

# Cantillon Capital Management LLP - Public Disclosure, 31 December 2022

## 1. Introduction

The Financial Conduct Authority published its final Policy Statement, PS21/17, on the Investment Firms Prudential Regime (IFPR), which came into effect on 1 January 22. The public disclosure requirements of IFPR are set out in MIFIDPRU 8, replacing the previous Pillar III requirements of BIPRU 11.

While the objectives are broadly similar, namely, to impose market discipline on firms by requiring them to disclose information to key stakeholders and counterparties, MIFIDPRU 8 seeks to refine this approach through disclosures of firms' capital, i.e., "own funds" as defined in the relevant regulations, and own funds requirements (financial strength) and culture (risk management, governance, and remuneration).

The public disclosure requirements focus on the disclosure of qualitative and quantitative information, aimed at encouraging market discipline by providing market participants access to key information on a firm's capital, risk exposures and risk management processes.

This document is designed to meet the current requirements in MIFIDPRU 8 for the financial year ended 31 December 2022. The rules require Cantillon Capital Management LLP (the "LLP") to provide a level of detail in its qualitative disclosures that is appropriate to its size and internal organization, and to the nature, scope, and complexity of its activities.

## 2. Scope and application

The LLP is authorized and regulated by the FCA and as such is subject to minimum capital requirements, based on its categorization as a "Non-SNI" firm.

The ultimate corporate owner of the LLP is Cantillon Capital Limited. The LLP conducts its business in conjunction with Cantillon Capital Management LLC (the "LLC") which is the corporate owner of Cantillon Capital Limited. The LLC is incorporated in the United States of America and is registered with the SEC as a Registered Investment Advisor. (Together, LLP and the LLC and are collectively the "Cantillon Group"). Whilst the LLP is part of a consolidation group for prudential regulation purposes, the LLP is providing these disclosures on a solo basis only, in accordance with MIFIDPRU 8.1.7 R.

## 3. Risk Management objectives and policies

The Cantillon Group is governed by an executive management committee ("EMC") which determines the business strategy and risk appetite for the LLP (see Governance Arrangements, below).

The EMC considers that from a regulatory capital perspective, the LLP is a relatively low risk organization. The LLP does not take custody of any investor money or assets.

Due to the small size of the LLP and its relatively low risk profile, the EMC considers that the LLP does not warrant the need for a separate risk management function within the LLP. Risk management is undertaken by the LLP's CEO, who also serves as Chief Operating Officer for the Cantillon Group. He is supported by the Cantillon Group's operations team. In addition, the LLP retains external professional legal, accounting and compliance firms for expert advice and consultation, when necessary.

The EMC of the Cantillon Group, through formal and informal meetings, is actively involved in determining the LLP's business strategy and implementing process to mitigate risks. The LLP's risk profile is assessed, as part of the ICARA process, at least annually and more frequently if there is a significant change in the LLP's business model or operating model.

The EMC also determines how the risks the LLP faces may be mitigated and assesses the arrangements to manage those risks on an ongoing basis. The EMC meets both formally and informally to discuss current projections for profitability, cash flow, regulatory capital management, business planning and risk management. The EMC manages the LLP's business and identifies risks through a framework of policy and procedures taking account of relevant laws, standards, principles, and rules (including FCA principles and rules) with the aim of operating a defined and transparent risk management framework. These policies and procedures are updated as required.

### Risks related to the Firm's own funds requirement

The EMC has identified that organizational, business and operational, and market risks are the main areas of risk to which the LLP is exposed. The EMC and/or its delegates review the risks, controls, and other risk mitigation arrangements and, periodically, assess their effectiveness. Where the EMC identifies material risks, it considers the financial impact of these risks as part of the LLP's business planning and capital management and determines whether the amount of regulatory capital is adequate.

#### Organizational risk

Since the LLC is the ultimately owner of the LLP, the LLP's business is dependent on the LLC continuing in business and sharing responsibility for both financial and operational controls with the LLP. The LLC has confirmed in writing its continuing support of the LLP.

#### Business and operational risk

Operational risk is defined by the FCA as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events, including legal risk. In connection with the ICARA review, relevant risks and related mitigating controls are identified for consideration by the EMC.

The LLP has policies and procedures and ongoing operational and related compliance monitoring to help identify weaknesses and potential control failures which are required to be reported promptly when observed to the LLP CEO and/or the EMC.

#### Market risk

The EMC believes that the LLP's market risks, which include the potential effects of a long-term downturn in financial markets and foreign currency exchange risk, would not have a direct material effect on the LLP due to its funding relationship with the LLC. Notwithstanding the foregoing, any market effects that adversely affect the LLC may have a negative impact on the LLP if the LLC is no longer willing or able to provide financial support to the LLP.

### Risks related to concentration

The LLP has identified the following risks arising from its strategy, which relate to the LLP's relationships with, or direct exposure to, a single client/counterparty or group of connected clients/counterparties:

- a solvency event, including the loss of senior investment professionals or a material cyber incident, affecting the LLC could subject both the LLC and the LLP to a significant level of financial harm;
- changes in market conditions in the US, UK, or globally may have an excessive negative impact on the group which may impact on the LLP;
- the Firm makes cash deposits into accounts at certain banks as part of running its business. Where these

cash deposits are concentrated in certain banks, an insolvency event affecting any such bank may subject the Firm to a significant harm.

## Risks related to liquidity

The LLP has identified the following risks of harm arising from its strategy which relate to, and are intended to be addressed by, the LLP's Liquidity obligations:

- the Firm could be required to make a payment for reputational reasons, e.g., to support the Firm brand;
- the Firm could face a temporary downturn in its revenue generation;
- the Firm could experience a trade dealing or Fund valuation error, the resolution of which could result in certain unexpected payments;
- the Firm could be required to provide liquidity support to the wider group of which it is a part;
- the Firm could have to make unexpected payments.

The Firm maintains excess liquidity and various risk management methods in accordance with its liquidity risk appetite as approved by the EMC. There is sufficient liquidity to enable the group to continue to fund operating cash flows through periods of stress, quantified through the internal estimate of operating expenses, and, in parallel, the liquidity is in excess of the FCA MIFIDPRU liquidity requirements covering ongoing business operations and wind-down liquidity requirements. In addition, the LLP has received a letter of support from its Parent company in connection with its assessment of capital required for ongoing operations.

## 4. Governance Arrangements

### Executive Management Committee ("EMC")

The EMC is the management body responsible for defining, overseeing, and implementing governance arrangements within the LLP that ensure effective and prudent management of the LLP. The EMC typically meets several times per calendar year, or should the need arise, i.e., to discuss significant matters affecting the LLP and to make strategic decisions. All relevant staff report to the EMC (either directly or to individuals who, in turn, report to the EMC). The EMC operates under a set of terms pursuant to which it makes certain decisions. Under the LLPs governance structure, the EMC:

- has overall responsibility for the business and conduct of the LLP;
- approves and oversees implementation of the LLP's strategic objectives, risk strategy and internal governance;
- has oversight of and ensures the integrity of the LLP's accounting and financial reporting systems;
- has put in place financial and operational controls and compliance with applicable regulations;
- oversees the process of public disclosure and communications by the LLP with clients and regulators;
- monitors, assesses, and makes changes in respect of deficiencies found, if any, in respect of (i) the adequacy/implementation of the LLP's strategic objectives in the provision of investment services and activities (including ancillary services); (ii) the effectiveness of the LLP's governance arrangements; and (iii) the adequacy of the policies relating to the provision of services to clients; and

- has adequate access to information and documents which are needed to oversee and monitor management decision-making.

All members of the EMC are required to commit sufficient time to ensure that they can perform their functions within the Group and to act with honesty, integrity, and independence of mind to assess and challenge decisions where necessary and to oversee and monitor management decision-making.

The EMC is responsible for supervising the effective and prudent management of the business and affairs of the LLP and for ensuring that the LLP has a robust corporate governance structure, relevant to its size and complexity, with well-defined, transparent, and consistent lines of accountability. It is also responsible for ensuring that the LLP and its individual functions are adequately resourced. This includes oversight of the LLP's risk framework and internal controls. It also includes segregation of duties within the business and the identification and monitoring of any conflicts of interest. Conflicts between the interests of the LLP and the interests of a client (or between the interests of multiple clients) are avoided or managed appropriately, again, in a manner that promotes the integrity of the market and the interests of clients. This is predominantly achieved through: (1) the adoption, and regular review, by the EMC of a comprehensive conflicts of interest policy which identifies all relevant areas of the LLP's business that could give rise to such conflicts, and the various mitigants that the LLP has put in place either to avoid such conflicts or to manage them such that the risk of prejudice to the LLP's clients has been reduced to an appropriate level; and (2) the establishment of a specific procedure for managing any *ad hoc* conflicts that arise which are not covered by the LLP's conflicts of interest policy

The EMC acts in the best interests of the Group and in a way to promote the integrity of the market and the interests of the Group's clients. The EMC is directly accountable to the members of the LLP, including its corporate member, but must also consider the interests of its customers, employees, and other stakeholders.

The EMC relies on certain Group functions to manage, monitor, and analyse key areas of responsibility, but gains sufficient information to discharge its duties. The LLP does not have a separate Risk Committee, but the EMC delegates review and monitoring to other senior managers responsible for the LLP's defined "business lines", i.e., Investment Management, Institutional Client Services and Operations.

Through the EMC, the LLP adopts and implements its internal corporate policies but also may also rely on the advice, reports and opinions of consultants, counsel, accountants, auditors, and other expert advisers.

### Directorships

No members of the EMC currently hold any directorships which should be disclosed under the requirements of MIFIDPRU chapter 8. Furthermore, no modifications or waivers have been required to be granted by the FCA to allow any member of the EMC to hold additional directorships.

### Diversity

Due to the relatively small size of the firm, the LLP does not have a formal Diversity, Equity, and Inclusion Policy.

To comply with the requirement in SYSC 4.3A.10 R, the LLP has procedures in place to ensure that members of the EMC are selected based primarily on the following criteria:

- the possession of the necessary knowledge, skills, and experience to perform the relevant duties;
- whether their addition will complement the EMC's collective knowledge, skills, and experience in relation to the LLP's activities, including the main risks it faces; and
- diversity of viewpoints, backgrounds, experiences, and other demographics.

The LLP's approach to diversity within the firm as a whole is broadly based, and informed by these factors:

The LLP is solely focused on generating the highest returns possible for clients. The LLP believes a team approach allows the best decisions to be made to achieve this goal.

Diversity of thought is important to the LLP and its investment team dynamic. The LLP believes it leads to the best decision-making and generates the highest returns for clients. Different opinions and lively debate are welcome and encouraged. The team works in a very open and transparent way e.g., within the investment team, all investment activity is recorded in a proprietary Research Management System and visible to the whole firm. Any senior investment professional can share an opinion and prompt a discussion about any stock in the portfolio. At stock pitches, debate is essential to the process.

The investment strategy invests in global equities. Accordingly, the investment professionals are looking at all countries and all industries to generate the best returns. Diversity of thought and background is helpful when analyzing companies and the LLP believes a truly global perspective to succeed in managing global equities is needed.

The investment team has always included people from around the world with different perspectives. The LLP rarely hires more than one person at a time, so the ability to have a diversity policy with specific targets is limited. The recruitment approach includes the review of selection criteria and procedures for job opportunities to ensure that individuals are selected, promoted, and treated on the basis of their relevant merits and abilities.

The LLP collects data on the diversity of all employees and will analyze trends over time.

The LLP and the EMC understand that the industry as a whole does not have a good track record on diversity and inclusion. It is the firm's belief that the onus for leading change should be on the larger firms who can make a bigger difference given the amount of recruiting they do.

## 5. Own funds

LLP's regulatory capital consists entirely of Members' capital classified as equity, which is Common Equity Tier 1 capital, the highest form of Tier 1 capital.

Table 1 (overleaf) is based on the LLP's Financial Statements as at 31 December 2022 and confirms there are no regulatory deductions.

	<b>Item</b>	<b>Amount (GBP thousands)</b>	<b>Source based on reference numbers/letters of the balance sheet in the audited financial statements</b>
<b>1</b>	<b>OWN FUNDS</b>	3,096	
<b>2</b>	<b>TIER 1 CAPITAL</b>	3,096	
<b>3</b>	<b>COMMON EQUITY TIER 1 CAPITAL</b>	3,096	
4	Fully paid-up capital instruments	3,096	Members' Capital
5	Share premium		
6	Retained earnings		
7	Accumulated other comprehensive income		
8	Other reserves		
9	Adjustments to CET1 due to prudential filters		
10	Other funds		
11	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	0	
19	CET1: Other capital elements, deductions and adjustments		
20	<b>ADDITIONAL TIER 1 CAPITAL</b>	0	
21	Fully paid up, directly issued capital instruments		
22	Share premium		
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1		
24	Additional Tier 1: Other capital elements, deductions and adjustments		
25	<b>TIER 2 CAPITAL</b>	0	
26	Fully paid up, directly issued capital instruments		
27	Share premium		
28	(-) TOTAL DEDUCTIONS FROM TIER 2		
29	Tier 2: Other capital elements, deductions and adjustments		

Corporate Member's capital is only repayable on either the winding up or the sale of the LLP and is paid out of a surplus of assets or sale proceeds following settlement of all creditor liabilities, in addition to expenses of the winding up or sale respectively. The Members have concluded that due to the residual and discretionary basis of the Corporate Member's capital repayment, the Capital is considered equity in nature, and on this basis has been classified in the Statement of Financial Position as Member's capital classified as equity.

Members are required to make capital contributions in accordance with the LLP Deed as determined by the Management Committee. No member is entitled to receive interest on their capital contribution. The Management Committee can determine to return capital contributions to Members provided sufficient regulatory capital exists and the transaction is approved by the FCA. In the case of cessation of membership, any capital repayment due to Members is to be settled by the LLP within a six-month period, provided FCA regulatory capital requirements are met.

Table 2 reflects a reconciliation of regulatory own funds with LLP's balance sheet from the audited accounts.

<b>Table 2. Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements</b>			
		a	c
		<b>Balance sheet as in published/audited financial statements</b>	<b>Cross-reference to Table 1</b>
		<b>As at period end</b>	
<b>Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements</b>			
1	Debtors	3,948	
2	Cash and cash equivalents	5,493	
3			
4			
5			
	<b>Total Assets</b>	9,441	
<b>Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements</b>			
1	Creditors (due within one year)	4,136	
2	Other amounts	2,209	
3			
4			
	<b>Total Liabilities</b>	6,345	
<b>Shareholders' Equity</b>			
1	Members' capital	3,096	Item 4 (Table 1)
2			
3			
	<b>Total Shareholders' equity</b>	3,096	

### Own funds requirement

The LLP's own funds requirement is calculated as the higher of:

- (a) permanent minimum capital requirement of £75,000;
- (b) total K-Factor requirement of £2,235,000 (provided below); and
- (c) the fixed overheads requirement of £1,230,000 which is one quarter of the LLP's annual fixed overheads (MIFIDPRU 4.5.1.R), unless there is a material change expected to projected expenses during the year (MIFIDPRU 4.5.7R).

<b>K-Factor requirement (Sum of)</b>	<b>Amount (£ 000's)</b>
K-AUM	2,215
K- DTF	20
<b>Total K-Factor Requirement</b>	<b>2,235</b>

As at 31 December 2022, the LLP's total K-Factor requirement of £2,235,000 establishes its own funds requirement, being higher than the permanent minimum capital requirement and the fixed overhead requirement.

As part of its ICARA process, the LLP assesses the adequacy of its own funds in accordance with the overall financial adequacy rule in MIFIDPRU 7.4.7 R. In particular, the LLP assesses the own funds it requires to:

- address any potential harms it has identified which it has not been able to mitigate;
- address any residual harms remaining after mitigation; and
- ensure an orderly wind down of its business.

As the LLP is not an SNI firm, it is required to use its K-factor requirement as a starting point for determining the appropriate amount of own funds to cover risks of harm to the business as a going concern, to the extent that such risks have not or cannot be mitigated.

The LLP assesses whether and to what extent a K-factor requirement covers each risk of harm identified during the ICARA process on a going concern basis (to the extent the risk of harm is not or cannot be adequately mitigated).

For this purpose, each risk of harm that is not adequately mitigated is mapped to the corresponding K-factor requirement. To the extent that the applicable K-factor requirement is insufficient to cover the post mitigation risk of harm or to the extent that there is no applicable K-factor requirement, the LLP will calculate a suitable amount of additional capital.

As part of its ICARA, the LLP also assesses the level of own funds that it would need in order to effect an orderly wind down, taking into account any additional risks of harm it identifies and whether the LLP's fixed overheads requirement adequately covers such risks. This figure is compared to the Firm's own funds requirement as detailed above. At this time, the LLP's own funds requirement is greater than its wind-down capital requirement.

## 6. Remuneration policy

The Firm has established, implemented, and maintains remuneration policies, procedures and practices that are consistent with and promote effective risk management and do not encourage excessive risk taking. The Remuneration Policy covers all aspects of remuneration that could have a bearing on effective risk management, including salaries, bonuses, hiring bonuses, severance packages and pension arrangements. The Remuneration Policy is principally concerned with the risks created by the manner in which remuneration arrangements are structured.

The Policy is gender neutral. Pursuant to the Equality Act 2010, discrimination on the basis of an individual's protected characteristics both before and after employment is offered, is prohibited. This applies to pay and all other contractual terms, including variable remuneration.



The LLP operates three types of remuneration consisting of (1) fixed annual salaries (base remuneration), generally in line with industry scales, (2) profit participation designed to link the achievement of the individual and the LLP's objectives and (3) discretionary bonus payments, if deemed appropriate.

These arrangements are very much linked to performance of the firm as a whole and are based on net profits after accounting for, and considering, future commitments and contingencies. The LLP generally does not make any on-going, guaranteed bonus commitments and allows for the adjustment of remuneration for significant types of current and future risks.

The EMC does not consider it necessary to establish a separate Remuneration Committee. All the matters recommended by the Remuneration Code that would be delegated to such a committee are considered by the EMC.

In order to fulfil its responsibilities, the EMC:

- Is appropriately staffed to enable it to exercise competent and independent judgment on remuneration policies and practices and the incentives created for managing risk, capital and liquidity;
- Prepares decisions regarding remuneration, including decisions which have implications for the risk and risk management of the Firm;
- Ensures that the remuneration policy and practices take into account the public interest and the long-term interests of shareholders, investors, and other stakeholders in the Firm; and
- Ensures that the overall remuneration policy is consistent with the business strategy, objectives, values, and interests of the Firm and of its clients.

Remuneration consists of the following components:

**Salary** – Staff receive a fixed sum, generally payable monthly by bank transfer, “Base remuneration”. Base remuneration may include other payments such as pensions and travel and entertainment reimbursements that may apply from time to time.

**Profit participation** – Certain senior staff and material risk takers (a member whose professional activities have a material impact on the risk profile of the Firm) will receive remuneration designed to link the achievement of individual and firm objectives. These individuals receive an expected profit sharing percentage, the amount of which is determined at the end of the current fiscal year, and which is applied to net profits recognised in the subsequent fiscal year. In certain circumstances the profit share percentage may be adjusted prior to the end of the subsequent year.

**Discretionary bonus** – Discretionary bonuses are generally reserved for staff not eligible for profit participation and such bonuses are merit-based. In certain, limited instances, senior staff receiving a profit participation may also receive a discretionary bonus, the amount and participation of which is determined after the end of current the fiscal year.

The fixed remuneration salary is agreed at the point of hiring the individual and is in line with prevailing market conditions for the specific post. Salaries are generally reviewed annually and are considered when ensuring that the total compensation, i.e., including variable remuneration, of each individual is within the limits expressed in this policy. In deciding each individual's total compensation due regard is taken of an appropriate balance between fixed and variable remuneration. Therefore, operating results of the firm set the proportion of variable remuneration.

The following summarises the financial and non-financial criteria of performance used across the Firm in

assessing the level of variable remuneration to be paid:

**Financial performance criteria**

- No individual is rewarded for the success of a specific transaction or recommendation.
- Any variable remuneration payments are first and foremost dependent upon profits generated by the Firm.

Staff may be awarded a discretionary year end distribution.

- This is variable and entirely dependent on the staff member's performance throughout the performance period and the economic performance of the firm.

**Non-financial performance criteria**

- Contribution to the culture of the LLP and living by the Firm's values.
- Behave with integrity, always remain professional and treat everyone with respect.
- Adherence to the Firm's internal compliance policies and procedures and the FCA Conduct Rules.

The LLP's remuneration policy includes a framework for assessing the level of remuneration to be paid. The framework applies both an ex-ante and an ex-post risk adjustment criteria to the level of remuneration paid. Factors considered include:

- Variable remuneration is considered on the broad actual contribution of the individual to the Firm and the Firm's actual performance throughout the performance period.
- Variable remuneration for the performance period does not consider future or indicative results.
- The Firm does not have the ability to distribute profits beyond those earned during the performance period.
- The Firm does not offer deferred compensation arrangements.
- The Firm believes its remuneration policy is consistent with and promotes sound and effective risk management and does not encourage risk-taking beyond the level of risk tolerated by the Firm.
- Any arrangement to make guaranteed payments would only be in exceptional circumstances and would be subject to the conditions of SYSC 19G.6.8 R.
- The Firm considers severance pay on a case-by-case basis. In this regard, the Firm will ensure that early termination of an employment contract or member deed, reflects the individual's performance over the relevant period and does not reward failure or misconduct. Any severance pay awarded to a Material Risk Taker (MRT) would be classified as variable remuneration and subject to malus and claw back.

The LLP is required to identify its MRT's. Accordingly, the MRT's are those members of staff whose professional activities have a material impact on the risk profile of the Firm, including:

- individuals who are members of the management body in its management function;
- individuals who have managerial responsibility for a client-dealing business unit of the LLP;
- individuals with managerial responsibilities for the activities of a Control Function, as defined; and
- individuals responsible for managing a material risk within the Firm.

**2022 Quantitative Summary**

£ 000's

The below table quantifies the remuneration paid in the financial year 1 January 2022 to 31 December 2022:

	Staff	Senior management and other MRTs
Number	12	3
Fixed Remuneration	£ 1,029	£ 280
Variable	£ 3,056	£ 6,651
Guaranteed Variable	£ 0	£ 0
<p><i>Note 1: There are no guarantees awarded for variable remuneration and there were no severance awards to MRTs during the year ended 31 December 2022.</i></p> <p><i>Note 2: Quantitative data for senior managers and MRTs has been aggregated to prevent identification of any individual MRT.</i></p>		