disclosures:** as disclosed in the financial statements, aggregate salaries and bonuses across the group for the year to April 30, 2022 totalled £40.4m. Of this £30.3m was payable to those members of staff involved directly in the investment process (investment research, investment management and implementation). Aggregate remuneration for Code Staff (including directors' fees, base salaries and bonus awards for the 2021/22 financial year end) was £33.4m of which £3.7m related to fixed remuneration. There were 19 Code Staff at the year-end.

⁵ means in any financial year of the company, as shown in the audited annual financial statements, the total pre-tax income of the company (excluding any interest income and dividend income, foreign exchange gain or loss, income, gains or losses from gilt or other fixed income investments or other capital gains and losses derived from capital of the company howsoever employed) before deducting any remuneration payable but after deducting all other overheads and operating expenses.