Pillar 3 Disclosure

Park Square Capital

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1. Introduction

i. Regulatory Context

Park Square Capital LLP ("Park Square Capital" or the "Firm") is authorised and regulated by the Financial Conduct Authority (the "FCA") as a MiFID Investment Firm. It is categorized as a IFPRU €125k limited licence firm and is required to disclose Pillar 3 information. It reports on a standalone basis. Pillar 3 disclosure fulfils Park Square Capital's obligation to disclose to market participants key pieces of information on the Firm's capital, risk exposure and risk assessment processes, including its remunerate on arrangements.

Disclosure is made on an individual basis as permitted by the FCA rules and the Firm is not a member of a UK Consolidation Group

ii. Frequency of Pillar 3 Disclosure

Park Square will be making Pillar 3 disclosures at least annually. The disclosure will be made as soon as reasonably practical after the account reference date being, 31 December and published on the Firms website

iii. Materiality

We may omit required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties. However, we can confirm that we have made no omissions on the grounds that it is immaterial, proprietary or confidential.

iv. Verification

The information contained in this document has not been verified independently and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Firm.

2. Regulatory Background

The Capital Requirements Directive IV (“CRD IV”) of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain. CRD IV is made up of the Capital Requirements Directive (2013/36/EU) ("CRD") which must be implemented through national law in Member States, and the Capital Requirements Regulation (575/2013) ("CRR"), which is directly binding on firms across the EU.

In the United Kingdom, the Directive has been implemented by the FCA in its regulations through the Prudential Sourcebook for Investment Firms (‘IFPRU’). Firms must also be aware of their obligations under the directly binding CRR that are not reproduced in the FCA Handbook.

The FCA framework consists of three ‘Pillars’:

Pillar 1 sets out the minimum capital amount that meets the firm’s base capital requirement of €125,000, along with its financial overhead requirement and its credit and market risk capital requirements;

Pillar 2 requires the firm to establish and maintain an Internal Capital Adequacy Process (“ICAAP”) to assess whether its Pillar 1 capital requirements is sufficient to cover the risks faced by the Firm; and if not, to calculate the additional capital required; and

Pillar 3 requires disclosure of specified information about the underlying risk management policies, controls and capital position to encourage market discipline.

As required by FCA rules, this disclosure describes Park Square’s risks management objectives, policies and controls framework designed to mitigate the risks identified in the Park Square’s ICAAP.

The key risks identified by Park Square in its ICAAP for the year ended 31 December 2017 were as follows:

- Business risk;
- Credit risk; and
- Market risk

Park Square has assessed the relevant business, credit, market and operational risks and has set out appropriate actions to manage these risks. Park Square’s Executive Committee is responsible for the management and oversight of the implementation of these actions. See Section, “Risk Management Objectives and Policies”, for further information relating to the governance of risk management at Park Square.

- **Business Risk** the risk that the business plan does not address all strategic risks, is not approved at the appropriate level and does not allow the Firm’s plans to be carried out so that its objectives can be achieved, which could affect the financial viability of the business. A significant decrease in advisory fees would pose a risk to Firm. Park Square Capital produces a 3 year annual profit forecast along with annual budgets against which to monitor actual and short term forecast financial performance. As part of its Internal Capital Adequacy Assessment Process ("ICAAP"), the Firm performs economic scenario analysis along with stress testing. The Firm's Fixed Overhead Requirement required by the FCA is considered adequate to meet all obligations arising from an orderly wind-down.

Market Risk is limited to that arising from foreign exchange movements in respect of advisory fees due from the general partners of the funds advised by the Firm. Exposure to market risk is considered minimal.

Credit Risk is the risk that a client does not pay amounts due for services provided. The Firm earns investment advisory fees for advising clients and also earns reimbursement fees for finance and administration costs incurred in providing services to clients. The credit risk on these exposures to the Firm is perceived as low. The Firm also holds its cash with a large global credit institution with high credit ratings. The credit risk on these exposures is considered as very low.

3. Risk Management Objectives and Policies

The members of the Firm have appointed Executive Committee ("ExCo"), comprising of the individuals listed below, that is responsible for the entire process of risk management, as well as forming its own opinion on the effectives of the process. In addition, ExCo, decides the Firm's risk appetite or tolerance for risk and ensures that Park Square has implement an effective, ongoing process to identify risks, to measure its potential impact and then to ensure such risks are actively managed. Senior management is accountable to ExCo for designing, implementing and monitoring the process of risk management and implementing it to the day-to-day business activities of the Firm.

<u>Executive Committee Members</u>

- Robin Doumar, Managing Partner;
- David Cottam, Partner, Investment Professional;
- Michael Small, Partner, Investment Professional;
- Osvaldo Pereira, Partner, Investment Professional;
- Howard Sharp, Partner & Head of Mid-Market Direct Lending;
- Andrew Haywood, Partner, CFO/CCO;
- Piers Dennison, Partner & Head of Investor Relations; and
- John Anderson, General Counsel

Park Square Capital regards itself as a risk averse firm and has no significant exposure by reason of its business model to market risk and credit risk. Park Square Capital has prepared a risk matrix which identifies, quantifies, and establishes control procedures and assigns line responsibility for all risks that could have a material impact on the business.

Park Square Capital does not consider an independent board member to its risk management function necessary due to the nature, scale and complexity of the Firm.

4. Disclosures

i. Capital Resources (/Own Funds)

The Firm is a IFPRU Limited Licence Firm and has calculated and disclosed its capital resources in accordance with Articles 28 and 437 of the CRR. The firm's capital resources are detailed in the table below.

Capital resource requirements	2017 (£)
Tier 1	4,406,029
Tier 2	-
Tier 3	-
Deductions form total capital e.g. illiquid assets	-
Total	**4,406,029**

Methodology for Capital Resource Requirements

The Firm's Pillar 1 requirement is calculated as the higher of:

1. The Base Capital Requirement (€125k); and
2. The sum of:
    a. The Credit Risk Capital Requirement; and
    b. The Market Risk Capital Requirement.
3. The Fixed Overheads Requirement ("FOR")

Since the total FOR is greater than both the Firm's base capital requirement and its Credit and Market Risk, it is this total which determines the Firm's regulatory capital requirement.

ii. Credit Risk

The Firm has adopted the standardised approach to the calculation of the credit risk capital component of the Capital Resources Requirements, being 8% of the total risk weighted exposures at 31 December 2017, and has been calculated to be £476,987.76.

Article 112	8% of risk weighted exposure amount (£)
Central governments or central banks	
Regional governments or local authorities	

Public sector entities	
Multilateral Development Banks	
International Organisations	
Institutions	20,520.56
Corporates	428,126.50
Retail	
Secured by mortgages on immovable property	
Exposures in default	
Items associated with particular high risk	
Covered bonds	
Claims on institutions and corporates with a short-term credit assessment	
Collective investments undertakings (CIU)	
Equity	
Other items	28,340.72
Total	**476,987.76**

iii. The IRB Approach
The Firm does not adopt the Internal Ratings Based Approach and hence this is not applicable.

iv. Credit Risk adjustments
There were no credit risk adjustments at the Firm

v. Unencumbered assets
This disclosure is not yet in force

vi. Operational risk
This disclosure is not required as the Firm is not subject to the requirements on Operational Risk.

vii. Exposure to Market Risk
a) **Exposure to Market Risk Article 92(3)(b). requirements for non-trading book business.** This disclosure is not required as Park Square does not have a trading book.

b) **Exposure to Market Risk Article 92(3)(c).** Please see as follows:

Market risk exposure	Risk weighting	Risk weighted exposure (£)
Foreign currency assets and liabilities	8%	200,464.64
Settlement risk	8%	-
Commodities risk	8%	-

viii. Remuneration

a) Remuneration Policy

Park Square is a Remuneration Code Proportionality Tier 3 Firm and has applied the rules appropriate to its Proportionality Tier. Park Square's internal remuneration committee and Human Resource Manager is responsible for the remuneration policy. Our policy is designed to ensure that we comply with the Remuneration Code and our compensation arrangements:

1. are consistent with and promotes sound and effective risk management;
2. do not encourage excessive risk taking;
3. include measures to avoid conflicts of interest; and
4. are in line with the Firm's business strategy, objectives, values and long-term interests.

b) Code Staff

Park Square Capital classifies all members of the limited liability partnership (each of whom performs a significant influence function) as meeting the definition of Code Staff, which totalled 11 in the current reporting period.

c) Link between pay and performance

Park Square Capital's members of the limited liability partnership receive remuneration that consists of:

- drawings;
- carried interest; and/or
- residual profit share.

The total remuneration is designed to be market related and to retain, and motivate the members. The residual profit share that a member receives is dependent on individual performance taking into account the Firm's current year and long term development. Carried interest is a long term incentive scheme which forms part of the return on each member's individual investment in the funds advised by the Firm. Carried interest is part of the entitlement associated with limited partnership ("LP") interests held by each Partner. Carried interest is paid out as a distribution on the LP interest and is paid only once a particular fund has achieved certain cash-on-cash performance criteria.

Park Square Capital's staff receive remuneration that consists of basic salary, variable bonuses and/or carried interest.

d) Aggregate Remuneration cost for Code Staff by Business area

Under FCA rules, the Firm is required to provide aggregate quantitative information 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 actions have a material impact on the risk profile of the Firm. There were 11 Code Staff classified as senior management and their aggregate remuneration for the 2017 financial year was approximately £8.4 million.

5. Document Control Sheet

Key Information

Title	**Pillar 3 Disclosure**
Prepared By	Amna Zubair, Operational Risk and Compliance Manager
Approved By:	Executive Committee
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Contact	Amna.Zubair@parksquarecapital.com

Revision History

Version	Date	Summary of Changes	Initials	Changes Marked

Approvals – Annually, this document is formally reviewed by the Chief Compliance Officer and Executive Committee.

Name/Title	Date	Version
Chief Compliance Officer	19/12/2016	V.01.0

Links to Supporting Documents

Name of Document	File path
Workings folder	G:\Compliance\Compliance refiled\6. Regulatory Reporting & Record Keeping\6.7. Annual Public Disclosures\2017