

Cantillon Capital Management LLP - Pillar 3 Risk Disclosure, 31 December 2020

1. Introduction

The European Capital Requirements Directive (“CRD”) introduced capital adequacy standards and an associated supervisory framework in the EU based on the Basel II rules. It affects banks, building societies as well as certain investment firms. The Directive was introduced into the UK by the Financial Conduct Authority (“FCA”) and the framework consisted of three ‘pillars.

Pillar 1

- The minimum capital required by a firm to meet credit, market, and operational risk.

Pillar 2

- A regular assessment of a firm’s regulatory capital, through a process known as the Internal Capital Adequacy Assessment Process (“ICAAP”), which determines whether the amount of internal capital is sufficient to cover all the risks to which the firm is exposed or whether additional capital needs to be held against the risks not covered in Pillar 1.

Pillar 3

- This introduces public disclosure of qualitative and quantitative information and is aimed to encourage market discipline by providing market participants access to key information on a firm’s capital, risk exposures and risk management processes.

The rules in BIPRU 11 (Prudential sourcebook for Banks, Building Societies, and Investment Firms) set out the Pillar 3 requirements. This document is designed to meet the Pillar 3 requirements. The rules permit Cantillon Capital Management LLP (the “LLP”) to omit any information that is considered immaterial, such that its omission would be unlikely to change or influence the decision of those relying on that information. In addition, the LLP may omit required disclosures which it regards as proprietary or confidential. Proprietary information is that which may undermine the LLP’s competitive position if it is shared. Information is confidential where there are obligations binding the LLP to confidentiality with its customers, suppliers, and counterparties.

No omissions have been made on the grounds that it is immaterial, proprietary, or confidential.

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 BIPRU 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. 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”).

The LLP forms part of a consolidation group for prudential purposes.

3. Risk Management and the Risk Management Process

The Cantillon Group is governed by an executive management committee (“EMC”) which determines the business strategy and risk appetite for the LLP.

For various reasons, 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 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 LLP and LLC’s operations team. In addition, the LLP retains external professional legal, accounting and compliance firms for expert advice and consultation, as and where considered appropriate.

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 ICAAP process, at least annually and more frequently as and when the need arises, upon the discretion of the EMC.

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.

The EMC has identified that credit, 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 concludes whether the amount of regulatory capital is adequate.

4. Credit Risk

Dependent on LLC

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.

5. 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 ICAAP 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.

6. 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.

7. Regulatory Capital

At 31 December 2020, the LLP had paid up share capital of £1,096k and no audited reserves on an unconsolidated basis and, on a consolidated basis, the LLP had £31k paid up share capital and audited reserves of £6,949k.

The main features of the Firm's capital resources for regulatory purposes are as follows:

	(Unconsolidated Basis) 31 December 2020 £000's	(Consolidated Basis) 31 December 2020 £000's
Capital item:		
Tier 1 capital less innovative tier 1 capital	1,096	6,980
Total tier 2, innovative tier 1 and tier 3 capital	-	-
Deductions from tier 1 and tier 2 capital	-	-
Total capital resources, net of deductions	<u>1,096</u>	<u>6,980</u>

The LLP is a relatively small firm with a simple operational infrastructure. The LLP's market risk is mainly limited to foreign exchange risk on its foreign currency cash balances. In addition, the LLP is, at times, subject to credit risk on management fees receivable. The LLP follows the standardized approach to market risk and the simplified standard approach to credit risk. The LLP is subject to the Fixed Overhead Requirement and is not required to calculate operational risk capital.

The LLP is an FCA BIPRU firm and as such its minimum capital requirement is the greater of:

- The base capital requirement of €50,000;
- The sum of its market and credit risk requirements; and
- The 13 Week Fixed Overhead Requirement.

The EMC considers that the available capital is adequate and in excess of the minimum required regulatory capital and the capital required to meet the estimated 13 week fixed overhead.

8. Remuneration Code Disclosure

The LLP is also subject to FCA Rules on remuneration. These are contained in the FCA's Remuneration Code located in the SYSC Sourcebook of the FCA's Handbook. The Remuneration Code ("the Code") covers an individual's total remuneration, fixed and variable. To ensure the entire firm attracts and retains the best

quality people, the LLP's remuneration policy is designed to align the firm's interests with that of the firm's clients.

Enshrined in the European remuneration provisions is the principle of proportionality. The FCA has sought to apply proportionality in the first instance by instituting two tests. Firstly, a firm that is significant in terms of its size must disclose quantitative information referred to in BIPRU 11.5.18R at the level of senior personnel. Secondly, that a firm must make disclosure that is appropriate to the size, internal organisation and the nature, scope, and complexity of their activities.

The firm is not 'significant', that is to say has relevant total assets <£50bn and so makes this disclosure in accordance with the second test (BIPRU 11.5.20R(2)).

The LLP operates three types of variable 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 of the matters recommended by the Remuneration Code that would be delegated to such a committee are considered by the EMC.

The Remuneration Code Staff ("Code Staff") includes:

- those individuals who make, or participate in making, decisions that affect the whole, or a substantial part, of the firm's business;
- who have the capacity to significantly affect the firm's financial standing; or
- who may materially affect the whole, or a or a substantial part, of the firm's business or its financial standing through their responsibility for: (i) enforcing policies and implementing strategies approved by management; or (ii) the development and implementation of systems that identify, assess, manage, or monitor risks in relation to the firm's business; or (iii) monitoring the appropriateness, adequacy and effectiveness of risk management systems.

During the year ended 31 December 2020, six individuals were classified as Code Staff. The aggregate remuneration for all designated Code Staff for during the year ended 31 December 2020 represented about 90% of the firm's total paid remuneration. Remuneration for Code staff as a percentage of total remuneration paid is expected to be about the same for the 2021 calendar year. The LLP believes that its systems and processes relating to remuneration do not pose a risk to the firm as a whole, the industry, or the FCA's objectives. Compliance personnel and the EMC are responsible for maintaining a list of the firm's Code Staff and ensuring that they and the LLP remain in adherence with the obligations and the spirit of the Code.

Signed as a true and correct record.

For and on behalf of the Executive Management Committee:

Kevin S. Aarons

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Kevin S. Aarons
Chief Operating Officer

29 March 2021

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Date