

# PANTHEON

## Pantheon Ventures (UK) LLP Pillar 3 disclosure as at 31<sup>st</sup> December 2016

### 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”), Pantheon Ventures (UK) LLP (the “Firm”) 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 on the Company’s website. Where a Pillar 3 disclosure is not made by way of annual accounts or the Firm’s website, details of how to obtain the Pillar 3 disclosure shall be made in the annual accounts and contact details for the Compliance Officer.

The Firm 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 the Firm 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 the Firm 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

The Firm 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 limited licence firm. It is an investment management firm; it has no trading book exposures. The Firm 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 €50k; quarter of the firm’s 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.

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<sup>1</sup> On the 1 April 2013 the Financial Conduct Authority (FCA) became responsible for the conduct supervision of all regulated financial firms and the prudential supervision of those not supervised by the Prudential Regulation Authority (PRA).

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The Firm is subject to minimum capital requirements to ensure the continuity and the regularity of the management of accounts managed by PV (UK) LLP and to cover the potential exposure of PV (UK) LLP to professional liability in respect of all its activities, including the management of AIFs. PV (UK) LLP must at all times maintain overall financial resources, including capital resources and liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

## i. Capital Requirements

PV (UK) LLP is classified as a “Collective Portfolio Management Investment” (CPMI<sup>2</sup>) Firm, meaning that it is authorised as a Full Scope UK “Alternative Investment Fund Manager” (“AIFM”) with extended permissions to provide discretionary portfolio management (for separate accounts) and non-discretionary investment advice (Article 6(4) MIFID-like activities) (“MIFID” business). The significance of this is that Pantheon is subject to minimum capital requirements which are the higher of those imposed on it as an AIFM and those imposed on it as a MIFID investment firm.

The capital requirements of PV (UK) LLP are therefore calculated as the higher of the AIFMD and MIFID requirements shown below<sup>2</sup>

The AIFMD requirements are shown as the sum of (i) and (ii) below:

**(i)** The higher of:

(a) €125,000 plus an amount equal to 0.02% of the amount by which the total value of portfolios under management<sup>3</sup> exceeds €250 million, subject to a cap of €10 million (the “Own funds requirement”); or

(b) one quarter of PV (UK) LLP’s fixed annual overheads;

Plus

**(ii)** An amount equal to 0.01% (or 0.008% with regulatory consent) of the value of the portfolios of the AIFs we manage (no cap); or qualifying and appropriate professional indemnity insurance (the “Additional own funds requirement”)<sup>4</sup>.

Such sums must be invested in liquid assets or assets readily convertible into cash in the short term (within one month) and shall not include speculative positions. The base requirement of €125k must be held in cash.

The MIFID requirements are shown as the higher of the following:

**(i)** €50,000; or

**(ii)** 25% of fixed annual overheads; or

**(iii)** The sum of capital required to be held to take account of market risk and credit risk to which the firm is exposed (identified through the ICAAP process - see below))

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<sup>2</sup> PV (UK) LLP has sufficient capital to meet its regulatory requirements. The UK Consolidation Group which includes AMG Plymouth has a consolidation waiver to allow the group to meet its capital requirements.

<sup>3</sup> [Note: including funds within scope of AIFM and funds outside the scope of AIFM that are managed by PV (UK)]

<sup>4</sup> Members of the Pantheon Group benefit from professional liability insurance. But Pantheon presently includes additional own funds in its regulatory capital calculations in lieu of relying on professional indemnity insurance.

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(requirements (i) – (iii) being known as “Pillar 1 Requirements”); or

(iv) The sum of capital required to be held to take account of risks not included or fully captured above (identified through the ICAAP process - see below) (known as “Pillar 2 Requirements”).

## ii. ICAAP (Supervisory Framework).

The adequacy of PV (UK) LLP’s capital needs to be assessed by PV (UK) LLP at least annually through an internal capital adequacy assessment process (ICAAP), which PV (UK) LLP is obliged to carry out in accordance with the ICAAP rules. The purpose of the ICAAP document is to inform the Partnership Board of the ongoing assessment of the firm's risks, how the firm intends to mitigate those risks and how much current and future capital is necessary having considered other mitigating factors. The ICAAP document also provides information about how the firm explains to the FCA its internal capital adequacy assessment process. As part of the ICAAP, PV (UK) LLP identifies the Pillar 1 Requirements to which it is subject, including the market risks and credit risks to which it is exposed, and the Pillar 2 Requirements, including business and operational risks. Based on this, PV (UK) LLP is then able to determine the requisite amount of regulatory capital and to ensure that our capital resources are always more than sufficient to meet the firm’s capital resource requirement. The requisite amount of any additional own funds (or other capital resources) required from time to time are provided by additional contributions of eligible PV (UK) LLP members' capital. Further, PV (UK) LLP has the ability to retain for the purpose of meeting regulatory capital requirements profits which would otherwise be distributed to members. The adequacy of coverage through additional own funds will be reviewed at least once a year.

PV (UK) LLP is not subject to any capital requirements by virtue of being registered as an Exempt Reporting Advisor in the US.

Pantheon relies on FOR to determine that Capital resource requirement, that is a quarter of the firm’s annual adjusted expenditure (the Fixed Overheads Requirement).

The Firm is a Limited Liability Partnership and its capital arrangements are established in its Partnership deed. Its capital is summarised as follows:

	<u>\$000’s</u>
Members’ capital	14,268
Revenue reserves	5,154
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Members’ capital and other reserves	19,442 <sup>i</sup>
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The main features of the Firm’s Capital Resources Requirement are as follows:

Capital Item	\$’000s
Tier 1 capital less innovative tier 1 capital	19,422
Total tier 2, innovative tier 1 and tier 3 capital	Nil
Deductions from tier 1 and tier 2 capital	Nil
Total capital resources, net of deductions	19,422

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## Risk Management

Pantheon's Risk function comprises the following committees which acts as a central control for the identification and monitoring of the risks faced both internally and externally, by Pantheon as a business and by Pantheon managed funds.

- Risk Committee
- Operational Risk Committee
- Investment Risk Review Group
- Valuations Committee

The Risk Committee oversees all aspects of risk, including portfolio risk, within the Pantheon group. The Risk Committee operates through three sub-committees, the Investment Risk Review Group, the Operational Risk Committee and the Valuation Committee. The Investment Risk Review Group focuses on the oversight of Portfolio Investment Risk relating to Pantheon portfolios, including Pantheon managed funds. The Risk Committee reporting line is to the Partnership Board.

The Pantheon risk management framework considers all material risks including:

**Credit Risk** is defined as the risk of loss caused by the failure of counterparty to perform its contractual obligations. A factor which may contribute to increased credit risk is concentration of assets held with a single counterparty. Credit risk is not considered applicable to Pantheon to any significant degree. Fees are generally payable in advance and there have been no instances of non-payment in the past. Investors and funds that Pantheon operates with are largely diversified and the quality of counterparties is considered high.

**Market Risk** is the risk of any impact upon the firm's financial condition due to fluctuations in values of, or income from, assets or in interest or exchange rates. Pantheon does not make external investments or hold proprietary positions although the Pantheon Group makes commitments to Pantheon funds which could decrease in value based on performance. These investments are not held for income generating purposes and any further drawdowns are due to be met by Affiliated Managers Group ("AMG") and / or Management rather than the Firm – hence there is no requirement to hold capital against such commitments.

(AMG acquired Pantheon in 2010.)

**Operational Risk** relates to risks to the Firms when running the business, and include impact of loss of key personnel, errors, fraud and ineffective business continuity plans, all of which could restrict the ability of reestablishment of operations in the event of an emergency or significant business disruption.

**Liquidity Risk** Liquidity risk is defined as the risk that the firm, although solvent, either does not have sufficient available resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. Liquidity risk is not considered a key risk for Pantheon as there is a high degree of predictability in relation to costs and income and is not sensitive to short term fluctuations. Income from Pantheon funds, which comprises the majority of income received, is billed quarterly in advance by the respective manager or general partner (GP) of the relevant Pantheon fund. Typically the GP would then repatriate all or most of these fees to the Firm on a monthly basis by way of advisory fee. Counterparty risk is considered to be minimal as the GP's of the Pantheon funds fall within the Pantheon Group. Income from Pantheon's segregated client accounts is generally billed quarterly in arrears. Revenues are predictable to within less than 5% from quarter to quarter except for the additional revenues resulting from the closing of new funds where accrued revenues will be invoiced as a catch up.

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Risk is managed by a number of means, including identification and prioritisation of risks using a risk matrix, Key Risk Indicators and discussions with relevant Department Heads. The key internal controls established by the EC are supported by a detailed risk matrix with key control weakness indicators designed to identify major operational, regulatory, reputational and financial exposures within Pantheon. The risk matrix is subject to periodic review by the Operational Risk Committee, which then reports into the PB. Pantheon also undergoes an annual ISAE 3402 external audit reporting on the processes and controls of the business.

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

## **Remuneration policy and structure**

The partnership Board has determined that the firm's Remuneration Structures are consistent with and promote sound and effective risk management and do not pose a risk to the Firm.

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<sup>i</sup> Per audited financial statements