PANTHEON

PRIVATE & CONFIDENTIAL

Pantheon Ventures (UK) LLP

Pillar 3 Disclosures

31 December 2018

Contents

Overview

1.1 Introduction to PVUK

This document sets out the Pillar 3 disclosures of Pantheon Ventures (UK) LLP (PVUK), a UK incorporated Limited Liability Partnership. PVUK is classified by the FCA as a BIPRU limited licence firm that is a Collective Portfolio Management Investment Firm (CPMI). It is also a full scope UK Alternative Investment Fund Manager (AIFM).

PVUK is part of the wider Pantheon Group, which currently has operations in London, New York, San Francisco, Hong Kong, Seoul, Bogota and operates in a number of other regions. The Pantheon Group is owned by a number of Pantheon Partners and Affiliated Managers Group Inc., a NYSE listed asset management group. References to Pantheon or the Pantheon Group mean Pantheon Ventures (UK) LLP, Pantheon Ventures Inc., Pantheon Ventures (US) LP and Pantheon Ventures (HK) LLP together with their subsidiaries and subsidiary undertakings.

Being authorised and regulated by the FCA, PVUK is subject to minimum regulatory capital requirements. It is an investment management firm which provides investment management services in relation to private equity and alternative investments.

The capital and risk disclosures required under Pillar 3 are produced annually and published at the same time as the PVUK Annual Report and Accounts. These disclosures are made as at 31 December 2018, which is PVUK's accounting reference date. The Pillar 3 disclosures are not subject to audit and are provided solely in satisfaction of PVUK's regulatory requirements. Additional relevant information can be found in the PVUK Annual Report and Accounts, which is available from Companies House (www.companieshouse.gov.uk).

1.2 Pillar 3 requirements

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

- Pillar 1 – prescribes rule based minimum capital requirements
- Pillar 2 – contains event-driven capital requirements capital arising from actual or potential risks
- Pillar 3 – sets out disclosure requirements

This document addresses PVUK's Pillar 3 disclosure requirements.

BIPRU 11.3.1 requires the firm to publicly disclose the information laid down in BIPRU 11.5 (subject to certain provisions in BIPRU 11.3).

The disclosable information contained in BIPRU 11.5 includes, but is not limited to, a firm's risk management objectives and policies for each separate category of risk and information relating to its capital resources. Reference should be made to BIPRU 11.5 for a comprehensive listing of the requirements. In addition, disclosure of Pantheon's remuneration policy and practices is covered in BIPRU 11.5.18.

It is a requirement of BIPRU 11.3.3(2) that the firm must satisfy itself that the disclosure adequately conveys the firm's risk profile comprehensively to market participants. Where it is felt that this is not the case then the firm must publicly disclose the information necessary in addition to that required in BIPRU 11.3.3(1).

Under BIPRU 11.3 a firm may omit one or more items requiring to be disclosed in BIPRU 11.5 if the information is not regarded as material (BIPRU 11.3.5R) or if those items are regarded as proprietary or confidential (BIPRU 11.3.6R & BIPRU 11.3.7R).

PVUK 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 PVUK 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 PVUK may take the decision to exclude it from the disclosure. In PVUK'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 PVUK 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 this Pillar 3 disclosure.

Risk Management Framework and Governance

2.1 Governance

The Partnership Board is responsible for the risk management framework of the Pantheon Group. Pantheon's Risk function acts as a central control for the identification and monitoring of the risks faced both internally and externally by the Pantheon Group and PVUK.

2.2 Risk Management Policy

This section sets out the Pantheon Group's risk management policy, which is equally applicable to PVUK. It sets out what the key risks are, how those risks are managed, and how the Pantheon Group is satisfied that each of its operating entities, including PVUK, has sufficient capital in respect of the risks faced both now and or over the next three to five years. Stress and scenario tests have been conducted on a Group and PVUK standalone basis to ensure that the processes, strategies and systems are comprehensive and robust.

2.3 Risk Management Framework

The Risk Committee oversees all aspects of risk within the Pantheon Group. The Risk Committee operates through three sub-committees: the Investment Risk Committee, the Operational Risk Committee and the Valuation Committee.

Structure

Investment Risk Committee

The Investment Risk Committee focuses on the oversight of Portfolio Investment Risk relating to Pantheon portfolios, including Pantheon managed funds.

Operational Risk Committee

The Operational Risk Committee oversees how Pantheon controls and documents its operational risks and processes.

Valuation Committee

The Valuation Committee oversees the valuations of investments in the underlying funds and structures in which clients invest.

Responsibility for risk identification is shared amongst the Partnership Board and the broader partner and principal group, with each individual being responsible for control of risk in their business area. There are open reporting lines to the Partnership Board, and by adopting this organisational structure, where communication and early discussion of issues is strongly encouraged, change can be quickly effected if needed.

The key internal controls established by the Risk function 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 Risk Committee. The risk elements assessed are comprehensive and include operational, credit, strategic, liquidity, market, business and reputational risk.

2.4 Role of the Risk Management function

The Risk Management function in Pantheon provides risk management services across all major business activities, covering both controls assurance and risk management. It seeks to promote risk awareness and co-ordinate risk management efforts, thereby aiding management and supporting corporate governance.

The responsibilities of the Risk Management function are to:

- Develop and maintain a risk management strategy applicable to Pantheon.
- Maintain the Risk Policy.
- Produce risk profiles for business and support functions in conjunction with the management teams responsible for those business units.
- Help management of business units to embed risk management into the culture and processes of the business, whilst reinforcing management accountability.
- Provide proactive risk management advice to operations, projects and key business change activities.
- Support the Finance function in the production of the ICAAP.
- Review events relating to potential operational control failures and provide analysis and regular reports to the Partnership Board.
- Support the ISAE 3402 and Sarbanes Oxley annual audits.
- Monitor Key Risk Indicators.
- Monitor third party administrators

Risk Management is responsible for developing, implementing and maintaining a risk management and control assurance framework to support corporate governance requirements and achieve corporate objectives. Utilising a risk profiling methodology, Risk Management works in partnership with management to facilitate management assurance to the Partnership Board. Risk Management will give opinions to the Partnership Board on control effectiveness and design, risk exposures and, where appropriate, participate in risk mitigation activities.

2.5 Risk Appetite

Pantheon acknowledges that all activity has associated with it an element of risk and the fact that not all risks can be transferred to third parties through insurance policies, contracts or waivers, the management of residual risk at all levels of the organisation is imperative.

Statement of risk appetite

As risks are identified within the Group, appropriate controls are put in place to mitigate these and compliance with them is monitored on a regular basis. The frequency of monitoring in respect of each area is determined by the significance of the risk. The Pantheon Group intentionally minimises risks taken with its own capital and ensures that risk taken within the client and investor portfolios it advises or manages is closely monitored and in line with its mandates. There has been no history of material operational failures or losses across the Group.

The Group's Business Continuity Plan (BCP) is deemed adequate for the nature, scale and type of business. Given the nature of the Group's operations, any disruptions are unlikely to have a material impact on the Group or its clients.

Definition

Risk appetite is defined as Pantheon's willingness to accept risk in pursuit of its objectives. Risk appetite is assessed against Pantheon's key drivers of success. Risk appetite underpins the entire framework for managing risk (i.e. it establishes requirements for monitoring and reporting on risk).

Purpose

Pantheon is committed to building increased awareness and a shared responsibility for risk management at all levels of the organisation. A clearly defined risk management framework includes:

- an established governance framework;
- a consistent methodology;
- a visible and disciplined procedure for escalation and communication of risks;
- a focus on pro-active identification, assessment and management of risks.

This policy is intended to assist management in decision making processes that will minimize potential losses, improve the management of existing uncertainty and the approach to new opportunities, thereby helping to maximise Pantheon's available resources and potential to successfully meet their corporate objectives.

Setting the risk appetite

Overall risk appetite is decided upon by the Partnership Board as proposed by the Risk Committee, as part of setting and implementing strategic and operational objectives. For business as usual, the relevant Partner will be responsible and accountable for operating within the risk appetite, having regard to policy and levels of delegated authority. However, under no circumstances should a contract be entered into which exposes the Firms to a risk of unlimited liability.

Unlike market and credit risk, some forms of business risk do not lend themselves to credible quantification i.e. the degree of risk cannot be expressed effectively in purely financial terms and then aggregated. A more qualitative approach to assessing and prioritising risks is often more meaningful in relation to strategic uncertainties, one off risk events or risks around brand equity or credibility. This is particularly applicable when referring to reputational risk as this will be a key factor for Pantheon in assessing risk appetite.

Pantheon has a low risk appetite in respect to investing and to managing business and operational activities as demonstrated by historic performance. This is reflected in the Firms' governance, controls and activities. There is an experienced management team of proven ability to ensure that the business remains tightly controlled within the standards that the Firms aspire to.

The Partnership Board considers this risk appetite to be consistent with the nature, scale and type of the business.

2.6 Management of Key Risks

The key risks that the Pantheon Group faces, and which are covered in detail in the PVUK ICAAP, are:

Business risk relates to being able to generate fee income and control costs on an on-going basis in line with business plans. The key income drivers are the funds and clients for which Pantheon serves as investment manager/advisor, which in turn can be materially impacted by investment performance. The key risk here relates to significant reputational damage that could limit the ability to raise further future funds or, in a worst case, lead to the investors collectively agreeing to appoint an alternative manager/advisor, an event that has not occurred in Pantheon's history. Staff retention is also considered.

Strategic risk relates to the risk of loss arising from being unable to deliver against Pantheon's business plan, making poor business decisions, resource allocation being insufficient to achieve objectives or failures to adapt the business plan to changes in external factors.

Operational risk relates to risks to the Firms when running the business, and include impact of loss of key personnel, errors, fraud including cybersecurity incidents and ineffective business continuity plans, all of which could restrict the ability to re-establish operations in the event of an emergency or significant business disruption.

Market Risk relates to impact on the business of severe long term market downturn or fluctuations in market factors including foreign currency exchange rates. Market downturn is not considered a significant risk to Pantheon as a result of the fixed nature of income which does not fluctuate with performance and the long lock in periods that many investors are subject to. Risks relating to the ongoing Eurozone instability and Brexit are included within market risk.

Credit Risk relates to risk of our counterparties defaulting on their obligations. As at 31 Dec 2018 our credit risk exposure is limited to cash held at banks, and key clients failing to pay our fees derived from the funds (clients) which PV(UK) manages or clients defaulting on capital calls to a fund. Credit Risk in cash balances is minimised using major UK highly rated banks and rigorous monitoring of their creditworthiness using 5year CDS spreads and credit ratings. Whilst we recognise the potential risk of clients defaulting on paying relevant fees for our services, this risk is minimised through relationships with clients and appropriate credit control arrangements.

In addition, high proportion of our management fees are payable directly or indirectly from commingled funds managed by the Pantheon Group. Significant proportion of investors in commingled funds are institutional grade clients with low default risk. Default provisions in the organisational documents of the relevant commingled funds mean that the risk of a default is very low. Separate account clients are all institutional grade clients with low default risk.

PV(UK) does not have a trading book and does not have any derivatives in its non-trading book at present

Liquidity risk is not considered a key risk for Pantheon because income from Pantheon's funds is billed quarterly in advance and there is a high degree of predictability in relation to costs and income and is not sensitive to short term fluctuations.

In each case it has been determined that the risks that these factors present are acceptable and that there are sufficient mitigating factors in place such that no further action is required with respect to the controls in place or to the capital held by PVUK.

Financial Position and Capital Planning

3.1 Capital Resources

The adequacy of PVUK's capital is assessed at least annually through an internal capital adequacy assessment process (ICAAP), which PVUK 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 PVUK's risks, how PVUK intends to mitigate those risks and how much current and future capital is necessary having considered other mitigating factors.

The ICAAP also provides information about how PVUK explains to the FCA its internal capital adequacy assessment process. As part of the ICAAP, PVUK 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, PVUK is then able to determine the requisite amount of regulatory capital and to ensure its capital resources are always more than sufficient to meet the firm's Capital Resource Requirement (CRR). The requisite amount of any additional own funds (or other capital resources) required from time to time are provided by additional contributions of eligible PVUK members' capital. Further, PVUK 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 is reviewed at least once a year.

PVUK is a Limited Liability Partnership and its capital arrangements are established in its Partnership Deed. Its capital is summarised as follows:

	31 December 2018	31 December 2017
	USD 000s	USD 000s
Members' capital	14,268	14,268
Revenue reserves	9,727	6,675
Members' capital and other reserves	23,995	20,943
Pillar 1 capital requirement	(8,805)	(7,778)
Surplus capital resources	15,190	13,165

	31 December 2018 USD 000s	31 December 2016 USD 000s
Tier 1 capital less innovative tier 1 capital	23,995	20,943
Total Tier 2, innovative Tier 1 and Tier 3 capital	-	-
Deductions from Tier 1 and Tier 2 capital	-	-
Total capital resources, net of deductions	23,995	20,943

PVUK has no capital which is classified as hybrid or innovative, nor does it hold any capital instruments which provide PVUK with an incentive to redeem them.

3.2 Pillar 2 requirement

PVUK has assessed material risks and foreseeable capital requirements arising over the next three and five years. The main drivers of Pillar 2 capital are wind down costs and operational risk. The effects of external stresses on PVUK's capital were also considered. The results of PVUK's analysis indicate no additional capital is currently required.

3.3 Capital Planning

The FCA requires firms to consider the impact of an economic recession or downturn in the market relevant to the firm's activities. Surplus capital is held:

- To meet any liabilities arising from the crystallisation of identified risks;
- To ensure that an appropriate buffer is maintained to take advantage of strategic opportunities such that the firm will not suffer a regulatory capital breach;
- To ensure that there is an appropriate amount of capital retained for reinvestment in the business, for example, to enhance systems and processes and to recruit additional talent and skills; and
- To demonstrate exceeding the FCA's minimum regulatory requirements.

Financial forecasts – Pantheon produces a three year forecast which allows management to assess the opportunities and competition that the business may expect during the next three years. These forecasts are revisited on a quarterly basis and adjusted to reflect any significant variances from plan.

PVUK has established a policy of maintaining capital resources in excess of its capital resources requirement. The Firm anticipates controlled growth over the next 3 years, with any uplift in expenditure being at least matched by an increase in income.

- Expenses (other than bonuses) are incurred evenly over the year and the Firm receives fees quarterly. Staff bonuses are dependent on performance and are awarded annually.
- Bonus amounts payable are non-contractual and are determined taking into account the financial position of PVUK. As such, PVUK is not exposed to a significant increase in costs that would threaten its capital adequacy.
- PVUK has a substantial, stable and reliable institutional client and investor base from which consistent revenues are generated.

The Partnership Board is therefore satisfied that the present capital and liquidity management arrangements of PVUK are adequate and proportionate to the nature and scale of the business. In the worst case scenario, if all the above failed, the Partnership Board would consider an orderly winding down of the business over a period of three years.

3.4 Capital management and monitoring

Drawings are paid to the Members on a periodic basis. This is dependent on the levels of profitability of the Firm and there are no contractual or other obligations requiring payments to be made that would be detrimental to the capital adequacy of the Firm.

The Members of PVUK maintain an adequate level of capital resources to meet its obligations. Should additional resources become necessary due to unforeseen business risks, the Members are in a position to contribute additional capital or proceed with an orderly winding down of PVUK's operations.

PVUK regularly reviews its performance and financial position against internal forecasts and regularly reports such results and variances to senior management. These are compared to business plans and forecasts and variance analysis is undertaken where material deviations are noted.

3.5 Stress testing

The Operational Risk Committee has evaluated a number of scenarios, both individually and in aggregate. Stress testing is an important part of the Group's planning and risk management processes. Capital planning and stress testing forms part of the ICAAP process, under which a variety of stress scenarios are modelled to test the potential impact on capital resources and regulatory capital. The scenarios used are severe, and include combinations of loss of existing mandates, material adverse investment performance, an inability to attract new business, currency market collapse, a hard Brexit, material legal action leading to a wind down, loss of entire investment teams to a competitor, legal or regulatory enforcement action plus reputational damage arising from GDPR breaches and a cybersecurity incident.

Remuneration policy and disclosure

4.1 Remuneration policy

PVUK is required to demonstrate that its remuneration policies are aligned with its business strategy, objectives, values and long term interests and those of its clients and investors. Given the partnership structure of PVUK and nature of the firm's business, the Partnership Board has determined that the firm's Remuneration Policy and structures are consistent with and promote sound and effective risk management whilst mitigating risk to the firm.

PVUK's remuneration policy is designed in a way that is appropriate to the nature, scope and complexity of its activities and its size in order to ensure compliance with the BIPRU Remuneration Code and AIFMD Remuneration Code. Its compensation arrangements:

- Are consistent with and promote sound and effective risk management;
- Do not encourage excessive risk taking;
- Include measures to avoid conflicts of interest; and
- Are in line with the Pantheon Group's strategy, objectives, and long-term interests.

The policy is designed to remunerate staff and partners for both individual performance and the performance of the Pantheon Group. All employees are eligible to receive salary, pension contributions and benefits and to be considered for a discretionary annual bonus, with the maximum opportunities reflecting the role and seniority of each employee. Members are entitled to regular drawings and periodic distributions of profit.

4.2 Key Management Compensation

PVUK defines key management as partners and senior management operating in significant influence functions, as identified in BIPRU, AIFMD and MiFID disclosures.

	31 December 2018	31 December 2017
	USD 000s	USD 000s
Key management compensation (including salary, pension, bonuses and partnership profit share)	13,138	12,352

No further disclosures on remuneration are provided under the provisions set out in BIPRU 11.5.20R.