

IFPR Disclosure

1. Introduction

SFM UK Management LLP (“SFM UK” or the “Firm”) is authorised and regulated by the Financial Conduct Authority (“FCA”) of the United Kingdom and is a MIFIDPRU investment firm” as defined in the FCA rules. The Firm is a non-SNI firm for the purposes of the rules in the Prudential sourcebook for MiFID Investment Firms (“MIFIDPRU”). The Firm’s governing body is its Governing Body which is acting in conjunction with the Partners Committee (both together “Governing Body”).

Under the FCA Rules (specifically Chapter 8 of MIFIDPRU), the Firm is required to make specific disclosures relating to its:

- Governance arrangements
- Own Funds
- Own Funds requirements
- Remuneration
- Investment policy
- Risk management

2. Significant Changes Since Last Disclosure Period

This is the Firm’s first disclosure under the public disclosure requirements under MIFIDPRU 8. As such, there have been no significant changes to the information disclosed since the Firm’s last disclosure period.

3. Governance Arrangements

Oversight of Governance Arrangements by the Governing Body

The Firm, as a MIFIDPRU Investment Firm, is subject to the organisational requirements in 4.3A.1R of the Senior Management Arrangements, Systems and Controls Sourcebook of the FCA Handbook (“SYSC”).

Under SYSC 4.3A.1 R, the Firm must ensure that the Governing Body defines, oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management of the Firm, including the segregation of duties in the organisation and the prevention of conflicts of interest, and in a manner that promotes the integrity of the market and the interests of the Firm’s clients.

In order to comply with the requirement in SYSC 4. 3A.1 R, the Firm has procedures in place to ensure that members of the Governing Body are selected based primarily on the following criteria:

- reputation within the market;
- the possession of the necessary knowledge, skills and experience to perform the relevant duties;

- whether their addition will complement the Governing Body's collective knowledge, skills and experience in relation to the Firm's activities, including the main risks it faces;
- diversity of viewpoints, backgrounds, experiences, and other demographics

As part of the Firm's governance arrangements and structure, the Governing Body defines, oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management of the Firm. These arrangements include ensuring that the Firm and its individual functions are adequately resourced and ensuring that there is appropriate segregation of duties and responsibilities (for example, appropriate segregation of front office and middle and back office functions, including risk management, operations and compliance functions that are independent of the front office) in a manner that promotes the integrity of the market and the interests of clients. Under the Firm's governance arrangements, the Governing Body also ensures that conflicts of interest between the interests of the Firm 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 Governing Body of a comprehensive conflicts of interest policy which identifies all relevant areas of the Firm's business that could give rise to such conflicts and the various mitigants that the Firm has put in place either to avoid such conflicts or to manage them such that the risk of prejudice to the Firm'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 Firm's conflicts of interest policy.

All relevant staff report to the Governing Body (either directly or to individuals who, in turn, are members of other committees reporting into the Governing Body). The Governing Body operates under a set of terms of reference which provide for certain decisions to be reserved to it. The Governing Body meets generally on a quarterly basis to discuss significant matters affecting the Firm and to make strategic decisions. Under the Firm's governance arrangements including the terms of reference for the the Governing Body:

- has overall responsibility for the business and conduct of the Firm;
- approves and oversees implementation of the Firm's strategic objectives, risk strategy and internal governance;
- has oversight of and ensures the integrity of the Firm'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 Firm with clients and regulators;
- is responsible for providing oversight of the Firm's senior management;
- monitors, assesses and makes changes in respect of deficiencies found in respect of: (i) the adequacy/implementation of the Firm's strategic objectives in the provision of investment services and activities (including ancillary services); (ii) the effectiveness of the Firm'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 Governing Body are required to commit sufficient time to ensure that they can perform their functions within the Firm and to act with honesty, integrity and independence of mind to effectively assess and challenge decisions where necessary and to effectively oversee and monitor management decision-making.

Directorships

MIFIDPRU 8.3.1 R requires the number of directorships each member of the Governing Body holds, broken down into executive and non-executive directorships. Executive and non-executive directorships held with the same group or that do not pursue predominantly commercial objectives can be excluded.

Members of the Governing Body do not hold any disclosable directorships in accordance with the rules.

Risk Committee

The Firm is not required to establish a risk committee and so has not established such a committee. The Firm is not in scope for the requirements in MIFIDPRU 7.3 (i.e. is not in scope for extended remuneration arrangement and does not have a risk committee).

Diversity Policy

The Firm promotes fair and equal treatment through workplace practices and values a diverse, inclusive and equitable workplace where all employees feel appreciated and respected. SFM UK is committed to non-discriminatory approach and provides equal opportunity for employment and advancement throughout our programmes, departments and locations. The Firm seeks out and admires diverse life experiences and heritages and supports all voices being heard.

4. Own Funds and Own Funds Requirement

Own Funds

The Firm is subject to the disclosure requirements stipulated in MIFIDPRU 8.4.1 R. As such, the tables below set out:

- A. details of common equity tier 1 items, additional tier 1 items, tier 2 items, and the applicable filters and deductions applied in order to calculate the own funds of the Firm (i.e. a composition of regulatory own funds);
- B. a reconciliation of the Firm's composition of regulatory own funds with the capital in the balance sheet in the audited financial statements of the Firm; and
- C. a description of the main features of the common equity tier 1 instruments, additional tier 1 instruments and tier 2 instruments issued by the Firm.

A. The Firm's own funds (i.e. capital resources) consisted of the following as at 31 December 2022:

	Item	Amount (GBP thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements
1	OWN FUNDS	4,500	Members' other interests
2	TIER 1 CAPITAL	4,500	Members' other interests
3	COMMON EQUITY TIER 1 CAPITAL	4,500	Members' other interests
4	Fully paid up capital instruments	-	
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	-	
19	CET1: Other capital elements, deductions and adjustments	-	
20	ADDITIONAL TIER 1 CAPITAL	-	
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	TIER 2 CAPITAL	-	
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	-	

B.

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements			
	a	b	c
	Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross- reference to template OF1
	As at period end	As at period end	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements			
1	Tangible Assets	696	-
2	Debtors: amounts falling due within one year	28,827	-
3	Cash at bank and in hand	1,944	-
	Total Assets	31,467	-
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements			
1	Creditors: amounts falling due within one year	4,900	-
2	Other provisions	275	-
	Total Liabilities	5,175	-
Shareholders' Equity			
1	Loans and other debts due to members within one year	21,792	-
2	Members' capital classified as equity	4,500	-
	Total Shareholders' equity	26,292	-

C. Own funds: main features of own Instruments issued by the Firm

The CET 1 instruments issued by the firm consist of LLP members' capital. The instruments have been issued on an ad hoc basis as and when new LLP members have been admitted or when the Firm has required additional capital. The LLP members' capital does not have a nominal value. Its value reflects the amount paid in by the relevant member. Under the terms of the Firm's LLP Agreement, the LLP members' capital is non-convertible and perpetual (it does not have a maturity date), carries no right to dividends, coupon or other forms of income (instead, LLP members may, at the discretion of the Firm be awarded a share in the profits of the Firm at the end of the financial year) and is subject to restrictions on withdrawal in accordance with the requirements of MIFIDPRU 3.3.17 R.

Own Funds Requirements

The below table shows the K-factor requirement (“KFR”), broken down into three groupings and the total amount of fixed overhead requirement (“FOR”)(GBP)

K-Factor Requirement (calculated by the Firm in accordance with MIFIDPRU 4.6)	The sum of: - the K-AUM requirement - the K-CMH requirement - the K-ASA requirement	£490,560
	The sum of - the K-COH requirement -the K-DTF requirement	£168,264
	The sum of - the K-NPR requirement - the K-CMG requirement - the K-TCD requirement - K-CON requirement	£0
Fixed Overhead Requirement (calculated in accordance with MIFIDPRU 4.5)		£2,449,088

Approach to assessing the adequacy of own funds

As part of its ICARA process, the Firm assesses the adequacy of its own funds in accordance with the overall financial adequacy rule in MIFIDPRU 7.4.7 R.

In particular, the Firm 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 Firm 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 Firm 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 Firm will calculate a suitable amount of additional capital.

As part of its ICARA, the Firm 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 Firm's fixed overheads requirement adequately covers such risks.

5. Remuneration Policy and Practices

SFM UK has adopted a remuneration policy that complies with the requirements of chapter 19G of the FCA's Senior Management Arrangements, Systems and Controls Sourcebook ("SYSC"). The Firm is a "non-SNI firm" for the purposes of the MIFIDPRU Remuneration Code. Based on its size and an assessment of the criteria in SYSC 19G.1.1 of the MIFIDPRU Remuneration Code, the Firm is not subject to certain rules relating to the pay-out of MRT variable remuneration (payment in instruments, retention, mandatory deferral and discretionary pension benefits). SFM is therefore subject to the "basic" MIFIDPRU Remuneration Code requirements in respect of all MIFIDPRU staff and the "standard", but not the "extended", requirements in respect of its MIFIDPRU MRTs.

Decision-making Process for Remuneration Policy

SFM's Operating Committee are responsible for the approval of the Remuneration Policy. The Operating Committee has appointed a SFM Compensation Committee that is responsible for overseeing and implementing the Remuneration Policy. The terms of the policy are reviewed periodically.

The SFM Compensation Committee comprises the Chief Investment Officer, Chief Operating Officer, Chief Administrative Officer, the Director of Human Resources and the Head of UK Office.

The Firm acknowledges that remuneration practices must be appropriate and proportionate to the nature, scale and complexity of the risks inherent in the business model and the activities of the Firm.

Material Risk Taker ("MRT") Criteria

In accordance with FCA requirements, SFM UK identifies staff that are MRTs ('Code Staff' under prior IFPRU rules) as broadly those individuals whose professional activities have a material impact on the risk profile of the firm, pursuant to FCA requirements. This includes members of SFM's Operating Committee, and members of the Partners Committee.

The Link Between Pay and Performance for MRTs

Remuneration is made up of fixed pay (i.e. salary, advanced drawings, benefits) and performance related pay. Performance-related pay is designed to reflect success or failure against the MRT's objectives as well as reflecting the performance of the MRT's department and SFM UK as a whole.

As part of their performance-related pay, MRTs have received certain deferred incentive awards under which amounts are payable after a certain time period contingent on the MRT and the performance of SFM UK and the MRT remaining a member of SFM UK for the period.

Aggregate Remuneration for MRTs

SFM UK is required to disclose the aggregate remuneration of MRTs. For the year ending 31 December 2022 the annual remuneration was £18,394,325. This is comprised of fixed pay, variable pay, non-contributory pension, and benefits in kind in accordance with the rules. SFM UK considers that it does not operate with distinct business areas and therefore the aggregate information on remuneration is disclosed. Due to the limited number of MRTs, the Firm considers it appropriate to disclose aggregate remuneration across all MRTs so as not to prejudice individuals with regard to disclosure of personal information.

6. Risk Management

The Firm has governance and internal control arrangements in place to manage risks across the business. The Firm's risk management framework is central to the Firm's ICARA process. The risk management framework is split between (1) portfolio and trading risk and (2) enterprise risk and is summarised as follows:

Portfolio and trading risk

The SFM Liquidity and Risk Committee is responsible for the oversight of risk and funding within the Firm. The committee meets weekly and is chaired by the Chief Risk Officer ("CRO"). The CRO draws upon the resources of each of the business groups within the Firm in implementing the decisions of the committee.

The committee reviews and discusses topics related to risk and funding including but not limited to; P&L, risk measures (sensitivities, stress testing, VaR etc.), guidelines and limits, liquidity, funding risk, borrowing capacity and funding cost. On a day-to-day basis, risk is supervised and monitored by the CRO.

The Firm operates a series of automated risk guidelines and limits to assist the risk management team in monitoring and managing risk. Guidelines and limits are tracked on T + 1 and apply to both individual Portfolio Managers and the aggregate fund. All breaches are reviewed by Risk and will either result in an extension (with documented reason and timeline) or required risk reduction.

Enterprise Risk

The Firm has in place arrangements in relation to all aspects of its business. These arrangements are grouped into five broad areas:

- Organisation and Management – the Firm maintains a clear organisational structure to maximise independence of function and to reduce internal conflicts. Where conflicts exist, these are documented and recognised and mitigated where possible.
- People and Responsibilities – individuals have clearly defined roles and responsibilities, and openness and communication are actively encouraged in all areas, particularly in respect of any suspected breaches of the Firm's legal, ethical and regulatory obligations. There is an annual review and appraisal process in place for all staff.
- Business Processes – business risk is managed through the appointment of skilled senior personnel together with a combination of formal and informal checks and balances

combined with management oversight arrangements. The Firm maintains a close working relationship with its clients, prime brokers and administrators and certain other key advisers (in particular its auditors, tax advisors and lawyers).

- Management Information and Reporting – the importance of information as a governance tool is recognised by the Governing Body. The Firm has adopted risk management and management information reporting that is designed to ensure that senior management have the required information that they need.
- Compliance Arrangements – The Firm has sought to embed a culture of compliance throughout the business through a combination of education and training for staff and clarity of responsibility for management. In addition, there are detailed compliance manuals and policies covering compliance on an individual and firm wide basis, which include policies relating to best execution, trade allocation, trade errors, conflicts of interest, market abuse prevention, money laundering and financial crime prevention, personal account dealing and gifts and entertainment. All staff are required to confirm that they have read and complied with these on an biannual basis. There is a risk-based monitoring plan in place which is an on-going process to monitor compliance with existing procedures and to ensure regulatory changes are addressed as they arise.

The Governing Body is responsible for the Firm's overall risk management framework and processes. Compliance requirements are the responsibility of the Chief Compliance Officer. Finance requirements are the responsibility of the Chief Financial Officer. These officers as well as other department managers are responsible for identifying new risks and implementing controls to mitigate risks in their areas.

The Firm's risks and internal controls are assessed on an on-going basis. When risks fall outside the Firm's guidelines, remedial actions are taken to manage such risks.

The following criteria are considered when implementing internal controls: (a) the controls should provide effective and efficient processes to manage risk; (b) the controls should ensure compliance with applicable laws and regulations; and (c) the controls should promote segregation of duties and clearly assign accountability.

The Governing Body is responsible for supervising those who have been assigned responsibility to implement the Firm's internal controls and risk management procedures. Such oversight shall include a review of the control environment and the adequacy of the Firm's regulatory capital and liquid assets on a regular basis.

7. Investment Policy

SFM UK meets criteria set out in MIFIDPRU 7.1.4R and therefore does not have to disclose its Investment Policy in accordance to MIFIDPRU 8.7.