Newstead Capital Limited
Pillar 3 disclosure

Disclosure Policy

The Pillar 3 rules in BIPRU 11 set out the need for firms to have a formal disclosure policy. In accordance with the rules of the Financial Conduct Authority ("FCA") Newstead Capital Limited ('Newstead') will disclose the information set out in BIPRU 11 (the Pillar 3 rule) on at least an annual basis. The Pillar 3 disclosure will be made available on the firm's website.

Newstead may omit information it deems as immaterial, in accordance with the rules. Materiality is based on the criterion that the omission or misstatement of any information would be likely to change or influence the decision of a reader relying on that information. Accordingly, where Newstead has considered an item to be immaterial it has not been disclosed.

In addition, if the required information is deemed to be proprietary or confidential then Newstead may take the decision to exclude it from the disclosure. In the Firm's view, proprietary information is that which, if it were shared, would undermine its competitive position. Information is considered to be confidential where there are obligations binding the Firm to confidentiality with our customers, suppliers or counterparties. Where information is omitted for either of these reasons this is stated in the relevant section of the disclosure, along with the jurisdiction.

Introduction

Newstead is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. The Firm is categorised by the FCA, for capital purposes, as a Collective Portfolio Management Investment ("CPMI") firm. It is an investment management firm; it has no trading book exposures. Newstead is not required to prepare consolidated reporting for prudential purposes.

The FCA's current prudential regime can be split into three "pillars":

- Pillar 1 – prescribes the minimum capital requirements that authorised firms need to hold. This is the higher of €125k; quarter of the firms annual adjusted expenditure (the Fixed Overheads Requirement); or the sum of the firm's prescribed Credit risk + Market risk.
- Pillar 2 – requires firms to analyse the risks to the business and then consider whether the risks are mitigated to an appropriate standard. If the firm feels that the risks are not adequately mitigated then they should allocate capital against those risk. Stress and scenario tests are conducted to ensure that the processes, strategies and systems are comprehensive and robust and that the allocation of capital is sufficient.
- Pillar 3 - requires firms to develop a set of disclosures which will allow market participants to assess key information about the Firm's underlying risks, risk management controls and capital position.

The Firm is a Limited company and its capital arrangements are established in Articles of Association. Its capital as at 31st December 2020 is summarised as follows and is all Tier 1 Capital:
Members' total Capital and Reserves ~£834k

Risk Management

The Directors of the Firm determine the business strategy and risk appetite along with the risk management policies and procedures. An identification of risks to the Firm are considered and the Firm's resultant exposure is assessed after the application of both management and mitigation of these risks. Furthermore, the Firm then conduct a series of stress tests and scenario analyses on these risks to determine the effect they would have on the firm.

If necessary, the Firm would allocate extra capital to the relevant risk, as per the Pillar 2 requirement: this has not been deemed necessary. This process is conducted at Directors meetings which are held regularly but at least on a quarterly basis and the relevant policies and procedures are updated where necessary.

The Directors have identified Credit Risk and Operational risk as the main area of risks to which the firm is exposed. The firm has also determined that the likelihood of these risks occurring is low.

Concentration Risk within the Fund is limited due to the diversification of the investment portfolio.

Credit risk is managed through the appointment of a reputable prime broker and custodian / depository and the monitoring of their financial statements.

Market Risk is managed through the analysis of the sensitivity of the fund to volatility, time decay, interest rates and market movements on a real time basis.

Operational risk is managed by a number of means, including the use of an established software solution package, system back up, independent valuations and internal management controls.

The Firm has concluded that its Tier 1 capital is sufficient to cover its Pillar 1 and Pillar 2 requirements.

Regulatory Capital

The Firm is a Limited company, and its capital arrangements are established in Articles of Association.

As a CPMI firm, Newstead is treated as a BIPRU Firm (but only subject to the Pillar 1 minimum capital requirements of BIPRU in respect of relevant investment business undertaken) as well as a firm subject to the capital requirements of the Alternative Fund Managers Directive ("AIFMD") as detailed in Chapter 11 of IPRU(INV). In essence the capital requirements are a minimum of the base capital requirement of €125,000 or the higher of either [(4)] or [(1) or (2)] Plus (3):

(1) The Funds Under Management Requirement of €125,000 + 0.02% of AUM within Alternative Investment Funds ("AIFs");
(2) The fixed overhead requirement ('FOR') which is essentially 25% of the firm's operating expenses less certain variable costs;
(3) a capital requirement to cover professional liability risks;

(4) The sum of the market & credit risk requirements.

For the Funds Under Management Requirement 0.02% is taken on the absolute value of all assets of all funds managed by the firm, including assets acquired through the use of leverage, whereby derivative instruments shall be valued at their market value, including funds where it the firm has delegated the management function but excluding funds that it is managing as a delegate. The FOR is calculated, in accordance with FCA rules, based on the firm's previous years audited expenditure. The firm has decided to cover professional liability risks by holding the appropriate level of PI and D&O coverage. The Firm has adopted the standardised approach to credit and market risk. The firm is not subject to an operational risk requirement.

As at 31st December 2020 Newstead's capital requirement has been determined by reference to its AIFMD requirement which equates to ~£185,000, being the sum of steps (2) and (3). As at Newstead's reporting date it held capital resources in liquid assets of ~£790k.

Remuneration

The Firm's compensation structure is designed to ensure that it is consistent with, and promotes sound and effective risk management and does not encourage risk-taking which is inconsistent with our risk profile. The compensation structure seeks to reward staff for long term-performance. The Management Committee is responsible for reviewing the firm's compensation policies, practices and principles in compliance with regulatory requirements and, where appropriate, has applied a level of proportionality to the remuneration policy and structures. This is undertaken on at least an annual basis.

Compensation structures are typically comprised of a base salary and discretionary annual bonus. In making remuneration decisions, the Management Committee has regard to all aspects of performance including financial and non-financial criteria and any potentially excessive risk taking. Non-financial criteria include areas such as compliance with internal policies and procedures. The aspects of financial criteria include contributions to the performance of the Firm and its managed funds.

For the purposes of the remuneration disclosures required by BIRPU 11.5.18R, the Firm has identified staff who have a material impact on the risk profile of the firm ("Code Staff") in a manner that is appropriate to its size, internal organization and the nature, scope and complexity of its activities. Code Staff include employees of the firm and individuals whose services are placed at the disposal and under control of the firm.

During 2020, the following remuneration amounts were paid.

Code Staff	Aggregate compensation expense 2020/2021 (GBP)
Senior Management	£375,000