Enterprise Investment Partners LLP

Pillar 3 Disclosure and Policy

May 2020

Introduction

The Pillar 3 disclosure of Enterprise Investment Partners LLP ("Enterprise" or "the Firm") is set out below as required by the FCA's "Prudential Sourcebook for Banks, Building Societies and Investment Firms" (BIPRU) specifically BIPRU 11.3.3 R. This is a requirement which stems from the UK's CRDIII implementing Regulations which represented the European Union's application of the Basel Capital Accord (Basel III) and furthers the consistent capital adequacy standards introduced in 2007 by increasing the quality of capital that firms are required to hold. The Directive has been incorporated by the Financial Conduct Authority ("FCA") into its regulations through the Prudential sourcebook for Investment Firms ("IFPRU"). This is supplementary to, and in some parts replaces the Prudential sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") and GENPRU, the general prudential sourcebook.

Frequency

The Firm will make Pillar 3 disclosures at least annually. The disclosures will be as at the Accounting Reference Date ("ARD").

Media and Location

The disclosure will be published on the Firm's website.

Verification

The information contained in this document has not been audited by the Firm's external auditors, as this is not a requirement, and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Firm.

Materiality

The Firm regards information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If the Firm deems a certain disclosure to be immaterial, it may be omitted from this statement.

Confidentiality

The Firm regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm's investments therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

Summary

The CRD, to which the Firm remains subject as a consequence of the UK CRDIII implementing Regulations, have three pillars; Pillar 1 deals with minimum capital requirements; Pillar 2 deals with Internal Capital Adequacy Assessment Process ("ICAAP") undertaken by a firm and the Supervisory Review and Evaluation Process through which the Firm and Regulator satisfy themselves on the adequacy of capital held by the Firm in relation to the risks it faces and; Pillar 3 which deals with public disclosure of risk management policies, capital resources and capital requirements.

The regulatory aim of the disclosure is to improve market discipline.

The Firm is required to disclose its risk management objectives and policies.

The Firm has assessed business and operational risks in its ICAAP and sets out appropriate actions to manage them.

Covid-19 Pandemic

Throughout the pandemic the Firm has continued to follow the advice from the government and health authorities and has successfully implemented a number of business continuity initiatives. The Firm has remained open for business and staff are working remotely. The Firm is confident that it has continued to deliver the same high level of service during this time.

The Firm faces the same risk of economic uncertainty and financial strain posed on businesses and individuals throughout the UK and the rest of the world. The potential lack of investment activity in the market could result in reduced income earned by the Firm.

The Firm has considered the risks that it may potentially face as a result of the pandemic and has plans in place to ensure that it remains compliant with its capital requirements at all times.

Background to the Firm

Background

The Firm is incorporated in the UK and is authorised and regulated by the FCA as an Alternative Investment Fund Manager. In addition the Firm undertakes MiFID activities which give it the categorisation of a 'BIPRU Firm'.

Risk Management Objective

The Firm has a risk management objective to develop systems and controls to mitigate risk to within its risk appetite.

Governance Framework

The Partners are the Governing Body of the Firm and have the daily management and oversight responsibility. They meet monthly and include:

- Richard Hoskins
- Christian Elmes

The firm's approach to assessing the adequacy of its internal capital to support its current and future activities is documented in its Internal Capital Adequacy Assessment Process ("ICAAP"). Collating the "ICAAP" consists of management collectively determining the firm's business strategy and risk appetite, as well as setting out the design and implementation of the firm's risk management framework. Risk appetite is the degree of risk that management are willing to accept without having to apply further resources and capital to mitigate this risk. Risks are assessed in terms of the probability of the risk occurring after taking into account any risk mitigation measures adopted by the firm.

As a commercially sensitive document, the ICAAP is not a public document and hence is not published by the Firm nor is it made available to clients, whether institutional or retail.

The ICAAP includes an assessment of each of the risks identified by the FCA and the various controls in place to mitigate those risks. These include credit risk, market risk, operational risk, concentration risk, business risk, liquidity and Appointed Representative risk. Each of these is outlined below.

Credit Risk

Credit risk is the potential loss of all or part of a loan, outstanding debtor balances, security, guarantee or indemnity whereby clients and counterparties fail to meet their financial and commercial obligations.

Based on the analysis of exposure to credit risk and the robust procedures in place to mitigate said risks, the firm deems its overall exposure to credit risk as low.

Market Risk

Market risk is a measure of the firm's exposure to adverse external factors such as movements in interest rates and securities markets indices. The standard market risk factors are equity risk, interest rate risk, and currency risk.

Equity risk is considered to be low since the Firm has no significant direct exposure to equity risk as the firm does not currently hold any trading positions.

The Firm has little exposure to interest rate risk in relation to its funding. The firm is not leveraged, has no third party debentures or preference shares and does not use subordinated debt or similar instruments. As the firm is not debt financed an upwards interest rate shock will have a limited effect on the firm.

Enterprise considers interest rate risk to be low.

The firm has minimal direct or indirect exposure to currency risk as all fees are charged in the firm's functional currency of sterling and almost all investment transactions are settled in sterling.

Therefore currency risk is considered to be negligible.

The firm has no direct risk and rare indirect exposure to commodity risk as the firm does not deal in commodities on either its own account or that of its clients' in non-securitised commodities. As a result, commodity risk in conceived as negligible.

Based on a comprehensive analysis within the ICAAP type framework, market risk is low-to-moderate.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external elements.

A number of key operations are outsourced by our clients, typically the AIFs we are an AIFM to, to third party providers, such as administrators and custodians, reducing our exposure to operational risk.

The Firm's operational, internal control and disaster recovery procedures function to highly effective standards. They are reviewed by the Governing Body on an annual basis. They are subject to independent external audit by the firm's auditors on an annual basis.

The Firm considers operational risk to be low.

Concentration Risk

Concentration risk is the risk of being dependent upon one or relatively low numbers of clients to generate income.

Concentration risk is considered to be moderate.

As the business grows, revenue streams will expand and diversify, diminishing the concentration risk exposure significantly.

Business Risk

Business risk is the risk of disruption to normal procedures and carrying out desired strategy caused by changes in the environment including economic, social political and technological factors, as well as external factors such as natural disasters, terrorism or other "force majeure".

Certainly, the firm's fund requirements are risk-sensitive to variance in business cycles, socio-economic and political conditions. The FCA recommends that a firm should aim to maintain an adequate capital buffer to mitigate such risk. As will be expanded on in the following section, the Firm maintains a capital ratio that suitably exceeds the regulatory requirement. As a result, the firm concludes that business risk is low to moderate. Furthermore, the current political and legislative environment is supportive of the tax schemes inherent in the EIS and VC services the Firm predominantly offers.

The Firm mitigates its risk of disruption by making use of easily replaceable and up to date hardware and software. All key client asset systems are replicated off-site so that in the event that the firm's main offices were to be destroyed then the majority of business could be continued next day and full recovery could be achieved in a week.

Business risk is considered to be low to moderate.

Liquidity Risk

This is the risk that a business will be unable to meet its financial obligations as they fall due.

The business has capital headroom that is sufficient for the FCA regulatory requirement, such that any shortfall can be covered efficiently.

As a result, liquidity risk for the firm is low to moderate.

Appointed Representative Risk

As a Principal firm to a number of appointed representative firms ("AR's"), Enterprise is exposed to the actions or inactions of these AR's. Enterprise is responsible for ensuring that the AR acts within the scope of permission allowed to it by virtue of Enterprise's Part 4A Permission. This poses three key risks:

- the Firm faces the risk that the actions of the AR are such that they reflect poorly on the reputation of Enterprise by association, which would have a resulting effect on income over the longer term;
- the Firm faces the risk that the actions of the AR are in breach of the rules laid down by the FCA and that as Principal, Enterprise are responsible. This is a further reputation risk, but also puts the capital of the Firm at risk, should Enterprise have to pay a fine due to the behaviour of the AR; and
- the Firm faces the risk that the AR runs out of capital or cash, but continues to have ongoing commitments.

The mitigations to these risks are documented in the Firm's risk map and the effect of these risks on capital are included in the stress testing within the ICAAP.

Based on a comprehensive analysis review documented in the ICAAP, Enterprise considers credit, market, operational, concentration, business, liquidity and Appointed Representative risks to be relatively low to moderate overall.

Capital Resources

Enterprise is a BIPRU €50k Limited Licence firm which is able to control, but not hold, client money.

The Firm has undertaken an internal capital adequacy assessment process ("ICAAP"). The ICAAP was last revised in May 2020 and currently has capital resources consideration in excess of the regulatory minimum capital requirement.

Remuneration

The EU Capital Requirements Regulation (Regulation (EU) No 575/2013) imposes a requirement for disclosure of the Firm's approach to remuneration risk. The aim is to ensure that firms have in place remuneration policies which are both consistent with and promote effective risk management and do not expose them to excessive risk.

The Firm has a remuneration policy that appropriately addresses potential conflicts of interest and the Firm's authorised persons are not rewarded for taking inappropriate levels of risk. Under the Remuneration Code ("the Code"), Enterprise is classified as a Tier Three firm, which allows it to dis-apply many of the technical requirements of the Code and proportionately apply its rules and principles in establishing its policy.

The Firm is satisfied that the policies in place are appropriate to its size, internal organisation and the nature, scope and complexity of its activities.

The Firm does not have a formal Remuneration Committee. Partners and staff are reviewed on an annual basis by the Partners. Remuneration is determined with reference to the performance of the individual during the year and with regard to the Firm's actual and projected reserves, profits and cash position.