

**Heronbridge Investment Management LLP**  
**(FRN 437507)**  
**Pillar 3 Disclosure Statement**  
**As at 30 April 2021**

**Introduction**

The EU's Capital Requirements Directive ("CRD") and the Alternative Investment Fund Managers Directive ("AIFMD") have been implemented in the UK through rules established by the Financial Conduct Authority ("FCA") in its Handbook of Rules and Guidance for regulated firms. The CRD created a capital framework consisting of three pillars:

- Pillar 1 specifies the minimum capital requirements for credit, market and operational risk and under AIFMD this includes consideration of assets under management and professional negligence risks;
- Pillar 2 requires regulated firms and the FCA to assess whether additional capital should be held against capital risks not covered adequately or at all by Pillar 1; and
- Pillar 3 requires regulated firms to publish certain information on their risk management objectives and policies and on their capital resources.

These disclosures are made in respect of Heronbridge Investment Management LLP ("Heronbridge"). FCA rules provide that required disclosures may be omitted if the information is believed to be immaterial or where it is regarded as proprietary or confidential. Materiality is based on the criteria that the 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. Information is regarded as proprietary if sharing that information with the public would undermine a firm's competitive position. Information is regarded as confidential where there are obligations to customers or counterparties binding a firm to confidentiality. Where a disclosure is considered to be immaterial or has been omitted on the grounds that it relates to information that is proprietary or confidential in nature, this has been described. The information contained herein has been prepared on an unconsolidated basis.

**Firm Structure**

Heronbridge is a private limited liability partnership providing discretionary investment management services primarily to institutional clients through commingled funds and separate accounts established, operated and managed by the firm. Heronbridge Limited ("HB Ltd") is a member of Heronbridge and holds a proportion of Heronbridge's capital. Heronbridge has two wholly owned subsidiaries – Heronbridge (Jersey) Limited (HBJ) and Heronbridge, Inc. (HB Inc.). Heronbridge's limited liability partnership agreement permits, but does not obligate, HB Ltd to invest additional capital in Heronbridge to the extent that this additional capital is needed to meet Heronbridge's client, financial, regulatory or insurance obligations.

**Risk Management**

The FCA requires that a regulated firm manage a number of different categories of risk.

- **Credit Risk.** *The potential risk that arises from clients or counterparties failing to meet their obligations as they fall due.* As an asset management firm, Heronbridge's credit risk is limited to that arising in respect of unpaid investment management fees, cash deposits and prepaid expenses. Heronbridge receives investment management fees on either a monthly or quarterly basis. These fees are computed based on the value of each underlying investor's holdings in the commingled funds and any separate holding accounts. Investment management fees relating to the US fund are collected monthly within five business days. The Jersey fund's investment management fees are paid within five business days after the quarterly invoice is provided to the Jersey Fund. Investment management fees relating to the separate holding accounts are paid within 30 days of an invoice being issued at each quarter end. No provisions to date have been required in respect of non-recovery. Heronbridge's free cash flow is placed on deposit each month. The credit rating and

financial strength of each bank is subject to an annual re-appraisal. Credit risk arising in relation to prepaid expenses is not considered material for the purposes of this disclosure.

- **Market Risk.** *The risk that the value of, or income arising from assets and liabilities varies as a result of changes in interest rates, exchange rates or other market prices.* As an asset management firm, Heronbridge's client portfolios are subject to market price fluctuations. Heronbridge's fees are asset based and, as a consequence, revenues will vary with market price changes. To counter this risk Heronbridge has structured its business so that many costs are variable and will fall should client assets fall. Heronbridge has no trading book and does not invest in commodities. Heronbridge's core regulatory capital, surplus capital and free cash flow is primarily invested in cash deposits and the firm's Jersey fund. Heronbridge's exposure to foreign exchange risk is not considered material.
- **Liquidity Risk.** *The risk that a firm may have insufficient liquid resources to cover cash flow shortfalls or fluctuations in funding and be unable to meet its obligations as they fall due.* Heronbridge has no borrowing and is not dependent on external financing. Heronbridge has some exposure in the event that a banking counterparty suffers financial distress and is unable to return some or all of Heronbridge's cash deposits. Heronbridge maintains sufficient assets in liquid form to meet its obligations as they arise and in practice the business has little liquidity risk.
- **Business Risk.** *The risk that a firm may not be able to carry out its business plan and/or desired strategy. The principal business risks facing Heronbridge are:*
  - **Operational Risk.** *The risk of loss or breach of contractual requirements, resulting from inadequate or failed internal processes, people or system; human error, or external events.* This includes the risk of loss or breach arising from the inadequate supervision of third party service providers. Heronbridge seeks to mitigate these risks by (i) keeping its business simple, (ii) identifying and managing sources of risk, stress testing those risks and maintaining insurance or other capital to offset financial losses (iii) documenting procedures; and iv) reviewing the operations of material business groups on a periodic basis. Heronbridge is not required to calculate an operational risk requirement.
  - **Concentration Risk.** *The risk that exposures to specific sectors or asset concentration could result in losses to Heronbridge or its business.* Heronbridge principally invests client assets in publicly traded UK equity securities. Heronbridge's business could suffer (i) from a decline in its investment performance relative to benchmark indices, or (ii) from a change in sentiment on the part of investors away from publically traded UK securities and/or a shift of their asset allocations away from UK equities.
  - **Insurance Risk.** *The risk of failure or insurance cover.* Heronbridge maintains fiduciary liability (also referred to as professional indemnity), crime (also referred to as errors and omissions) and ERISA insurance at a level which Heronbridge considers appropriate for the business and subject to a deductible which Heronbridge can reasonably afford to meet if called upon. Heronbridge seeks to obtain insurance only from well capitalised insurance firms to minimise the risk of loss arising from insurance risk.
  - **Interest Rate Risk.** *The risk that significant changes in interest rates may have an adverse impact on the business.* Heronbridge does not engage in or run a trading book and has no borrowings that might give rise to interest rate risk. From a business perspective (given its cash balances), and assuming no impact on investment performance, Heronbridge would expect to benefit from increases in interest rates as a result of increased interest income.

Heronbridge's Executive is responsible for determining Heronbridge's overall risk strategy, setting its risk appetite and ensuring that risk is monitored and controlled effectively. The Executive works closely

with the Compliance and Operational Risk Management areas, and consults them before deciding to make (i) material investments, loans or capital expenditures; (ii) significant investments; (iii) material changes in its costs structure, base salaries or the level of member drawings; or (iv) material repayments or distributions of member capital. Heronbridge’s operational risk management framework is updated as necessary to reflect material changes in Heronbridge’s business, capital obligations or resource requirements. Heronbridge aims to ensure that staff remain focused on compliance with applicable regulations, improving procedures, minimising risk and establishing a robust risk, capital and performance structure.

### Capital Resources and Regulatory Obligations

Heronbridge’s Pillar 1 capital requirement is calculated with regard to the FCA’s requirements under both the CRD and AIFMD. The firm is required to maintain capital equal to the higher of (i) the base capital requirement for limited licence firms (€50,000), (ii) its fixed overhead requirement, (iii) the sum of its credit and market risk capital requirements and, (iv) the sum of its AIFM funds under management and professional negligence capital requirements.

<b>Capital Resources</b>	<b>30 April 2021</b>
	<b>£’000</b>
Total tier 1 capital	4,106
Deductions from tier 1 capital	-
Tier 2 + Tier 3 capital	84
Total capital before deductions	4,190
Deductions from total capital (illiquid assets)	(378)
<b>Total capital after deductions</b>	<b>3,812</b>
<b>Pillar 1 Capital requirement (AIFM requirement)</b>	<b>541</b>
<b>Surplus capital</b>	<b>3,271</b>

Heronbridge has prepared an assessment of capital adequacy (Internal Capital Adequacy Assessment Process document or “ICAAP”) in accordance with CRD Pillar 2 requirements set out in BIPRU 2.2 of the FCA Handbook. The ICAAP takes account of the principal risks and uncertainties set out above. As a long only asset manager that invests client assets primarily in publicly traded UK equity securities, Heronbridge is exposed principally to operational risk; however there is some small exposure both to business risk and credit risk. These exposures are regarded as typical for a business engaged in the activity of asset management. Heronbridge’s Chief Compliance Officer, who is independent of Heronbridge’s investment function, acts as the firm’s operational risk manager and monitors and manages these risk exposures with input from Heronbridge’s business groups. In assessing operational risk appetite, consideration has been given to identifying the material risks facing Heronbridge’s business. The ICAAP process involves separate consideration of risks to firm capital combined with stress testing using scenario analysis and consideration of the financial resources required in a wind down situation. The wind down analysis highlights that Heronbridge needs to maintain approximately £297k of capital. Despite this being a conservative (and extreme) scenario, Heronbridge has surplus liquid capital compared to the resource requirements computed under Pillar 2.

The ICAAP is updated formally on an annual basis and in the interim should a material change occur in the risk or business profile of the firm.

## Remuneration Code Disclosures

Heronbridge has completed this section on the basis that it is a full scope AIFM firm that is subject to the remuneration rules set out in SYSC 19B. The FCA has stated that adherence to SYSC 19B can be taken as evidence of adherence to SYSC 19C (BIPRU Remuneration Code). In developing its remuneration policy, Heronbridge has reviewed and applied the proportionality guidance set out in the Guidelines on Sound Remuneration Policies as published by the European Securities and Markets Authority (“ESMA”) under the AIFMD. ESMA rules and guidance are incorporated within the FCA rules published in SYSC 19B. Details of the FCA’s Remuneration Code can be found at [www.the-fca.org.uk](http://www.the-fca.org.uk).

- Link between pay and performance: The Partnership Agreement specifies the ratio of profits less direct costs before any remuneration or drawings (internally referred to as profits before remuneration and tax or “PBRT”) to be shared. The split between each working member and each employee is determined by the Remuneration Committee. The current members of the Remuneration Committee are the members of the Executive Committee. The use of a PBRT model ensures that the aggregate spend on variable remuneration directly reflects Heronbridge’s overall performance. All staff receive a salary that reflects their talent, skills, competence and contribution relative to the market for their roles.
- Decision-making process for determining remuneration: Responsibility for the determination of variable remuneration rests with the Remuneration Committee which seeks to obtain feedback on the performance and contribution of each individual employee or member. Remuneration and partnership distributions are not based on the profitability of any specific investment recommendation, the implementation of a given trade(s) or the growth/retention of any particular investor. Variable remuneration payments are primarily made in the form of cash bonuses. Bonuses and discretionary drawings are only paid after Heronbridge ensures that FCA capital and liquidity requirements are satisfied and fees are collected. The Remuneration Committee considers the following factors when determining the levels of remuneration and/or discretionary drawings paid:
  - *Contribution and Ownership of Responsibility*. Heronbridge looks at contribution to the success of the firm over a multi-year period and will consider their ownership of various responsibilities, whether related to investment, marketing and client service, investment administration, operations or firm management.
  - *Market Levels*. Heronbridge believes it is important to pay competitive base salaries and drawings should be competitive to attract and retain good colleagues in their various areas of activity.
  - *Reliability*. It is a great benefit to a lean organisation when Heronbridge can rely on someone to get a task done over a period of years. Good work which has needed a great deal of supervision is less valuable although, of course, normal in the early stages of a responsibility.
  - *Success of Heronbridge*. If Heronbridge is successful there should be a benefit to those who have contributed to that success. It must of course be recognised that a system of this sort cannot deliver when the business is not doing well. In other words, if PBRT drops, remuneration and discretionary distributions must fall.
  - *Split Between Fixed and Discretionary Components*. Fixed remuneration should be more oriented to those with a reliable proven record of adding value and discharging responsibility. Where such a record has not been established the flexibility of discretionary payments is more appropriate. Fixed aspects of expenditure should be kept low as this provides the greatest level of flexibility and allows Heronbridge to withstand various stresses – performance volatility, loss of client assets, exchange rate volatility and changes in interest

rates – without needing to terminate the contracts of staff or ask members to leave the partnership.

#### **Identification of Remuneration Code Staff**

Heronbridge is required to identify those members of staff who are covered by the Remuneration Code (“Remuneration Code Staff”). Heronbridge has identified nine Remuneration Code Staff consisting of four working members and five employees. Remuneration Code Staff have access to this Remuneration Code summary on an annual basis.

**Quantitative Remuneration Disclosures:** Code Staff received remuneration (inclusive of distributions allocated to members) of £5.2 million for the year ended 30 April 2021. Base salaries, monthly drawings to members and other elements of fixed remuneration accounted for approximately 18% of this figure. As Heronbridge offers only one investment programme, this figure has not been broken down by business area or between senior management and other members of staff whose actions may have a material impact on the firm’s risk profile. No material sign-on or severance payments were made.

#### **Disapplication of Remuneration Code Provisions**

Given the size, internal organisation, and the nature, scope and complexity of its activities, Heronbridge has disappplied the following provisions:

- Retained units, shares or other instruments (SYSC 19B.1.17R);
- Deferral (SYSC 19B.1.18R); and
- Performance adjustment (SYSC 19B.1.19R & SYSC 19B.1.20G).

Heronbridge has considered the impact of remuneration policies on its capital requirements, ICAAP and monitoring programme.