

# Avenue Europe Management LLP

## MIFIDPRU 8 Disclosure

**January 2024**

### *Introduction*

The Financial Conduct Authority (“FCA” or “regulator”) in the Prudential sourcebook for MiFID Investment Firms in the FCA Handbook (“MIFIDPRU”) sets out the detailed prudential requirements that apply to Avenue Europe Management, LLP (“AEM” or the “Firm”). Chapter 8 of MIFIDPRU (“MIFIDPRU 8”) sets out public disclosure rules and guidance with which the Firm must comply, further to those prudential requirements.

AEM is classified under MIFIDPRU as a non-small and non-interconnected MIFIDPRU investment firm (“Non-SNI MIFIDPRU Investment Firm”). As such, the Firm is required by MIFIDPRU 8 to disclose information on the following areas:

- Risk management objectives and policies;
- Governance arrangements;
- Own funds;
- Own funds requirements; and
- Remuneration policy and practices.

The purpose of these disclosures is to give stakeholders and market participants an insight into the Firm’s culture and data on the Firm’s own funds and own funds requirements allows potential investors to assess the Firm’s financial strength.

This document has been prepared by AEM in accordance with the requirements of MIFIDPRU 8 and is verified by the UK Governing Board. Unless otherwise stated, all figures are as at the Firm’s 31 December financial year-end.

### *Risk Management Objectives and Policies*

This section describes AEM’s risk management objectives and policies for the categories of risk addressed by the requirements of the Firm in the following areas:

- Own funds.
- Concentration risk.
- Liquidity.

## Business Strategy

AEM is an investment management firm focused on special situation credit opportunities through investments in senior secured loans and bonds, special Situation lending (including asset-backed lending), stressed and dislocated opportunities and specialty finance platforms. The strategy focuses on creditor-friendly jurisdictions in Northern Europe such as the United Kingdom, Germany, Ireland, and the Benelux and Nordic countries.

AEM is a UK limited liability partnership which was incorporated on 27 February 2004 and authorised by the then UK financial regulator the Financial Services Authority ("FSA") on 30 September 2004 and it is now regulated by the Financial Conduct Authority ("FCA"). Its registered office and principal place of business is at 1 Knightsbridge Green (6th Floor), London SW1X 7QA. AEM's principal activity is to act as a sub-investment manager to certain funds. The Firm also provides deal sourcing, research and asset management support services under a sub-advisory agreement to Avenue Europe International Management, L.P. As at 31 December 2023 the Firm has assets under management of approximately £2.399 billion. The Firm's only client is its parent undertaking, Avenue Europe International Management, L.P., a US SEC Registered Investment Advisor. Avenue Europe International Management, L.P. is a well-established investment advisor that manages a range of funds focused on specialty lending, distressed debt and other special situations investments in Europe.

AEM primarily seeks to grow its revenues by growing the underlying asset base on which it charges a management fee. This is achieved by a selection of prudent, outperforming investment opportunities and the growth of the Firm's client's assets within the relevant underlying funds. Costs are controlled carefully to ensure long-term profitability. The business seeks to make investments to expand its business and product lines and to continuously improve its control environment.

Given the Firm's business model, controls, and controls assessment, it is the conclusion of the Firm that its overall potential for harm is low.

## Own Funds Requirement

AEM is required to maintain own funds that are at least equal to the Firm's own funds requirement. The own funds requirement is the higher of the Firm's:

- **Permanent minimum capital requirement ("PMR"):** The level of own funds required to operate at all times. Based on the MiFID investment services and activities that the Firm currently has permission to undertake this is set at £75,000;
- **Fixed overhead requirement ("FOR"):** The minimum amount of capital that AEM would need to have to absorb losses if the Firm has cause to wind down exit the market. This is equal to one quarter of the Firm's relevant expenditure; and
- **K-factor requirement ("KFR"):** The KFR is intended to calculate a minimum amount of capital that AEM would need for the ongoing operation of its business. The K-factors that

apply to the Firm's business are K-AUM (calculated on the basis of the Firm's assets under management ("AUM")) and K-COH (calculated on the basis of the client orders handled by the Firm).

AEM's own funds requirement is currently set by its FOR, as this is the highest of the three metrics. The potential for harm associated with AEM's business strategy, based on the Firm's own funds requirement, is low. This is due to the relatively consistent and stable growth in the Firm's revenues and asset base.

A method adopted by the Firm to manage the risk of breach of the Firm's own funds requirement is the maintenance of a healthy own funds surplus above the own funds requirement. In the event that the Firm's own funds drop to an amount equal to 110% of the Firm's own funds threshold requirement, the Firm will immediately notify its UK Governing Board, as well as the regulator. The UK Governing Board will consider the necessary steps required in order to increase the own funds buffer; this may include injecting more own funds into the Firm.

### **Concentration Risk**

Concentration risks affecting the Firm include reliance on individual investors and exposure to those holding the Firm's cash assets.

The Firm currently sub-advises and manages the Avenue European Funds only and does not have plans to expand into funds managed by any other advisor (other than Avenue Europe International Management, L.P. and its affiliates); however, the concentration risk of this current business profile is manageable. The Avenue European Funds are part of a well-diversified international group and the prospect of concentration risk adversely affecting the portfolio split is minimal.

The UK Governing Board is aware of the adverse effects in which concentration risks may result and monitors this situation on an Avenue Capital Group wide basis.

The potential for harm associated with AEM's business strategy, based on the Firm's concentration risk, is low.

### **Liquidity**

The Firm is required to maintain sufficient liquidity to ensure that there is no significant risk that its liabilities cannot be met as they fall due and to ensure that it has appropriate (liquid) resources in the event of a stress scenario.

The potential for harm associated with AEM's business strategy, based on the Firm's basic liquid assets requirement, is low. As with regard to its own funds requirement, this is due to the Firm's only client, which is its parent undertaking, being a well-established financial services company with a diverse and significant revenue pool. AEM receives revenue under a cost plus recovery provision of its transfer pricing agreement. The Firm, therefore, considers that it has a safe and predictable revenue stream, including during stressed market conditions.

The Firm also maintains both a Liquidity Risk Management Framework and a Liquidity Risk Management Policy. The key elements of the policy address financial liabilities and are as follows:

- (a) a liquidity assessment is made at the time that payment or settlement will be made;
- (b) projected payments, settlements and receipts are included in the Firm's Cash Flow forecast and an assessment of short term funding requirements is made; and
- (c) on a periodic basis, the Firm reviews its Balance Sheet and Cash Flow forecast and assesses the maintenance of a sufficiently funded Balance Sheet and cash requirements over the next three months.

Should this evaluation of liquidity risk highlight possible deficiency of available cash funding in the forecasted three-month period, the Firm will consider the funding sources available to them, including those set out in the Firm's contingency funding plans included within its Liquidity Risk Management Framework, and take steps to avoid any forecasted deficiency.

In this way the Firm maintains a healthy core liquid assets surplus above the basic liquid assets requirement. The Firm retains an amount it considers suitable for providing sufficient liquidity to meet the working capital requirements under various conditions. AEM has always had sufficient liquidity within the business to meet its obligations and there are no perceived threats to this given the cash deposits it holds and the immediately available financial support from its parent undertaking. Additionally, it has historically been the case that all debtors are settled promptly, thus ensuring further liquidity resources are available to the Firm on a timely basis. The cash position of the Firm is monitored by the Accounting Department on a regular basis, and shared with, and discussed by, the Firm's Governing Board on a no less than quarterly basis, and the Firm would be able to call on its parent undertaking for further capital as required. AEM was alerted to a potential breach of its liquid assets threshold requirement in June 2023 and determined that it was in breach. The FCA was promptly informed of the breach through the appropriate forms and notifications, and internal remedial actions and procedures were implemented to ensure the breach was resolved and would not reoccur.

### **Risk Management Structure**

The Firm has a central risk management function, which operates independently from the portfolio management teams. The departmental mandate is to measure and monitor the principal categories of risk including market, credit, counterparty, liquidity, leverage and operational risk.

The Risk Management Department actively monitors credit (e.g., investment, counterparty) and market factors (e.g., credit and interest rate spread, equity variability, correlation) for each of the Avenue Funds. This department generally prepares various analysis reports addressing exposure, performance, sensitivities and stress tests, and shares such findings with senior management and the portfolio management team on a regular basis. Each member of the Risk Management Department is actively involved in the production and review of risk management analytics, and in order to maximize coverage, each of the identified activities can be performed interchangeably by any member of the team.

All work is conducted internally and the Firm does not use any external service providers to carry out its functions. Internal position data is sourced from the various in-scope technologies, in addition to external data sources.

The Risk Management Department's monitoring activities and reports include without limitation:

- **Counterparty trading limits** are established and monitored by both Risk Management and Compliance, and exposures versus limits are reported daily by Operations to the portfolio management team;
- **Investment limits** as specified in operating documents for each fund, are monitored by both Risk Management and Compliance;
- **Hedging allocation and exposures** are monitored and reported to the portfolio management team, as needed, in order to assess current effectiveness and potential re-balancing. Additionally, proposed hedges, overlay positions and new investments are reviewed with the Risk Management Department prior to execution. Trades on existing positions are reviewed contemporaneously with execution, and the Risk Management Department produces risk analytics on a daily and weekly basis;
- **Exposure and performance reports** are created and reviewed to identify exposure/trend analysis by portfolio manager investment classification and counterparty exposure with gross/net exposures and unsettled trades, with aging; and
- **Sensitivities and stress testing** are performed to evaluate (i) equity value-at-risk analysis and beta, (ii) fixed income duration/convexity/Z-spread, (iii) portfolio and portfolio component correlation, (iv) interest rate sensitivity analysis (stress and scenarios), (v) credit spread sensitivity analysis (stress and scenarios), and (vi) ad-hoc analysis, such as hedge scenario and cash flow simulation.

The risk management process as it relates specifically to AEM is overseen by the UK Governing Board which has overall responsibility for this process and the fundamental risk appetite of the Firm. The Compliance Officer has responsibility for the implementation and enforcement of the Firm's risk principles.

The UK Governing Board meets on a regular basis and discusses current projections for profitability, cash flow, regulatory capital management, business planning and risk management. The UK Governing Board monitors the risk framework through a suite of policy and procedures having regard to the relevant laws, standards, principles, and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required.

Annually, the Firm formally reviews its risks, controls, and other risk mitigation arrangements and assesses their effectiveness; the conclusions to this review inform the overall risk appetite of the Firm.

A formal update on operational matters is provided to the UK Governing Board on a quarterly basis. Management accounts demonstrating the continued adequacy of AEM's regulatory capital are reviewed on a regular basis.

Appropriate action is taken where risks are identified that fall outside the Firm's tolerance levels or where the need for remedial action is required in respect of identified weaknesses in AEM's mitigating controls.

## *Governance Arrangements*

### **Overview**

AEM believes that effective governance arrangements help the Firm to achieve its strategic objectives while also ensuring that the risks to the Firm, its stakeholders, and the wider market are identified, managed, and mitigated.

The UK Governing Board has overall responsibility for AEM and is therefore responsible for defining and overseeing the governance arrangements at the Firm.

In order to fulfil its responsibilities, the UK Governing Board meets on a quarterly basis. Amongst other things, the UK Governing Board approves and oversees the implementation of the Firm's strategic objectives and risk appetite, ensures the integrity of the Firm's accounting and financial reporting systems, including financial and operational controls, ensures compliance with the requirements of the regulatory system, assesses the adequacy of policies relating to the provision of services to clients, and provides oversight of the Firm's senior management.

A key document that is reviewed, discussed, and ratified by the UK Governing Board at least annually is the Senior Management Systems and Controls Document ("SYSC Document"), as this demonstrates how the Firm has met its obligations with regard to its governance arrangements. The SYSC Document provides the UK Governing Board with information on the functioning and performance of all aspects of the Firm, including the following areas:

- General organisational requirements, including steps taken by the Firm to ensure continuity and regularity in the performance of its regulated activities, and the Firm's accounting policies.
- Employees, including steps taken by the Firm to ensure that employees have the necessary skills, knowledge, and expertise for the discharge of the responsibilities allocated to them, and to ensure that they are fit and proper persons.
- Policies, procedures, and controls for meeting its compliance and financial crime requirements.
- Internal capital adequacy and risk assessment process.
- Outsourcing of critical or material operating functions or activities.
- Record-keeping controls and arrangements.

- Conflicts of interest management.
- Remuneration policies and practices; and
- Whistleblowing controls.

## **The Management Body**

Avenue Europe is led by Mr. Marc Lasry and Ms. Sonia Gardner. Mr. Lasry and Ms. Gardner are the co-founders of Avenue and have approximately 40 and 38 years of experience in the distressed industry, respectively. Mr. Jonathan Ford is a Senior Portfolio Manager of Avenue Europe and the Head of Avenue's Europe Strategy. Mr. Ford has approximately 26 years of experience in the credit markets in Europe. Mr. Padraig Moore is a Senior Portfolio Manager of Avenue Europe. Mr. Moore has approximately 17 years of experience in the credit markets in Europe. Prior to founding Avenue Capital Group in 1995, Mr. Lasry and Ms. Gardner managed capital focused on distressed debt investments in conjunction with the Robert Bass Group, Inc. In 1991, they founded the predecessor to Amroc Investments, LLC ("Amroc"), a firm focused on bank debt and trade claims. Prior to that time, Mr. Lasry and Ms. Gardner led principal investments in distressed securities in conjunction with Cowen & Company. Mr. Ford, who has been with Avenue Europe since 2009, was previously the Head of Research in London for the Distressed Products Group at Deutsche Bank. Mr. Moore, who has been with Avenue Europe since 2012, was also previously the Head of Research in London for the Distressed Products Group at Deutsche Bank.

## **Marc Lasry**

Mr. Lasry co-founded Avenue Capital Group in 1995, and distressed investing has been the focus of his professional career for over 40 years. Prior to forming Amroc Investments, LLC ("Amroc") as an independent entity, Mr. Lasry managed capital for Amroc Investments, L.P., an investment fund affiliated with the Robert M. Bass Group. Prior to that, Mr. Lasry was Co-Director of the Bankruptcy and Corporate Reorganization Department at Cowen & Company. Prior to Cowen, he was the Director of the Private Debt Department at Smith Vasiliou Management Company, the firm where he first became involved in the distressed debt markets. He spent the prior year practicing law at Angel & Frankel where he focused on bankruptcies. Mr. Lasry also clerked for the Honorable Edward Ryan, former Chief Bankruptcy Judge for the Southern District of New York.

Mr. Lasry is currently a member of the Council on Foreign Relations and he has served and will continue to serve on various other boards of advisors/directors of both for-profit and not-for-profit private and public companies.

Mr. Lasry graduated with a B.A. in History from Clark University (1981) and a J.D. from New York Law School (1984)

## **Sonia Gardner**

Ms. Gardner co-founded Avenue Capital Group in 1995 and is the Partner in charge of managing the firm globally. Distressed investing has been the focus of her professional career for over 38 years. She also co-founded Amroc Investments, LLC (“Amroc”) where she was Senior Portfolio Manager responsible for investing the partners’ capital, and was active in the review and trading of the debt of hundreds of bankruptcies. Prior to forming Amroc as an independent entity, Ms. Gardner was General Counsel and Senior Managing Director of Amroc Investments, L.P., an investment fund affiliated with the Robert M. Bass Group. She began her career in 1987 at Cowen & Company in the Bankruptcy and Corporate Reorganization Department.

Ms. Gardner is the Goodwill Ambassador for the United Nations Capital Development Fund for Gender Equality in Access to Finance. In her role, she advocates for ways to give women in the world’s poorest countries access to economic resources to lift their families out of poverty, and help to achieve the Sustainable Development Goals of the United Nations. Ms. Gardner was the recipient of the 100 Women in Finance 2008 Industry Leadership Award, where she served as the Global Chair of the Board of Directors and presently serves as Chairman Emeritus. She previously served on the Board of Trustees of The Mount Sinai Medical Center and currently serves on the Client Advisory Board of Citi Private Bank. Ms. Gardner has served and will continue to serve on various other boards of advisors/directors of both for-profit and not-for-profit private companies.

Ms. Gardner received a B.A. with Honors in Philosophy from Clark University (1983) and a J.D. from the Cardozo School of Law (1986).

## **Thomas Larkin**

Mr. Larkin is responsible for the Firm’s accounting, operations, and tax functions. Prior to joining Avenue in 2011, Mr. Larkin was the Chief Operating Officer of Ellington Management Group, where he was responsible for the firm’s accounting, operational and financial activities. Prior to joining Ellington in 2004, Mr. Larkin served as Chief Financial Officer of Resurgence Asset Management, an investment management firm specializing in securities of financially distressed companies. At Resurgence, Mr. Larkin was responsible for all accounting and financial operations. Prior to joining Resurgence in 1997, he was the Controller of Concord International Investments Group, a multinational investment management firm. Mr. Larkin started his career at Ernst & Young, where he provided auditing and consulting services to companies in a variety of industries, including hedge funds, mutual funds, and oil and gas concerns.

Mr. Larkin received a B.S. in Accounting from Boston College (1986). He became a Certified Public Accountant in 1989.



### **Andrew Schinder**

Mr. Schinder is responsible for overseeing compliance for the Firm. Prior to joining Avenue in 2019 as Chief Compliance Officer, Mr. Schinder was Chief Compliance Officer and Assistant General Counsel of Tricadia Capital, where he managed the firm's compliance program and served as internal counsel in respect of Tricadia's credit, convexity and private equity strategies, among other areas. Prior to that, Mr. Schinder was an Associate in the Capital Markets Department of Cadwalader, Wickersham & Taft LLP, where he represented issuers and underwriters in structured finance transactions with a focus on commercial real estate securitization.

Mr. Schinder received a B.S., with honors, from Cornell University (1999) and a J.D. from Cornell Law School (2003).

### **Jonathan Ford**

Mr. Ford is the Senior Portfolio Manager and Head of Avenue's Europe Strategy responsible for the direction of the investment activities of the Avenue Europe Strategy. Prior to joining Avenue in 2009, Mr. Ford was the Head of European Research based in London for the Distressed Products Group at Deutsche Bank, focused on European distressed and special situations investments across the capital structure. Previously, Mr. Ford was an Assistant Director in the Corporate Restructuring Group at Close Brothers Group, where he worked on a number of high-profile European restructuring and distressed mergers and acquisitions transactions. Prior to joining Close Brothers Group, Mr. Ford was an Assistant Manager in the Banking & Capital Markets division of PricewaterhouseCoopers (London).

Mr. Ford received a B.S. in Economics from the University of Birmingham (1996).

### **Padraig Moore**

Mr. Moore is a Senior Portfolio Portfolio Manager responsible for assisting with the direction of the investment activities of the Avenue Europe Strategy. Mr. Moore is on the Fund Investment Committee and has held various positions with Avenue prior to serving as a Portfolio Manager, including as a Managing Director where he was responsible for identifying, analyzing and modeling investment opportunities for the Avenue Europe Strategy. Prior to joining the Firm in 2012, Mr. Moore was the head of distressed debt research at Deutsche Bank AG in London, focused on public and private distressed and special situations investments. Mr. Moore has worked on a number of high profile restructurings and liquidations, as well as special situation lending deals.

Mr. Moore received an M.A. in Economics from the University of Cambridge (2003), an M.Sc. in Financial Economics from the University of Oxford (2006), and a Ph.D. in Economics from Trinity College Dublin (2007).

## Nicolas Razzouk

Mr. Razzouk is a Managing Director responsible for identifying, analyzing, and modeling investment opportunities for the Avenue Europe Strategy. Prior to joining Avenue in 2012, Mr. Razzouk was at Ironshield Capital, a hedge fund based in London focusing on distressed and stressed opportunities across Europe. Previously, Mr. Razzouk was a Vice President at Matlin Patterson Advisors, a private equity firm also focusing on distressed opportunities in Europe. Prior to that, he worked at Silver Lake Partners in their London office. Mr. Razzouk started his career at Salomon Smith Barney in their Telecom Investment Banking division both in London and New York.

Mr. Razzouk received B.Sc. in Economics (with Distinction) from St Joseph University in Beirut (1999) and a M.Sc. in Accounting and Finance (with Merit) from the London School of Economics (2001).

AEM's management body is the UK Governing Board. The below table provides the number of directorships held by each member of the management body:

Management Body Member	Position at AEM	Number of Directorships Held	
		Executive	Non-Executive
Marc Lasry	Chairman, Chief Executive Officer and Chief Investment Officer of Avenue Europe and Chairman of the Governing Board of Avenue Europe Management, LLP		Jackson Hole Partners Advisory SponsorUnited
Sonia Gardner	President and Managing Partner		Citi Private Bank
Thomas Larkin	Chief Financial Officer		
Andrew Schinder	Chief Compliance Officer		
Jonathan Ford	Head of Europe Strategy and Senior Portfolio Manager		
Padraig Moore	Portfolio Manager		
Nicolas Razzouk	Managing Director		

## Diversity of the Management Body

The Firm has in place a Diversity Inclusivity Policy, which is a policy promoting diversity within the Firm including the management body, in accordance with SYSC 4.3A.10R.

The Firm's Diversity Inclusivity Policy ensures that no Staff member is advantaged or disadvantaged by conditions or requirements which are not relevant to their performance. The Firm values people as individuals with diverse opinions, cultures, lifestyles, and circumstances. Under the Firm's Diversity Inclusivity Policy, all team members are expected to treat each other fairly and with respect. Selection for employment, promotion, training, or any other benefit shall be based solely on aptitude, ability, and experience. All team members are encouraged to develop to their full potential.

## Risk Management Function

AEM has established an independent risk function at group level. The purpose of the risk function includes to advise the UK Governing Board on the Firm's overall current and future risk appetite and strategy and assist the UK Governing Board in overseeing the implementation of that strategy.

### *Own Funds*

As at 31 December 2023, AEM maintained own funds of £8,626,331. The below regulator-prescribed tables provide a breakdown of the Firm's own funds:

Composition of Regulatory Own Funds			
	Item	Amount (GBP Thousands)	Source Based on Reference Numbers/Letters of the Balance Sheet in the Audited Financial Statements
1	OWN FUNDS	8,626	
2	TIER 1 CAPITAL	8,626	
3	COMMON EQUITY TIER 1 CAPITAL	8,626	

4	Fully paid up capital instruments	4,039	Members' capital classed as equity
5	Share premium		
6	Retained earnings		
7	Accumulated other comprehensive income		
8	Other reserves	4,587	
9	Accumulated other comprehensive income		
10	Accumulated other comprehensive income		
11	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1		
19	CET1: Other capital elements, deductions and adjustments		
<b>20</b>	<b>ADDITIONAL TIER 1 CAPITAL</b>		
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		
<b>25</b>	<b>TIER 2 CAPITAL</b>		
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		

Own Funds: Reconciliation of Regulatory Own Funds to Balance Sheet in the Audited Financial Statements			
		Balance Sheet as in Published/Audited Financial Statements	Cross-Reference to Above Template
		31.12.2023	
Assets - Breakdown by Asset Classes According to the Balance Sheet in the Audited Financial Statements (in £'000)			
1	Tangible Assets	2	
2	Debtors – amounts falling due within one year	18,684	
3	Cash at bank and in hand	562	
xxx	<b>Total Assets</b>	19,248	
Liabilities - Breakdown by Liability Classes According to the Balance Sheet in the Audited Financial Statements (in £'000)			
1	Creditors: Amounts falling due within one year	3,582	
xxx	<b>Total Liabilities</b>	3,582	
Shareholders' Equity (in £'000)			
1	Members' capital classified as equity	4,039	4
2	Members' other interests and Other reserves	11,627	8 (4,587 of this balance is included as CET1 Other Reserves)

xxx	<b>Total Shareholders' Equity</b>	15,666	
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### *Own Funds Requirements*

AEM is required to at all times maintain own funds that are at least equal to the Firm's own funds requirement. The own funds requirement is the minimum requirement of capital the Firm is required to hold, taken as the higher of the PMR and FOR.

The below illustrates the core components of AEM's own funds requirements:

<b>Requirement</b>	<b>£'000</b>
(A) Permanent Minimum Capital Requirement ("PMR")	75
(B) Fixed Overhead Requirement ("FOR")	1,475
(C) K-Factor Requirements ("KFR")	489
- K-AUM – <i>Risk arising from managing and advising on investments</i>	489
- K-COH – <i>Risk arising from order execution and reception and transmission of orders</i>	-
<b>(D) Own Funds Requirement (Max. [A, B, C])</b>	<b>1,475</b>

<b>Own Funds: Main Features of Own Instruments Issued by the Firm</b>
AEM's own funds consist of common equity tier 1 capital and additional tier 1 capital. The main features of the own funds issued by the Firm are highlighted below:
<i>The LLP's own funds consists solely of Common Equity Tier 1 Capital, being LLP Partnership capital.</i>

AEM is also required to comply with overall financial adequacy rule (“OFAR”). This is an obligation on AEM to hold own funds and liquid assets which are adequate, both as to their amount and quality, to ensure that:

- The Firm is able to remain financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities; and
- The Firm’s business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

Where AEM determines that the FOR is insufficient to mitigate the risk of a disorderly wind-down, the Firm must maintain ‘additional own funds required for winding down’, above the FOR, that are deemed necessary to mitigate the risks of a disorderly wind-down. Similarly, where the Firm determines that the KFR is insufficient to mitigate the risk of harm from ongoing operations, the Firm must maintain an amount of ‘own funds required for ongoing operations’, above the KFR, that is deemed sufficient to ensure the viability of the Firm throughout economic cycles.

The Firm’s own funds threshold requirement is the higher of:

- The Firm’s PMR;
- The sum of the Firm’s FOR and its additional own funds required for winding down; and
- The sum of the Firm’s KFR and its additional own funds required for ongoing operations.

This is the amount of own funds that AEM is required to maintain at any given time to comply with the OFAR.

To determine the Firm’s own funds threshold requirement, AEM identifies and measures the risk of harm faced by the Firm and considers these risks in light of its ongoing operations and also from a wind-down planning perspective. The Firm then determines the degree to which systems and controls alone mitigate the risk of harm and the risk of a disorderly wind-down, and thereby deduces the appropriate amount of additional own funds required to cover the residual risk.

This process is documented and presented to, and ratified by, the UK Governing Board on at least an annual basis.

## *Remuneration Policy and Practices*

### **Overview**

As a Non-SNI MIFIDPRU Investment Firm, AEM is subject to the basic and standard requirements of the MIFIDPRU Remuneration Code (as laid down in Chapter 19G of the Senior management arrangements, Systems and Controls sourcebook in the FCA Handbook (“SYSC”)). The purpose of the remuneration requirements is to:

- Promote effective risk management in the long-term interests of the Firm and its clients;

- Ensure alignment between risk and individual reward;
- Support positive behaviours and healthy firm cultures; and
- Discourage behaviours that can lead to misconduct and poor customer outcomes.

The objective of AEM's remuneration policies and practices is to establish, implement and maintain a culture that is consistent with, and promotes, sound and effective risk management and does not encourage risk-taking which is inconsistent with the risk profile of the Firm and the services that it provides to its clients.

In addition, AEM recognises that remuneration is a key component in how the Firm attracts, motivates, and retains quality staff and sustains consistently high levels of performance, productivity, and results. As such, the Firm's remuneration philosophy is also grounded in the belief that its people are the most important asset and provide its greatest competitive advantage.

AEM is committed to excellence, teamwork, ethical behaviour, and the pursuit of exceptional outcomes for its clients. From a remuneration perspective, this means that performance is determined through the assessment of various factors that relate to these values, and by making considered and informed decisions that reward effort, attitude, and results.

### **Characteristics of the Firm's Remuneration Policy and Practices**

Remuneration at AEM is made up of fixed and variable components. The fixed component is set in line with market competitiveness at a level to attract and retain skilled staff. Variable remuneration is paid on a discretionary basis and takes into consideration the Firm's financial performance as well as the financial performance of each business unit, and the financial and non-financial performance of the individual in contributing to the Firm's success. All staff members are eligible to receive variable remuneration.

The Firm seeks to promote sound and effective risk management and discourages risk-taking that exceeds the level of risk tolerated by client mandates and the Firm itself. As such, the Firm ensures that its remuneration practices are integrated with and informed by long term business model planning and positive and purposeful culture. Moreover, its practices are aligned with the interests of and outcomes sought by its client.

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

- The current and future risks identified by the Firm;
- How the Firm takes into account current and future risks when adjusting remuneration; and
- The criteria applied for the award of severance pay.

AEM has set a ratio between the variable and fixed components of the total remuneration, by way of ensuring that the components are appropriately balanced and that the fixed component



represents a sufficiently high proportion of the total remuneration to enable the operation of a fully flexible policy on variable remuneration. This allows for the possibility of paying no variable remuneration component, which the Firm would do in certain situations, such as where the Firm's profitability performance is particularly constrained, or where there is a risk that the Firm may not be able to meet its capital or liquidity regulatory requirements.

## **Governance and Oversight**

The UK Governing Board is responsible for setting and overseeing the implementation of AEM's remuneration policy and practices. In order to fulfil its responsibilities, the UK Governing Board:

- 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 that have implications for the risk and risk management of the Firm.
- Ensures that the Firm's remuneration policy and practices take into account the public interest and the long-term interests of shareholders, investors, and other stakeholders in the Firm.
- Ensures that the overall remuneration policy is consistent with the business strategy, objectives, values, and interests of the Firm and of its clients.

AEM's remuneration policy and practices are reviewed annually by the UK Governing Board.

## **Material Risk Takers**

AEM is required to identify its material risk takers - those members of staff whose professional activities have a material impact on the risk profile of the Firm (and of the assets that the Firm manages). The types of staff that have been identified as material risk takers at AEM are:

- Members of the management body in its management function;
- Members of the senior management team;
- Those with managerial responsibility for a client-facing or client-dealing business unit of the Firm;
- Those with managerial responsibilities for the activities of a control function<sup>1</sup>;
- Those with managerial responsibilities for the prevention of money laundering and terrorist financing;
- Those that are responsible for managing a material risk within the Firm;
- Those that are responsible for managing information technology, information security, and/or outsourcing arrangements of critical or important functions; and

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<sup>1</sup> A control function is defined as a function (including, but not limited to, a risk management function, compliance function and internal audit function) that is independent from the business units it controls and that is responsible for providing an objective assessment of the Firm's risks, and for reviewing and reporting on those risks.

- Those with authority to take decisions approving or vetoing the introduction of new products.

## Quantitative Remuneration Disclosure

The below table quantifies the remuneration paid to staff in the financial year 1 January 2023 to 31 December 2023. For these purposes, 'staff' is defined broadly, and includes, for example, employees of the Firm itself, partners or members, employees of other entities in the group, employees of joint service companies, and secondees:

Period: 1 January 2023 to 31 December 2023				
		Material Risk Takers - Senior Management	Material Risk Takers - Other	Other Staff
Total number				23
Remuneration Awarded	Fixed (in £'000)			4,322
	Variable (in £'000)			21,352
	Total (in £'000)			25,674

The Firm did not award any guaranteed variable remuneration or severance payments within the period.

MIFIDPRU investment firms are typically required to split the quantitative data in the above table, where relevant, into categories for senior management and other material risk takers. However, the regulator allows firms to aggregate or altogether omit the information to be disclosed for senior management and other material risk takers, where splitting the information between these two categories would lead to the disclosure of information about only one or two individuals. AEM has relied upon this exemption in MIFIDPRU 9.6.11 and has aggregated the disclosure of MRT's and other staff in order to prevent the identification of an individual material risk taker.