



**Colchester**<sup>®</sup>  
GLOBAL INVESTORS

# Capital and Risk Policy Disclosure

December 2023



## Introduction

On 1st January 2022, the Investment Firms Prudential Regime (IFPR) came into force together with the public disclosure requirements for MIFIDPRU investment firms. Colchester is a non-SNI MIFIDPRU firm and its disclosure requirements are set out in MIFIDPRU 8. Colchester's accounting reference date is 30 April 2023.

MIFIDPRU 8 requires firms to publish disclosures on:

- Own Funds (Financial Strength)<sup>1</sup>
- Governance & Risk Management<sup>2</sup>
- Remuneration (Culture)<sup>3</sup>
- Investment Policy<sup>4</sup>

The disclosures in this document are made in respect of Colchester Global Investors Limited ("Colchester" or the "firm") in compliance with the rules and guidance set out in the FCA Handbook and in accordance with Colchester's disclosure policy. References to the "Group" are to the firm and its subsidiaries. The information contained herein is current as at 07 December 2023 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 an experienced team of investment professionals, two of whom are executive directors. The Board is joined in its quarterly meetings by one non-executive director and a further executive director.

MIFIDPRU 8.2.1 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)

In accordance with MIFIDPRU 8.2.2 (1), the following statement has been approved by the Board.

<sup>1</sup> Applicable from 1st January 2022

<sup>2</sup> Governance applicable from 1st January 2022. Risk policy disclosures from 1st May 2022

<sup>3</sup> Pillar 3 disclosures to 30th April 2022.

<sup>4</sup> From 1st May 2023

<sup>5</sup> From 1st October 2023

The Board oversees the 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. The Business Risk Committee (the "BRC") oversees the effective risk management of the Firm and reviews and monitors risk appetite and the Risk Management Framework ("RMF") which is ultimately recommended for approval by the Board. This process is further enhanced by the annual internal capital and risk assessment ("ICARA") process, which ensures that adequate capital and liquid assets are always maintained to mitigate ongoing business risk or perform an orderly wind-down of the firm.

## Risk Management

Colchester's RMF 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, the BRC. The Board has ultimate responsibility for risk oversight of the firm and for approving risk appetite limits within which the firm operates. Line management in the business is accountable for risk management which, together with the risk management, compliance and internal audit functions, form our "three lines of defence". This structure supports the flow of information between the operational areas and the members of the management team (who represent each significant business function).

### Business Risk Committee ("BRC")

Scope: responsible for the provision of advice, support and guidance to the Board in relation to the identification and review of risks within the firm.

- Key areas of oversight:
  - Approval of the Group RMF and associated risk policies and documents at least annually which must also be approved by the Board.
  - Approval of the Group Risk Appetite Statement document at least annually which must also be approved by the Board.
  - Approval of Key Controls and Derivatives Risk Statement document.
  - Operational risk – events, breaches, transaction volumes, capacity.
  - Third Party Service Providers Management - review and approve the decisions taken by the Vendor Management Committee to outsource, the selection of the service provider and the determination of criticality (Critical, High, Medium or Low). Those determined as High or Critical are subject to further approval of the Board.
  - Approval of new markets, products and processes from a risk perspective including approval of any new product risk assessment, target market assessment and distribution assessment.
  - Disaster Recovery and Business Continuity Arrangements.
  - IT Security standards.
- The Business Risk Committee is chaired by Group Chief Risk Officer and reports to the Board.

### Risk Appetite

Colchester has a low overall risk appetite. Specifically, it does not intend to take any risks with its own capital resources and ensures that risks taken within its day-to-day activities are managed and closely monitored.

Colchester's key risks are:

- Investment Performance Risk
- Dealing Risk
- Regulatory Risk/Money Laundering Risk
- Conduct Risk & Culture Risk
- IT/Cyber Security Risk
- Outsourcing Risk

The firm's RMF incorporates an analysis of the impact of each key risk on the business, the probability of each risk occurring and a review of the mitigating controls in place. The RMF is supported by a wide range of key risk indicators ("KRIs") that monitor the key risks on a periodic basis and form part of management information ("MI") to the Board.

The table below summarises the categories of risk as per MIFIDPRU 8.2.1 alongside the specific risks that Colchester is exposed to as assessed through Colchester's ICARA process.

Risk Category	Definition	Colchester Risk Taxonomy
<b>Credit Risk (MIFIDPRU 4)</b>	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%.	Credit Risk
<b>Operational Risk (MIFIDPRU 4)</b>	Refers to the risk or loss 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 loss or breach arising from the inadequate supervision of third-party service providers. Financial and/or reputational damage to the may arise through an operational failure or error.  Legal/Regulatory/Conduct risks - Colchester is subject to direct regulation in the United Kingdom, the USA, the Bahamas, the Dubai International Financial Centre, Ireland, 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.	1. Dealing Risk
		2. IT/Cyber Security Risk
		3. Outsourcing Risk
		4. Regulatory Risk & Money Laundering Risk
		5. Conduct and Culture Risk Internal Fraud Risk



Risk Category	Definition	Colchester Risk Taxonomy
<b>Business/Strategic Risk</b> (MIFIDPRU 4)	<p>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.</p> <p>The principal business risk facing Colchester is Investment Performance Risk - Colchester's attractiveness to clients is largely dependent on an established performance track record. A significant or prolonged downturn to relative performance could materially affect Colchester's ability to attract new business or to retain existing clients. 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.</p>	Investment Performance Risk
<b>Market Risk</b> (MIFIDPRU 4)	<p>The risks 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 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% to the value of the investment to factor in this risk. Colchester does not actively seek foreign exchange exposures.</p>	Market Risk
<b>Concentration Risk</b> (MIFIDPRU 5)	<p>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.</p> <p>Colchester must also consider:</p> <ul style="list-style-type: none"> <li>- The location of the firms own cash</li> <li>- Concentration of earnings</li> </ul> <p>Colchester's client concentration risk has been identified as follows:</p> <ul style="list-style-type: none"> <li>- Client concentration</li> <li>- Product/Market/Geography</li> </ul>	Group Risk
<b>Liquidity Risk</b> (MIFIDPRU 6)	<p>The risk that the 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.</p>	Capital Management Risk

The risks associated with Colchester's regulated activities are more closely aligned with the strategies and operations of each operational area within the Group than with the specific legal entities.

Colchester's RMF focuses principally on the core 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 BRC which meets on a quarterly basis, is chaired by the Group Head of Risk and Analytics and comprises key members of the firm's management involved in investment management, operations, marketing & client services, compliance and finance.

## 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	Page reference in Colchester's Financial Statements	Group	Page reference in Colchester's Financial Statements
	£000		£000	
<b>Composition of regulatory Own Funds</b>				
<b>Total Own Funds (a-b)</b>	<b>19,852</b>		<b>34,115</b>	
(a) Common Equity Tier 1 Capital per Financial Statements	<b>38,077</b>		<b>49,780</b>	
Called up share capital	1,280	Page 21	1,280	Page 20
Retained Earnings	36,797	Page 21	48,500	Page 20
(b) CET1 - other capital elements and deductions	- <b>18,225</b>		- <b>15,665</b>	
Less: Investment in Subsidiaries	- 2,560	Page 21		
Less: Dividends Paid	- 15,665	Paid in June 2023	- 15,665	Paid in June 2023
<b>Own Funds Requirement</b>				
<b>Higher of:</b>				
(a) Permanent Minimum Requirement	75		300	
(b) Fixed Overhead Requirement (FOR)	5,223		4,961	
(c) Total K-Factor Requirement	<b>4,231</b>		<b>5,211</b>	
K-AUM requirement	4,231		5,211	
FIRM - highest is FOR	5,223			
GROUP - highest is K-Factor			5,211	
<b>Surplus Capital Resources</b>	<b>14,629</b>		<b>28,904</b>	

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 5, Colchester must also consider:

- The location of the firm's own cash; and
- Concentration of earnings.

To address the first point, 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 2023, revenue earned is fully diversified, with only one account mandate contributing to just over 10% of income as a result of exceptional performance.

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

**Liquidity Risk:** 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.

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.

**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.

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 firm 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 firm to identify, manage and prevent these conflicts having an adverse effect on the interests of its clients.

MIFIDPRU 8.3.1(2)R requires disclosure of the number of directorships (executive and non-executive) held by each member of the management body.

Name	Title	Number of External Directorships
Ian Sims	Director	0
Keith Lloyd	Director	0
Michele Connell	Director	0
Lucy Crawford	Non-Executive Director	2

When considering the members of the management body, Colchester assesses both the individual and the management body as a whole. It will review the broad set of qualities and competences required and will also seek to promote a policy of diversity in the management body taking into consideration the 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 on 1 May 2022 and ended on 30th April 2023.

Colchester is a MIFIDPRU investment firm and as at 30th April 2023, is subject to the FCA's "General Guidance on Proportionality: The MIFIDPRU Remuneration Code (SYSC 19G). Colchester is a full scope Alternative Investment Fund Manager (AIFM) and so is also subject to the AIFMD rules (SYSC 19B).

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. In considering proportionality in the context of SYSC 19B the firm has been informed by the test in SYSC 19G 1.1 R(2).

Under MIFIDPRU 8.6, both qualitative and quantitative disclosures are required from such firms.



## (a) Qualitative disclosures

### 1. Approach to remuneration

Colchester's approach and objectives in respect of remuneration are established in its remuneration philosophy as follows:

- Aligning remuneration with client and shareholder value;
- Aligning total remuneration with corporate and individual performance and conduct in light of the business strategy objective and long-term interests of the Group;
- Encouraging a shared success culture whilst remunerating to attract, motivate and retain staff; and
- Integrating risk awareness and prudent risk management into the remuneration assessment.

Colchester's approach to remuneration includes both fixed remuneration and variable remuneration elements, available to all employees.

Fixed remuneration is determined by the staff member skills and experience commensurate with the role requirements and competitively aligned with the market. The fixed remuneration is permanent, predetermined, non-discretionary and a non-recoverable amount, not dependent on performance.

Variable remuneration is discretionary and payable in line with the Groups remuneration philosophy with a focus on motivating and rewarding staff's contribution to the success of the Group as a whole, whilst honouring core values and risk management controls and thereby aligning with the interests of the Group and its clients.

### 2. Governance

The Board of the firm oversees the Remuneration Policy while ensuring at all times relevant policy and procedures take into account relevant legal and regulatory obligations. This ensures the application of the remuneration philosophy and remuneration policies and procedures and results in payment of remuneration in line with Colchester's business strategy, risk profile, long-term objectives, and compliance with application regulations. The CGIL Board consists of three executive directors and two non-executive directors. The policy is subject to review and approval by the Board on at least an annual basis. Colchester's Compliance function is also involved in the review of the Policy, including the identification of Code Staff (Material Risk Takers).

### 3. Material Risk Takers

Code staff are individuals who due to their role/ or responsibilities could potentially have a material impact on the Group's risk profile or that of the portfolios that Colchester manages. For these purposes the "risk profile" means prudential, operational, market, conduct or reputational risk. Material Risk Takers may include, (but are not limited to);

- Executive Directors of companies within the Group;
- Investment Managers;
- Members of the Group Senior Management team;
- Global heads of office, business units and key functions, including the Risk Management and Compliance teams;
- Individuals responsible for managing material risks, information technology and information security, outsourcing and new products and;
- Approved functions under relevant approved persons regimes.

#### **4. Link between variable pay and performance:**

Subject to the performance of the Group, Colchester has established broad parameters which seek to recognise and reward employees who contribute the greatest value to the firm, having regard to individual performance, behaviours, experience and critical skills and subject to the overall performance of the Group.

Employees are subject to formal appraisal on an annual basis. The appraisal considers quantitative and qualitative factors in measuring employee performance including teamwork, self-development and learning, accountability and innovation and constant improvement over the course of their employment. When assessing performance, consideration is given to performance over previous years in addition to performance during the current year although individual contribution is not linked quantitatively or algorithmically to business performance. Colchester also considers the employee's interaction with their clients, colleagues and other stakeholders, and adherence to Colchester's core values such as respect and humility. Compliance with the Group's policies and procedures, including policies and procedures relating to conduct and controls around risk, including the risks in the Risk Appetite Statement and sustainability risk, and to the avoidance of conflicts of interest, are considered as part of the appraisal.

As part of Colchester's remuneration philosophy, many employees are required to invest a percentage of their total net remuneration in each financial years into shares of Colchester or shares of Colchester funds.

Variable remuneration is discretionary, and it may decrease as a result of the Group's negative performance, or an individual's performance. It could go down to zero in some cases. Variable remuneration is paid in cash and vests on payment.

Variable remuneration of Material Risk Takers may be subject to malus (reducing or cancelling bonuses that have been communicated but not yet paid), or clawback (recouping already paid bonuses). Ex-post risk adjustment takes account of a specific crystallised risk or adverse performance outcome (a "Relevant Event"), including those relating to certain misconduct or misrepresentation. Such ex-post risk adjustment may be applied at an individual, or employee group, level or in a particular business unit of Colchester. When deciding the appropriate amounts to be adjusted as a result of a Relevant Event, Colchester will take into account all relevant criteria, including without limitation the impact on Colchester's customers, counterparties and the wider market and its other stakeholders including shareholders, employees, creditors and regulators.

#### **Guaranteed bonuses and new hires:**

Colchester does not permit the use of guaranteed variable remuneration arrangements for any individual other than a new hire in the first year of employment, and then only on an exceptional basis having regard to an individual's remuneration arrangements with their prior employer, any additional guidance on the issue provided by applicable regulators, the role for which they are being recruited at Colchester and Colchester's capital base and long-term interests.

#### **Retention Bonuses:**

In the event of certain exceptional circumstances, Colchester may pay a retention bonus to individuals required to continue in their role for a specific period to deal with such circumstances.

#### **Leavers:**

No contractual arrangements are in place to provide early termination payments to any member of staff. Any such payments would be agreed at the time of termination in accordance with then applicable law and regulation and principles established by Colchester. Any such payments to Code Staff aim to ensure that leavers are not rewarded for failure or misconduct.

Non-executive Directors: Non-executive directors appointed within the Group who are independent and/or not employees of the Group may be paid fixed remuneration, which is commercially negotiated, and variable remuneration will not be payable. The firm's current non-executive director does not receive any compensation.

## **(b) Quantitative Remuneration Disclosures:**

As disclosed in the financial statements, aggregate salaries and bonuses across the group for the year to April 30, 2023 totalled £44.8m, comprising £11.1m fixed remuneration and £33.7m variable remuneration. At the end of the period, 22 employees have been identified as Material Risk Takers.

Of the total amount paid, senior management were paid £25.0m, comprising £1.4m fixed pay and £23.6m variable pay. Other material risk takers were paid £7.2m in aggregate remuneration comprising £3.0m in fixed remuneration and £4.2m in variable remuneration.

No guaranteed variable remuneration awards or severance payments have been made in respect of Material Risk Takers.