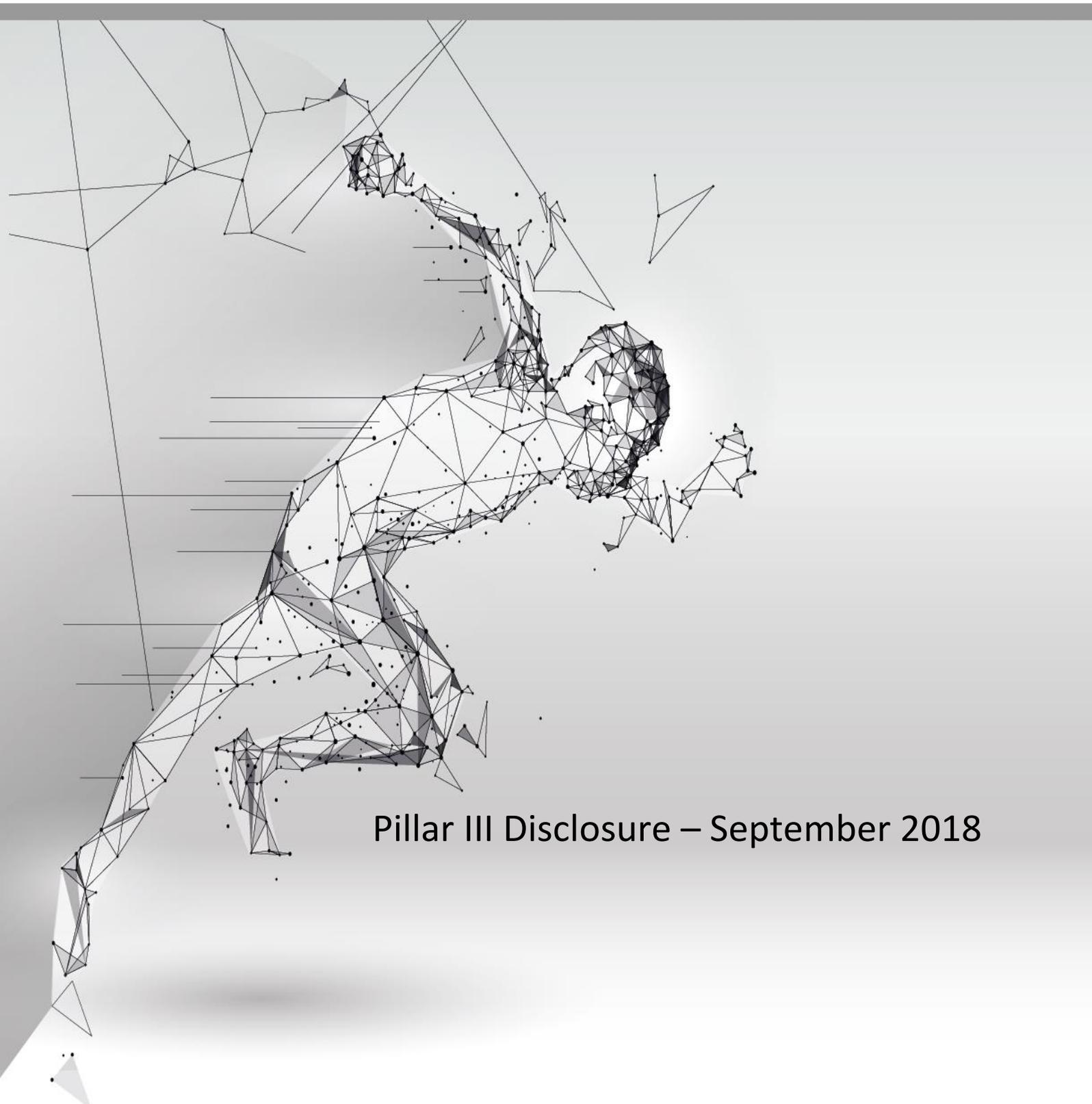




ESSENCIA
capital



Pillar III Disclosure – September 2018



Introduction

Essencia Capital LLP (“Essencia” or “the Firm”) is an investment management firm authorised and regulated by the Financial Conduct Authority (“FCA”) in the United Kingdom (“UK”). Essencia is categorised as a “BIPRU firm” and is subject to the Capital Requirements Directive (“CRD”). The CRD establishes a regulatory capital framework across the European Economic Area (“EEA”) and governs the amount and nature of capital credit institutions and investment firms must maintain. In line with the CRD, the FCA requires Essencia to publicly disclose specific information about the Firm’s risks, management arrangements, capital resources and remuneration structures. This is known as the Pillar III Disclosure and requirements are set out in BIPRU 11 of the FCA’s Handbook of Guidance and Rules¹ (“FCA Handbook”).

In line with BIPRU 11.3.5R and BIPRU 11.3.6R of the FCA Handbook, Essencia may omit certain information from its Pillar III Disclosure if the information is not regarded as material or the information is regarded as proprietary or confidential. Essencia has chosen to omit certain information that is deemed immaterial and regarded as confidential. Essencia is satisfied that these omissions satisfy the technical criteria in relation to materiality and proprietary or confidential information as set out in BIPRU 11.4.1R and BIPRU 11.4.2R, respectively. Notwithstanding these omissions, Essencia believes that its Pillar III Disclosure conveys its risk profile comprehensively to market participants.

This document has been prepared in good faith and the information contained within this document is believed to be complete and accurate as at the time of writing. Unless otherwise stated, the information in this Pillar 3 is based on Essencia’s unaudited management accounts for the fiscal year ending 30th June 2018. Should the completion of the annual audit give rise to material changes, Essencia will review and update the ICAAP accordingly. This document, which is made available on the Firm’s website, is intended to meet the Essencia’s obligations in respect of its Pillar III Disclosure. In accordance with BIPRU 11.3.8R and BIPRU 11.3.9R of the FCA Handbook, Essencia’s Pillar III Disclosure will be reviewed and updated at least annually or more frequently in the event of material changes.

Scope and application of the requirements

As at the time of writing, Essencia provides discretionary investment management services to a sole professional client. The Firm does not, nor does it have the regulatory permission to, deal on its own account and/or deal as a principal. As such, Essencia has no trading book exposures. Essencia is not a member of a group and so is not required to prepare consolidated reporting for prudential purposes.

Risk management and appetite

The day-to-day risk management of the Firm’s business typically involves identifying risks through a framework of policy and procedures taking account of relevant laws, standards, principles and rules, including the FCA’s requirements, with the aim of operating a defined and transparent risk management framework. These policies and procedures are updated as required to ensure that the Firm operates with utmost integrity and professionalism in all business dealings. The Firm considers risk as part of its normal business operations and formally documents its risk findings in detail within its Internal Capital Adequacy Assessment Programme (“ICAAP”). Risk management is not a standalone topic. Risk exists in all areas of the Firm’s business including, but not limited to, trading, operations and compliance. As such, risk management is an underlying and inherent consideration in all the policies, procedures and internal processes that Essencia has established, implemented and maintains. Risk management is embedded within the day-to-day operations in the Firm to ensure that risks are mitigated as far as is possible.

The preparation of the Firm’s ICAAP is an extremely useful tool within this framework allowing Essencia to consider scenarios which would have the greatest impact on the business, quantify

¹ <https://www.handbook.fca.org.uk/handbook/BIPRU/11/?view=chapter>



material risks identified and plan capital requirements accordingly. Essencia takes a low risk approach to the management of the Firm’s capital. To this end, Essencia prefers to hold sums of Tier 1 capital materially in excess of the Firm’s capital resources requirements and capital resources held in the Firm are closely monitored on a monthly basis. This strategy provides time and resources to allow for prompt remedial action to be taken in the event that the Firm experiences a capital shortfall or if the Firm is required to be wound-down. In practice, the relatively small size of the business allows Essencia to implement changes to the Firm’s cost base quickly in the event of an economic downturn. Essencia acknowledges that an economic downturn could hamper the Firm’s ability to raise capital. This would mean that the Firm’s ability to earn management and performance fees would be affected. Consequently, this would weaken Essencia’s financial position. Furthermore, an economic downturn could hamper the Firm’s plans to launch new business lines.

The Firm’s senior management is responsible for ensuring that the risk management framework is adequate in light of the nature, scale and complexity of Essencia’s business. Ultimate responsibility rests with Essencia’s CEO.

Consideration of Risks

Essencia has given due consideration to the risks to which the Firm is, or may be, exposed. The predominant risks facing Essencia have been categorised as follows:

Risk Type	Description and Management Response
Operational	<p>The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risk.</p> <p>The Firm has established well-structured processes and controls through its Business Guidelines, Policies and Procedures which have been designed to minimise operational risk. Through the set-up and implementation of effective operational and compliance procedures and adequate training of staff, material operational risks are mitigated to an acceptable level. To the extent that the Firm outsources activities that could give rise to operational risk, these are mitigated to an acceptable level through regular oversight and the appointment of professionally-competent service providers only.</p>
Insurance	<p>The risk that the Firm’s insurance cover is not adequate and, therefore, exposes the Firm to losses arising out of claims.</p> <p>Essencia periodically, typically annually, reviews the insurance policies that the Firm has in place and ensures that they are sufficient for the level of activity and business that the Firm conducts.</p>
Liquidity	<p>The financial risk due to uncertain liquidity.</p> <p>Liquidity mismatches could occur as a result of inadequate or failed internal processes and/or systems in relation to monitoring and managing asset/liability profiles and related cash flows. Liquidity risk is managed by the following specific controls:</p> <ul style="list-style-type: none"> • Preparation of annual budgets; • Monitoring of current cash levels and of short-term cash requirements; and • Monthly management accounts (assessment of cash surplus/deficit) <p>The Firm’s liquidity risk is reduced by the following factors:</p> <ul style="list-style-type: none"> • The Firm is working towards maintaining assets under management (“AuM”) that fully support the running of the Firm. In the meantime, the CEO financially supports the Firm in its day-to-day running; • Management fee income is receivable monthly in arrears; • Monthly costs are stable, and the Firm has good visibility of upcoming liabilities;



	<ul style="list-style-type: none"> • The CEO supports the business and will take all reasonable steps to ensure there is enough capital in the business to ensure the Firm can meet its liabilities as they fall due; and • Bonuses are made at the discretion of the CEO and are not contractual and any such bonus payments can be delayed if there are any liquidity concerns.
Market	<p>The risk that changes in market prices, such as interest rates and foreign exchange, affect Essencia's income and/or the value of certain assets. Essencia does not have a trading book and, as such, market risk is limited to the foreign currency position risk requirement.</p> <p>The Firm is well-capitalised and has implemented measures to maintain this position. The Firm does not feel that foreign currency position risk poses a threat to the its ability to meet its capital resource requirements.</p>
Credit	<p>The risk that a party will default on a financial agreement. The Firm is exposed to credit risk as follows:</p> <ul style="list-style-type: none"> • fees due to it from its client, and • its cash manager. <p>The risks are mitigated by:</p> <ul style="list-style-type: none"> • periodic monitoring of the financial strength of the credit institutions with whom the Firm banks; • contractual arrangements being in place in relation to the payment of fees and the monitoring of payments against agreed payment arrangements; • engaging with reputable credit institutions and service providers; and • performing regular monitoring of the Firm's debtor's liquidity and financial viability.
Business	<p>The risk of loss inherent in the business and the specific domains in which it operates.</p> <p>These are risks associated with a fund that are not directly related to market movements, such as failure to reach a base level of AuM or poor performance leading to lower than anticipated income.</p>
Reputational	<p>The risk of damage to Essencia's reputation that could lead to negative publicity, costly litigation, a decline in the customer base or the exit of key employees and therefore directly or indirectly to a loss of revenue.</p>
Interest Rate	<p>The risk of potential losses arising from fluctuations in interest rates.</p> <p>Essencia does not feel that interest rate risk poses a threat to the Firm's ability to meet its capital resource requirements.</p>
Foreign Exchange	<p>The risk of potential loss arising from fluctuations in foreign exchange rates.</p> <p>While Essencia acknowledges the risks associated with foreign exchange rates the Firm does not feel that foreign currency risk poses a material threat to the Firm's ability to meet its capital resource requirements. Any adverse effects would be covered in the short term by capital contributions or profit in the long term.</p>
Employee	<p>The risk that the Firm does not have the ability to attract, retain and develop talented people.</p> <p>Essencia aims to offer competitive remuneration packages to employees, including a discretionary bonus scheme.</p>
Regulatory and Compliance	<p>The risk that Essencia does not adhere to the relevant regulatory requirements.</p> <p>Essencia has engaged external regulatory and compliance services from a</p>



	consulting firm. This consulting firm keeps Essencia informed of the regulatory requirements that apply to the Firm and helps Essencia ensure that it is meeting these regulatory requirements. In addition, the consulting firm assists Essencia in its preparations, for upcoming changes in the regulatory environment.
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Having identify the major sources of risk, Essencia does not feel that these pose a material threat to the Firm’s ability to meet its liabilities as they fall due. As such, the Firm does not believe that it needs to hold additional capital against these risks (i.e. Pillar 2 Requirement capital). The Firm notes that capital equal to or greater than the sum of the Firm’s market risk and credit risk must be held as part of the Firm’s Pillar 1 Requirement.

Capital Resources

In line with the FCA’s requirements, Essencia must maintain, at all times, capital resources equal to (or in excess of) the higher of the Firm’s base capital resources requirement or variable capital resources requirement. As a BIPRU Firm, Essencia’s base capital resources requirements is as follows:

Base capital resources requirement
<ul style="list-style-type: none"> • €50,000 (or other currency equivalent).

As a BIPRU Firm Essencia’s variable capital resources capital requirement is calculated as follows:

Variable capital resources requirement
The higher of
<ul style="list-style-type: none"> • the sum of the credit risk capital requirement and the market risk capital requirement
and
<ul style="list-style-type: none"> • the fixed overheads requirement (“FOR”)

Essencia has concluded that the Fixed Overheads Requirement (“FOR”) determines the Firm’s Pillar 1 Requirement. As outlined above, the Firm does not believe that it needs to hold Pillar 2 Requirement capital. Essencia’s capital resources requirements and capital resources as at the 30th June 2018 are as follows:

Description	Amount
Pillar 1 Requirement	
Pillar 1 (“P1”) Total ²	£90,197
Pillar 2 Requirement	
Pillar 2 (“P2”) Total	0
Total Adjustments	
Adjustments	0
Total Capital Requirements	
Sum of P1 Total and P2 Total plus/minus Adjustments	£90,197
Total capital	£158,951
Surplus	£68,754

Source: Unaudited management accounts for the fiscal year ending 30th June 2018

As shown above, as at 30th June 2018, the total capital that the Firm held exceeded the Firm’s capital requirements and provides a significant capital “buffer” of 76%.

² P1 Total equals *the higher of* the Sum of the Credit Risk and Market Risk *or* the Fixed Overheads Requirement.



Remuneration

As a “BIPRU firm”, Essencia’s remuneration arrangements must satisfy the BIPRU Remuneration Code, as outlined in SYSC 19C of the FCA Handbook. To this end, Essencia has established, implemented and maintains risk-focused remuneration policies which are consistent with and promote effective risk management. Furthermore, the Firm’s remuneration arrangements do not expose the Firm to excessive risk. Through its remuneration arrangements, Essencia seeks to avoid creating any perverse incentives for the Partner or employees to take inappropriate risk. Essencia’s Partner is responsible for the Firm’s remuneration arrangements.

The Firm’s remuneration arrangements cover both fixed or variable remuneration provided in exchange for professional services rendered by Essencia’s Partner and employees. Dividends or similar distributions that the Partner receives, as owners of the Firm, are excluded to the extent that they do not amount to a circumvention of the BIPRU Remuneration Code. Essencia has identified its BIPRU Remuneration Code Staff.

Given the size, internal organisation and nature of Essencia’s business, coupled with the fact that the Firm has only recently been established, quantitative information in relation to remuneration has been omitted on grounds of materiality and confidentiality.