



Ardea Investment Management (UK) Limited

MIFIDPRU 8 DISCLOSURE

30 June 2023

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1. MIFIDPRU 8 DISCLOSURE

Ardea Investment Management (UK) Limited (the “Firm”) is authorised and regulated by the Financial Conduct Authority (the “FCA”). The Firm is a UK domiciled discretionary investment manager and is part of the Ardea group. The Firm acts as the sub-investment manager for the investment funds and segregated accounts managed by its parent, Ardea Investment Management Pty Limited (“Ardea Australia”), which is an Australian domiciled investment manager. The Ardea group is a specialist fixed income investment boutique with a focus on delivering consistent alpha to clients through an investment process supported by a highly intuitive risk system.

The Firm is categorised as a “Non-SNI MIFIDPRU investment firm” by the FCA for capital purposes. The Firm reports on a solo basis. The Firm’s MIFIDPRU 8 disclosure fulfils the Firm’s obligation to disclose to market participants’ key information on a firm’s:

- Risk management objectives and policies
- Governance arrangements
- Own funds
- Own funds requirement
- Remuneration policies and practices

In making the qualitative elements of this disclosure, the Firm is required to provide a level of detail that is appropriate to the Firm’s size and internal organisation, and to the nature, scope and complexity of its activities.

This disclosure is made annually on the date the Firm publishes its annual financial statements. As appropriate, this disclosure is made more frequently, for example if there is a major change to the Firm’s business model.

There have been no significant changes since previous disclosures.

This disclosure is dated 30 June 2023.

2. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Firm is subject to ICARA (Internal Capital Adequacy and Risk Assessment) process requirements. The purpose of the ICARA process is to ensure that the Firm:

- Has appropriate systems and controls in place to identify, monitor and, where proportionate, reduce all potential material harms; and
- Holds financial resources that are adequate for the business it undertakes.

As part of the ICARA process, the Firm sets out its risk management processes including an analysis of the effectiveness of its risk management processes.

The Firm has established risk management arrangements that seek to:

- Meet regulatory requirements as detailed in the FCA handbook, including the requirement to have effective processes to identify, manage, monitor and report the risks it is or might be exposed to;
- Reflect industry best practices; and
- Are appropriate and effective, taking into account the Firm’s size, nature, characteristics, risk profile and risk appetite.

The Firm’s risk management function is responsible for analysing all risks to which the Firm may be exposed and working with Board of Directors to ensure such risks are mitigated as far as possible.

The Firm’s risk management function forms a part of the Ardea Group’s overall risk management function. The Ardea Group has established a Risk team which is headed up by the Firm’s Head of Risk, Jeff Gebler

The firm undertakes the following steps.

Daily monitoring of ex-ante risk, concentrations, and other exposures.

Establishing a formal framework for monitoring ex-post volatility vs. ex-ante estimates as well as establishing thresholds for acceptable monthly returns across all portfolios.

The outcome of this framework was an immediate reduction in ex-ante risk in May. scenario/stress testing.

Ardea Group maintains a risk register that highlights any potential risks and their mitigants. This is reviewed by both Head of Risk and the Chief Operating Officer. Any changes are notified to the board.

3. GOVERNANCE ARRANGEMENTS

3.1 OVERVIEW

The Firm's Board of Directors comprises Cameron Shaw, Portfolio Manager in the UK and a principal of the Ardea Group, Richard Banh, Head of Compliance in the UK, Ben Alexander (Co-CIO of the Ardea group) and Tracey Hunter (COO of the Ardea group). Cameron is an Executive Director and Richard, Ben and Tracey are Non-Executive Directors.

The Firm's governance arrangements ensure that the effective and prudent management of the Firm is prioritised. This is both with respect to the composition of the governing body itself and with respect to the Firm's overall structure, including the segregation of duties within the wider organisation.

The Firm maintains conflicts of interest procedures and processes. This includes the identification, managing and monitoring of potential or actual conflicts under the overall supervision of the governing body. The Firm emphasises the need to prioritise the interests of its clients and to resolve potential or actual conflicts between clients.

The Firm's ICARA process assists the Firm in determining its material harms, including those affecting its clients and the integrity of the market. The Firm's governing body reviews the ICARA at least annually.

3.2 EXTERNAL DIRECTORSHIPS

The number of external directorships held by the members of the Firm's management body are as follows¹:

Management body member	Executive directorships	Non-executive directorships
Cameron Shaw	1	0
Richard Banh	2	13
Ben Alexander	1	1
Tracey Hunter	0	1

3.3 DIVERSITY

The Firm's diversity policy aims to reflect the Firm's values and inclusivity at all levels within the organisation, including the management body.

When appointing members of the management body, the Firm adopts the following guidelines:

- The appointment process is based on the principles of fairness, respect and inclusion
- Appointments are made on the basis of individual competence, skills and expertise
- The selection process gives due consideration to candidate suitability without bias with respect to personal factors such as education, professional background, ethnicity, age, disability, sexual orientation, socio-economic status or geographic location.

As a small organisation with a small number of individuals comprising the management body, the Firm does not have any diversity 'targets' as such. However, the Firm is satisfied that its practices with respect to management appointments are consistent with the objectives stated above.

3.4 RISK COMMITTEE

The Firm is not subject to a mandatory requirement to put in place a risk committee, per MIFIDPRU 7.3.1.

¹ This excludes: (a) executive and non-executive directorships held in organisations which do not pursue predominantly commercial objectives; and (b) executive and non-executive directorships held within the same group or within an undertaking (including a *non-financial sector entity*) in which the firm holds a *qualifying holding*.

Notwithstanding this, the Firm ensures that risk management is embedded into its culture and its overall systems and controls framework.

4. OWN FUNDS

The Firm is a Private Limited Company. Its capital comprises share capital invested by Ardea Australia.

Table A

As at the date of this disclosure the Firm's regulatory capital position is:

Composition of regulatory own funds			
	Item	Amount (GBP thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements
1	OWN FUNDS	550,000	
2	TIER 1 CAPITAL	550,000	
3	COMMON EQUITY TIER 1 CAPITAL	550,000	
4	Fully paid-up capital instruments	550,000	
5	Share premium		
6	Retained earnings	165,941.22	
7	Accumulated other comprehensive income	15,627.33	
8	Other reserves		
9	Adjustments to CET1 due to prudential filters		
10	Other funds		
11	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1		
19	CET1: Other capital elements, deductions and adjustments		
20	ADDITIONAL TIER 1 CAPITAL		
21	Fully paid up, directly issued capital instruments		
22	Share premium		
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1		
24	Additional Tier 1: Other capital elements, deductions and adjustments		
25	TIER 2 CAPITAL		
26	Fully paid up, directly issued capital instruments		
27	Share premium		
28	(-) TOTAL DEDUCTIONS FROM TIER 2		
29	Tier 2: Other capital elements, deductions and Adjustments		

Table B

The following table sets out a reconciliation of the Firm's own funds to the balance sheet in the Firm's audited financial statements:

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial Statements				
		A	B	C
		Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross- reference to Table A
		As at period end	As at period end	
Assets – Breakdown by asset classes according to the balance sheet in the audited financial Statements				
1	Cash	859,746		
2	Debtors	705,023		
3	Fixed Assets	1,776		
	Total Assets	1,566,545		
Liabilities – Breakdown by liability classes according to the balance sheet in the audited financial Statements				
1	Trade creditors	(111,521)		
2	Accruals	(736,516)		
	Total Liabilities	(848,037)		
Shareholders' Equity				
1	Contributed equity	550,001		
2	Foreign currency translation reserve	2,567		
3	Retained earnings	165,940		
	Total Shareholders' equity	718,508		

5. OWN FUNDS REQUIREMENT

The Firm's own funds requirement includes the following components:

K-factor requirement:	GBP
Sum of the K-AUM requirement, the K-CMH requirement and the K-ASA requirement:	382,302
Sum of the K-COH requirement and the K-DTF requirement:	-
Sum of the K-NPR requirement, the K-CMG requirement, the K-TCD requirement and the K-CON requirement:	-
TOTAL K-factor requirement:	382,302
Fixed overheads requirement	382,302

The Firm is required to assess the adequacy of its own funds in accordance with the overall financial adequacy rule. This requires the Firm to hold financial resources that are adequate for the business it undertakes. This is designed to achieve two key outcomes for the Firm:

1. To enable it to remain **financially viable** throughout the economic cycle, with the ability to address any potential material harms that may result from its ongoing activities (including both regulated activities and unregulated activities); and
2. To enable it to conduct an **orderly wind-down** while minimising harm to consumers or to other market participants, and without threatening the integrity of the wider UK financial system.

The Firm achieves this via its Internal Capital Adequacy and Risk Assessment (“ICARA”) process. The Firm sets out:

- A clear description of the Firm’s business model and strategy and how this aligns with the Firm’s risk appetite
- The activities of the Firm, with a focus on the most material activities
- Whether or not the ICARA process is ‘fit-for-purpose’. Where this is the case the Firm must explain why it has reached this conclusion. Where this is not the case, the Firm must set out the improvements needed, the steps needed to make the improvements and the timescale for making them, and who within the Firm is responsible for taking these steps
- Any other changes to the Firm’s ICARA process that have occurred following the review and the reasons for those changes
- An analysis of the effectiveness of the Firm’s risk management processes during the period covered by the review
- A summary of the material harms identified by the Firm and any steps taken to mitigate them
- An overview of the business model assessment and capital and liquidity planning undertaken by the Firm
- A clear explanation of how the Firm is complying with the overall financial adequacy rule (“OFAR”) (i.e. the obligation to hold adequate own funds and liquid assets) vis-à-vis the Firm’s ongoing business activities and wind-down arrangements
- A summary of any stress testing carried out by the Firm
- The levels of own funds and liquid assets that, if reached, may indicate that there is a credible risk that the Firm will breach its threshold requirements
- The potential recovery actions that the Firm has identified
- An overview of the Firm’s wind-down planning

6. REMUNERATION POLICIES AND PRACTICES

The Firm is subject to the Remuneration Code (the “Code”) for MIFIDPRU Firms as codified in Section 19G of the SYSC sourcebook of the Financial Conduct Authority handbook.

This disclosure sets out qualitative and quantitative information on the Firm’s remuneration processes and practices.

A. Qualitative Information

The Firm must establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote effective risk management and do not encourage excessive risk taking.

The Firm ensures that the remuneration policy and its practical application are consistent with the Firm’s business strategy, objectives and long-term interests.

The Ardea Group’s Remuneration Committee is responsible for the review and updating of the Ardea Group’s remuneration policy, maintaining and updating a list of material risk takers for the Firm, agreeing the framework for variable remuneration plans and approving remuneration packages, including variable remuneration, for staff.

Staff receive a salary which reflects their market value, responsibilities and experience.

All staff may also receive variable remuneration, such as an annual bonus, where the individual operates within the risk appetite of the company and has demonstrated appropriate behaviour.

Variable remuneration is intended to reflect contribution to the Firm's overall success. Staff are assessed throughout the year and rated based on Group, company and individual performance. The performance assessment considers both financial measures such as earnings and profit margin and non-financial measures such as productivity/efficiency and quality, risk management, people and culture, customer focus and growth and innovation.

The Firm's linkage between variable remuneration and performance is based upon the following tenets:

- I. Ensuring an appropriate balance of financial results between staff and shareholders
 - II. Attraction and retention of staff members
 - III. Aligning the interest of senior staff members via long-term incentive awards
 - IV. Link a proportion of a staff member's total compensation to the Firm's performance
 - V. Discourage excessive risk-taking
 - VI. Ensure client interests are not negatively impacted
- Material Risk Takers

The Firm is required to disclose the types of staff it has identified as material risk takers: these are individuals whose professional activities have a material impact on the firm's risk profile.

Material risk takers are subject to additional requirements regarding variable remuneration, including provisions related to guaranteed variable remuneration, retention awards, severance pay, buy-out awards, performance adjustment, discretionary pension benefits and personal investment strategies.

Material risk takers comprise the following:

Staff with managerial responsibility for a business unit that arranges deals, deals in investments, manages investments or advises on investments

- Performance adjustment

Variable remuneration is subject to malus and clawback in various circumstances.

Any amounts awarded to any of the Material Risk Takers that fall under the definition of variable remuneration may be subject to adjustment events, which includes the use of malus (adjusted before any awards are made or before they vest) and clawback (requirements for a recipient to reimburse the firm for all or part of any award).

The Ardea UK Board may adjust variable remuneration on recommendation of the Remuneration Committee and will be made with reference to a multi-year period, with no maximum limit placed on the period that can be referenced. The clawing back of any remuneration will be carried out within a maximum period of three years from the payment date. The determination of any amounts to be adjusted will be made with reference to number of factors including (but not limited to):

The impact of the failure on the firm's relationships with its other stakeholders including shareholders, employees, creditors, the taxpayer and regulators;

The cost of fines and other regulatory actions (e.g., Section 166 of FSMA reviews);

Direct and indirect financial losses attributable to the relevant failure; and

Reputational damage.

Adjustment events may include, but not be limited to, the following where an individual is either wholly responsible for or involved with: A significant failure of risk management and/or controls;

Action or conduct which, in the reasonable opinion of the Remuneration Committee, amounts to serious misconduct or gross negligence;

Events or behaviour that has led to the censure of the firm by a regulatory authority or has had a significant detrimental impact on the reputation of the firm;

a scenario or event which causes material reputational damage to the firm;

any regulatory investigation or breach of laws, rules, or codes of conduct,;

failure to meet appropriate standards of fitness and propriety Should an individual be subject to an ongoing internal or external investigation that could result in the application of an adjustment event, Ardea UK retains the ability to freeze any awards until it is satisfied with the outcome of this process.

The Ardea UK Board, on advice from the Remuneration Committee, may where not satisfied that an award is appropriate or warranted due to exceptional circumstances and where the award has not vested, decide to cancel or adjust any unvested short term or long term awards. Once an award has vested no further clawback applies. There is no clawback on a paid cash award. In making this determination the Board will consider whether the application of the provision may result in unintended consequences, prejudice the interests of Ardea UK in any related proceeding or investigation, or any pending legal proceeding related to applicable fraud or intentional illegal conduct

The CEO of the Ardea group is required to notify the Remuneration Committee and the Ardea UK Board respectively of any circumstances that could constitute a trigger under this policy as soon as practical.

- Guaranteed Variable Remuneration

It is not the Firm’s policy to pay guaranteed variable remuneration.

- Severance Pay

It is Ardea’s policy not to pay retention awards, severance pay or buyout awards

B. Quantitative Information

The following quantitative information is with respect to the financial year ended 30 June 2023.

Number of material risk takers:		<i>1</i>
The Firm has disapplied the requirement to provide aggregated remuneration for reasons of confidentiality/ privacy, including to prevent individual identification of a material risk taker.		
Guaranteed variable remuneration and severance payments:		<i>None</i>
Guaranteed variable remuneration awards		
	Total amount of awards made during the financial year	Number of material risk takers receiving awards during the financial year
Senior management	Nil	Nil
Other material risk takers	Nil	Nil
Severance payments		
	Total amount of awards made during the financial year	Number of material risk takers receiving awards during the financial year
Senior management	Nil	Nil

Other material risk takers	Nil	Nil
The amount of the highest severance payment awarded to an individual material risk taker		Nil