

## Apax Partners Europe Managers Ltd

### Pillar 3 Disclosures – 31 March 2017

#### 1. Overview

##### 1.1 Introduction

The EU Capital Requirements Directive IV (“CRD IV”) and the Capital Requirements Regulation (“CRR”) became effective from 1 January 2014 and created an updated regulatory capital framework across Europe based on the provisions of the Basel III Capital Accord and is structured around three “pillars”:

- Pillar 1: Minimum capital requirements;
- Pillar 2: Supervisory review process; and
- Pillar 3: Market discipline.

Pillar 1 sets out the minimum capital requirements that firms are required to meet for credit, market and operational risks.

Pillar 2 requires the firms and the Financial Conduct Authority (“FCA”) to take a view on whether additional capital should be held against risks not covered by Pillar 1 and to take action accordingly within the Internal Capital Adequacy Assessment Process (“ICAAP”).

Pillar 3 aims to facilitate market discipline by developing a set of disclosure requirements which will allow market participants to assess key information on risk exposure and the risk assessment process. The purpose of this document is to provide the Pillar 3 disclosures required in BIPRU Chapter 11 for Apax Partners Europe Managers Ltd (“**APEM**”) an IFPRU EUR 125,000 limited licence firm regulated by the FCA (FRN:194731). APEM was a BIPRU firm until 31 December 2013 and then transferred to the IFPRU regime from 1 January 2014.

##### 1.2 Company Information

APEM was incorporated in October 2000 with the purpose of providing investment management and custody services to the Apax private equity funds. It became regulated by IMRO in January 2001 and was subsequently appointed as the discretionary investment manager and custodian of several historical Apax Funds (“the **Funds**”). With the introduction of the Alternative Investment Fund Managers Directive, the General Partners of the Funds terminated the appointment of APEM as the discretionary investment manager in December 2013. APEM continues to provide custody services to the Funds. In addition, it manages a segregated portfolio that consists of a single asset.

##### 1.3 Materiality

The requirements provide for the omission of one or more of the required disclosures if such information is considered immaterial, proprietary or confidential. Materiality is based on the criterion that where the omission or misstatement of information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions, than that information is deemed to be material. Proprietary information is that which, if it were shared, would undermine APEM’s competitive position.

Information is considered to be confidential where there are obligations binding APEM to confidentiality with its clients and counterparties. Where information has not been disclosed for these reasons it is clearly stated in this document.

## 1.4 Frequency of disclosure

Future disclosures will be issued on an annual basis, shortly after completion of the annual audit. Disclosures will be as at the accounting reference date, which is 31 March.

## 1.5 Location

These disclosures are published on APEM's website at [www.apax.com](http://www.apax.com).

## 1.6 Verification

These disclosures have been prepared in order to comply with regulatory requirements to provide information on the firm's risk management objectives and policies, its capital position, its approach to assessing the adequacy of its capital and its exposure to credit, market and operation risk. They do not constitute financial statements of the firm and are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion in the firm's annual report. They should not be relied on in making investment decisions in relation to the firm.

## 2. Risk Management Framework

### 2.1 Introduction

The board of directors of APEM (the “**Board**”) has ultimate responsibility for risk management within APEM. Although it is not part of the Apax Partners LLP (“the LLP”) group, bearing in mind that its role as manager and custodian is interlinked to that of the LLP which is the investment adviser to the Funds, and it also receives administrative support services from the LLP group, the Board reviews the risk policy of the LLP and give consideration to the risks posed to APEM from the LLP when assessing the risk and setting the risk policies of APEM. Relevant aspects of the LLP’s risk policies may be adopted by APEM where appropriate to enable consistent operation and monitoring and to reduce or mitigate risks.

APEM operates both a top-down and bottom-up approach to risk management so that (1) risk appetite and culture is set from the top and feeds down to each individual working on behalf of APEM and (2) the different LLP business units providing APEM with support take responsibility for risk management within their areas. APEM’s basic framework for risk management can be summarised as:

- Identification
- Measurement and assessment
- Control and Mitigation
- Monitoring; and
- Reporting

APEM categorises its risks under the following risk groups:

- (1) Investment Risk,
- (2) Strategic Risk
- (3) Operational Risk
- (4) Liquidity Risk

These risks are then further divided into smaller risk groups, such as reputational risk and litigation risk.

### 2.2 Risk Groups

#### 2.2.1 Investment risk

APEM divides investment risk into:

- (1) individual investee company risk; and
- (2) portfolio investment risk (e.g. concentration risks within the portfolio).

A failure to properly manage investment risk could impact on APEM’s regulatory capital (e.g. through a loss of fee income). Investment risk is managed and controlled through the deal teams, external advisors and the relevant committees.

#### 2.2.2 Counterparty and Credit Risk

Credit risk is the risk arising from the possibility that APEM will incur financial loss from the failure of customers or counterparties to meet their obligations as and when they fall due. APEM has limited exposure to

counterparty risk due to the nature of its business model and the services that it provides. Counterparty risk for APEM primarily arises from bank deposits and receivables from the Funds. With regards to bank deposits, APEM only deposits money with reputable counterparties with substantive EEA operations. The Funds drawdown cash as and when required from investors who have a contractual obligation to commit capital. The credit-worthiness of the underlying investors in the Funds is investigated prior to accepting them as investors. It is unlikely for any investor to default, and given the spread and diversification of investors, the impact of any individual investor being unable to meet its commitment is considered to be very low. It is therefore unlikely that the Funds would not be able to meet their obligations towards APEM.

As at 31 March 2017, APEM's credit exposure was mainly against banks, the Funds and the LLP. APEM's credit risk requirement as at 31 March 2017 was £26k.

#### 2.2.2 Market Risk

Market risk is the risk of potential loss of income or decrease in the value of the APEM's assets caused by adverse changes or movements in interest rates, foreign exchange or market prices.

As APEM does not have a trading book, market risk exposure is relatively small and confined to foreign exchange risk on operating assets and liabilities denominated in currencies other than sterling. As at 31 March 2017, APEM's foreign currency risk requirement was £19k.

#### 2.2.3 Strategic risk

APEM manages its strategic risks through the Board. One of the biggest strategic risks that APEM faces is the risk of reputational damage, e.g. through a regulatory fine or litigation.

#### 2.2.4 Operational risk

Operational risk is the risk of potential loss arising to APEM from fraud, human error, inadequate controls or failure in internal processes and systems, or from external events. Operational risks are inherent in every business; for APEM this risk is considered comparatively low. Each LLP Department Head is responsible for identifying and managing the operational risks in their areas, in accordance with the risk appetite approved by the Board. Where any risks identified are significant and material they are escalated to the LLP Operational Risk Committee for discussion and further mitigation.

#### 2.2.5 Liquidity risk

Liquidity risk is the risk that APEM does not have sufficient financial resources to meet its obligations as and when they fall due, or would have to do so at excessive costs. Liquidity risk can arise from mismatches in the timing of cash flows resulting from unexpected or exceptional circumstances. APEM's liquidity risk is relatively low and is managed through the LLP's Finance department and Chief Operating Officer.

APEM believes that it has sufficient risk management systems and controls in place to manage these risks.

### 3. Capital Resources (BIPRU 11.5.3)

APEM's policy has always been to be soundly financed. Our approach to capital management is driven by strategy and organisational requirements, while also taking into account the regulatory and commercial environments in which it operates. APEM has adequate capital for its size and the complexity of its business.

### 3.1 Compliance with Pillar 1 requirement

From 1 January 2014, APEM became an IFPRU limited licence firm and as such it is required to maintain Pillar 1 requirement equal to the greater of:

- the base capital requirement of EUR 125,000 consisting of common equity tier 1 capital, or
- the sum of its credit and market risk requirements (variable capital requirement), or
- its fixed overhead requirement.

APEM'S Pillar 1 capital requirement based on the audited financial statements for the year ended 31 March 2017 is calculated as £113k.

### 3.2 Compliance with Pillar 2 requirement

The firm's overall approach to assessing the adequacy of internal capital is set out in its Internal Capital Adequacy Assessment Process (ICAAP).

The ICAAP process involves separate consideration of risks to capital resources combined with stress testing using scenario analysis. The level of capital required to cover risks is a function of impact and probability. Impact is assessed by modelling the changes in income and expenses caused by potential risks crystallising over a 5 year time horizon.

APEM's current Pillar 2 regulatory capital requirement is £318k, which is calculated from its operational risk scenarios.

### 3.3 Capital Resources

Based on the audited financial statements as at 31 March 2017, APEM's tier 1 capital consists of fully paid equity shares (£41k) and audited reserves (£857k) totaling £898k and it has no tier 2 capital. There are no deductions from tier 1 capital. The FCA has applied an Individual Capital Guidance on APEM of 424% of Pillar 1 capital which equates to £479k. With a total capital resources requirement of £479k, APEM holds a surplus of £419k.

The capital requirements of APEM are monitored on an ongoing basis to ensure that at any time there is always sufficient capital in place.

### 3.4 Return on assets (IFPRU 9.1.3)

The firm's return on its assets, based on the audited financial statements for the year ended 31 March 2017 is 24.6%

## 4. Remuneration Disclosures (BIPRU 11.5.18R)

APEM is required to make Pillar 3 disclosures in relation to remuneration at least annually. APEM is a tier three firm and has therefore applied the FCA's requirements in a way and to an extent that is appropriate to its size, internal organisation and the nature, scope and complexity of its activities.

## 4.1 Decision making process

APEM has worked to create a Remuneration Policy Statement (RPS) that is consistent with and promotes sound and effective risk management. The Board has approved the RPS. APEM does not operate with a separate Remuneration Committee.

## 4.2 Code Staff

SYSC 19A requires the Board to identify and maintain a record of all staff that have a material impact on the risk profile of the firm. APEM's Code staff have been identified as its two directors, being the individuals with responsibility for (a) the day-to-day running of the firm and also (b) the delegated authority to make investment decisions in relation to the relevant Funds as well as three control functions being (c) the Head of Safe Custody, the Chief Operations Officer and the Compliance/MLRO roles for APEM and who all undertake roles throughout the LLP group.

## 4.3 Risk alignment

The Directors of APEM receive a fixed fee for acting as Directors of APEM. No variable remuneration is paid to the Directors by APEM. The Operations staff are not directly remunerated by APEM and their services are provided for under the various legal agreements in place between APEM and the different entities in the LLP group.

## 4.4 Link between pay and performance

Partners and staff of the LLP group are generally remunerated through:

- basic salary
- variable bonuses; and/ or
- profit share

As investors in the Funds, or through arrangements leading to a substantially similar economic outcome, certain partners and employees of the LLP group are also entitled to "carried Interest" in relation to the Funds. As required by the FCA rules, the remuneration package offered is designed to attract and retain staff with the skills, knowledge and expertise to discharge their functions. Given the long term nature of private equity investing, the remuneration package is also designed to reward appropriate risk taking in the long-term. The remuneration package is aligned with the interests of investors and carried interest operates as a cash-to-cash investment, (i.e. LLP staff only get "cash" after the Fund has already repaid all capital plus the hurdle rate out "cash" to investors or for some Funds on a deal-by-deal basis with appropriate clawbacks on carry paid out).

Staff members' salary and bonus reflect their personal performance and appropriate risk taking in the long-term. Whole-of-fund carried interest is fully aligned with the performance of the relevant Fund. If a Fund does not meet its targets staff do not receive their carried interest entitlement. Where Apax offers deal-by-deal carried interest, appropriate clawbacks are in place in the fund does not meet its targets. Apax does not offer deal-by-deal co-investment. APEM does not directly remunerate the partners and staff of the LLP. The Directors receive a fixed fee for their services to APEM.

## 4.5 Remuneration Disclosure

In accordance with BIPRU 11.5.18R, APEM is required to disclose in relation to its Code staff, aggregate quantitative data on remuneration, broken down by business area as well as aggregate quantitative data on

remuneration, broken down by senior management and members of staff whose activities have a material impact on the risk profile of the firm. The Directors of APEM receive fixed fees of £30k in aggregate in relation to the provision of their services. The remaining APEM Code staff do not get separately remunerated in relation to the services they provide; APEM pays fixed fees to companies within the LLP group in relation to the provision of services as part of its administrative service payments.

As there were no employees employed by APEM there is nothing to report in respect to deferred remuneration.