

# Brigade Capital UK LLP (the “Firm”)

## MIFIDPRU 8 Disclosure

**As of 31 December 2022**

### *1. Introduction*

The Financial Conduct Authority (“FCA” or “regulator”) in its Prudential sourcebook for MiFID Investment Firms (“MIFIDPRU”) sets out the detailed prudential requirements that apply to the Firm. In particular, Chapter 8 of MIFIDPRU (“MIFIDPRU 8” or the “public disclosures requirements”) sets out public disclosure obligations with which the Firm must comply.

The Firm is classified under MIFIDPRU as a non-small and non-interconnected investment firm (“non-SNI MIFIDPRU investment firm”). As such, MIFIDPRU 8 requires the Firm to disclose information on the following areas:

- Risk management objectives and policies;
- Governance arrangements;
- Own funds;
- Own funds requirements; and
- Remuneration policy and practices.

The purpose of these disclosures is to give stakeholders and market participants an insight into the Firm’s culture.

This document has been prepared by the Firm in accordance with the requirements of MIFPRU 8 and is verified by the Firm’s management body. Unless otherwise stated, all figures are as at 31 December 2022.

### *2. Risk Management Objectives and Policies*

This section describes the Firm’s risk management objectives and policies for the categories of risk addressed by the requirements on the Firm in the following areas:

- Own funds requirements;
- Concentration risks; and
- Liquidity.

### **Business Strategy**

The Firm is an investment firm established as a part of the wider Brigade group (the “Brigade Group”) and is a controlled affiliate of Brigade Capital Management, LP (“Brigade US”), an investment adviser registered with the US Securities and Exchange Commission. The Firm provides general investment-related and trading services to Brigade US and another affiliate, Brigade Capital Europe Management LLP (“BCEM”), as well as corporate advisory services to BM3EAC Corp., an acquisition vehicle listed on Euronext Amsterdam.

Given the nature of the Firm's business outlined above, together with its control procedures and assessments, it is the conclusion of the Firm that the overall risk exposure is low.

## **Own Funds Requirement**

The Firm is required to at all times maintain own funds that are at least equal to the Firm's own funds requirement. The own funds requirements is the higher of the Firm's:

- **Permanent minimum capital requirement ("PMR"):** The PMR is the minimum level of own funds required to operate at all times and, based on the MiFID investment services and activities that the Firm currently has permission to undertake, is set at £75,000;
- **Fixed overhead requirement ("FOR"):** The FOR is intended to calculate a minimum amount of capital that the Firm would need available to absorb losses if it has cause to wind-down or exit the market, and is equal to one quarter of the Firm's relevant expenditure; and
- **K-Factor requirement ("KFR"):** The KFR is intended to calculate a minimum amount of capital that the Firm would need available for the ongoing operations of its business. The two K-factors that apply to the Firm's business are K-AUM (calculated on the basis of the Firm's AUM) and K-COH (calculated on the basis of the client orders handled by the Firm).

The Firm's own funds requirement is currently set by its FOR, as this is the highest of the three metrics. The potential for harm associated with the Firm's business strategy, based on the Firm's own funds requirement, is low. See Section 5 below for further disclosures regarding the own funds requirement.

## **Concentration Risk**

The Firm monitors and controls its concentration risk using sound administrative and accounting procedures and robust internal control mechanisms. On a quarterly basis, the Firm reports its counterparty concentrations of cash deposits and earnings to the FCA.

The Firm's parent undertaking and primary client, Brigade US, has a diverse and significant revenue pool, and the Firm receives revenue on a cost-plus pricing model. The Firm therefore considers that it has a safe and predictable revenue stream, including during stressed market conditions. Moreover, Brigade Group investors are typically institutional professional investors that invest for the long term. The Firm therefore considers that its investor base is 'sticky' and not prone to substantial fluctuations. The Firm deposits its cash with a well-established financial institution.

The potential for harm associated with the Firm's business strategy, based on the Firm's concentration risk, is low.

## **Liquidity**

The Firm is required to maintain sufficient liquidity to ensure that there is no significant risk that its liabilities cannot be met as they fall due and to ensure that it has appropriate (liquid) resources in the event of a stress scenario.

The potential for harm associated with the Firm's business strategy, based on the Firm's basic liquid assets requirement, is low. As with its own funds requirement, this is due to the relatively stable position in relation to the Firm's revenues and asset base, and the maintenance of a healthy core liquid assets surplus above

the basic liquid assets requirement. The Firm retains an amount it considers suitable for providing sufficient liquidity to meet the working capital requirements under various conditions. The Firm has always had sufficient liquidity within the business to meet its obligations and there are no perceived threats to this given the cash deposits it holds. The cash position of the Firm is monitored on a regular basis and the Firm maintains the possibility to receive funds from Brigade US as required.

## **Risk Management Structure**

The Firm has established a risk management process to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. The risk management process is overseen by the Firm's four-member operating committee (the "Operating Committee"), with the managing member, Brigade Capital (UK) Company Ltd (the "Managing Member"), taking overall responsibility for the fundamental risk appetite of the firm. The Firm's Senior Managers (as defined below) have day-to-day responsibility for the implementation and enforcement of the Firm's risk principles.

The Operating Committee meets on a semi-annual basis and discusses current projections for profitability, cash flow, regulatory capital management, business planning, risk management and controls. The Operating Committee addresses the Firm's risks through regular review of a framework of policies and procedures having regard to the relevant laws, standards, principles and rules. These policies and procedures are reviewed, and their effectiveness assessed, at least annually.

In addition, the Firm's risk management framework forms an integral part of the Firm's ICARA process and as such is subject to review, challenge and update by the Firm's Operating Committee on an annual basis. As part of the ICARA process, an assessment of the potential financial impact of the key risks and material harms to the Firm are assessed to determine if the Firm's financial resources are sufficient to withstand severe yet plausible stressed scenarios.

Updates on day-to-day business and operational matters are provided to the Firm's Senior Managers on a quarterly basis; and to the Operating Committee on a semi-annual basis. Management accounts to demonstrate the continuing adequacy of the Firm's regulatory capital are reviewed on a monthly basis.

Appropriate action is taken where risks are identified which fall outside of the Firm's tolerance levels or where the need for remedial action is required in respect of identified weaknesses in the Firm's risk management controls.

The Firm has been and will continue to be cautious with regard to risks. The Firm has a low overall risk appetite.

## **3. Governance Arrangements**

### **Overview**

The Firm believes that effective governance arrangements help the Firm achieve its strategic objectives while also ensuring that the risks to the Firm, its stakeholders and the wider market are identified, managed and mitigated. The Managing Member has overall strategic responsibility for the Firm and oversees the governance arrangements at the Firm. The Managing Member has delegated day-to-day management responsibility to the Operating Committee.

The Operating Committee meets on a semi-annual basis. Amongst other things, the Operating Committee approves and oversees implementation of the Firm's strategic objectives and risk appetite; ensures the integrity of the Firm's accounting and financial reporting systems, including financial and operational controls and compliance with the regulatory system; assesses the adequacy of policies relating to the provision of services to clients; and provides oversight of the Firm's senior management.

A key report that is reviewed, discussed and ratified by the Operating Committee at least annually is the Senior Management Systems and Controls ("SYSC") document, which demonstrates how the Firm has met its governance arrangement requirement. The SYSC document provides the management body with information on the functioning and performance of all aspects of the Firm, including the following areas:

- general organizational requirements, including steps taken by the Firm to ensure continuity and regularity in the performance of its regulated activities;
- employees, including steps taken by the Firm to ensure that employees have the necessary skills, knowledge and expertise for the discharge of the responsibilities allocated to them, and to ensure that they are fit and proper persons;
- regulatory framework for meeting compliance and financial crime requirements;
- internal capital adequacy and risk assessment process;
- outsourcing of critical or material operating functions or activities;
- record-keeping controls and arrangements;
- conflicts of interest management;
- remuneration policies and practices; and
- whistleblowing controls.

## The Operating Committee

The Operating Committee consists of each of the individuals listed in the table below:

Management body member	Position at the Firm	Number of directorships held	
		Executive	Non-Executive
Thomas O'Shea (Executive Member)	Head of European Investments and European CLO Co-Portfolio Manager	0	2
Alistair Cuthbert (Executive Member)	General Counsel & Compliance Officer – UK/Europe	0	0
Aaron Daniels (Non-Executive Member)	Chief Operating Officer and General Counsel	0	0
Raymond Luis (Non-Executive Member)	SVP Finance and Chief Administrative Officer	0	0

Senior manager responsibilities are allocated between the two executive members of the Operating Committee: Thomas O'Shea and Alistair Cuthbert (the "Senior Managers").

## Diversity

The members of the Operating Committee have a diverse skill base, appropriate for the business of the Firm, with each member having many years of experience in their respective professions. The Firm and the Operating Committee support and affirm their commitment to the legal and moral imperatives that preclude

unlawful discrimination in all relevant matters, including on the basis of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, or sexual orientation.

## Risk Committee

Due to the nature, size and complexity of the Firm, the Firm does not have an independent risk management function. The Operating Committee is responsible for the management of risk within the Firm and individual responsibilities are clearly assigned to the Senior Managers. Senior Managers report to the Firm's Operating Committee on a regular basis regarding the Firm's risks. The Firm has clearly documented policies and procedures, which are designed to minimise risks to the Firm and all staff are required to confirm that they have read and understood them. The Firm is not required by MIFIDPRU to establish a risk committee.

## 4. Own Funds

As at 31 December 2022, the Firm maintained own funds of £995,000. The below regulator-prescribed tables provide a breakdown of the Firm's own funds:

<b>Composition of regulatory own funds as at 31 December 2022</b>			
	<b>Item</b>	<b>Amount (GBP)</b>	<b>Source based on reference numbers/letters of the balance sheet in the audited financial statements</b>
<b>1</b>	<b>OWN FUNDS</b>	995,000	
<b>2</b>	<b>TIER 1 CAPITAL</b>	995,000	
<b>3</b>	<b>COMMON EQUITY TIER 1 CAPITAL</b>	995,000	
4	Fully paid up capital instruments	995,000	Balance Sheet
5	Share premium		
6	Retained earnings		
7	Accumulated other comprehensive income		
8	Other reserves		
9	Accumulated other comprehensive income		
10	Accumulated other comprehensive income		
11	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1		
19	CET1: Other capital elements, deductions and adjustments		
<b>20</b>	<b>ADDITIONAL TIER 1 CAPITAL</b>		
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		
<b>25</b>	<b>TIER 2 CAPITAL</b>		
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		

<b>Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements</b>				
		<b>Balance sheet as in published/audited financial statements (GBP)</b>	<b>Under regulatory scope of consolidation (GBP)</b>	<b>Cross-reference to above template</b>
		As at 31.12.22	As at 31.12.22	
<b>Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements</b>				
1	Tangible assets	13,475	79,536,839	
2	Debtors	12,317,607	19,517,770	
3	Cash at bank and in hand	1,471,355	1,865,479	
5	Total Assets	13,802,437	100,920,088	
<b>Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements</b>				
6	Creditors: Amounts falling due within one year	3,871,517	7,306,298	
7	Creditors: Amounts falling due after more than one year	-	75,168,548	
8	Members' other interests – other reserves classified as equity	-	-	
9	Loans and other debts due to members	7,692,468	-	
10	Total Liabilities	11,563,985	82,474,846	
<b>Shareholders' Equity</b>				
11	Members' capital classified as equity	995,000	-	Box 4
12	Ordinary share capital	-	9,444,653	
12	Retained earnings	1,243,452	9,000,589	
13	Total Shareholders' equity	2,238,452	18,445,242	

### **Own funds: main features of own instruments issued by the Firm**

The Firm's own funds consist of capital invested by the members of the Firm in accordance with the Firm's limited liability partnership agreement. This capital is deemed CET1 capital and satisfies the requirements set out in the following "Own Funds Requirements" section. Should an individual member leave or retire from the Firm, the individual member may withdraw its initial own funds invested, provided that an equal amount of CET1 capital is sourced to replace the withdrawn capital.

## **5. Own Funds Requirements**

The Firm is required to at all times maintain own funds that are at least equal to the Firm's own funds requirement. The own funds requirement is the minimum requirement of capital the Firm is required to hold, taken as the higher of the PMR, FOR and KFR.

The below table illustrates the various components of the Firm's own funds requirement:

<b>Requirement</b>	<b>GBP</b>
(A) Permanent Minimum Capital Requirement ("PMR")	75,000
(B) Fixed Overhead Requirement ("FOR")	742,067
(C) K-factor requirement ("KFR")	137,515
<b>(D) Own Funds Requirement</b>	<b>742,067</b>

The basic own funds requirement of the Firm is equal to the FOR. The Firm monitors the ongoing expenditure of the Firm to ensure that it stays abreast of any material change that could result in an increase in the FOR. The Firm also continuously assesses the KFR to ensure that the own funds requirement calculation is accurate and that minimum capital requirements are met.

The Firm is also required to comply with overall financial adequacy rule ("OFAR"). This is an obligation on the Firm to hold own funds and liquid assets which are adequate, both as to their amount and quality, to ensure that:

- a. the Firm is able to remain financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities; and
- b. the Firm's business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

Where the Firm determines that the FOR is insufficient to mitigate the risk of a disorderly wind down, the Firm must maintain an 'additional own funds required for winding down', above the FOR, that is deemed necessary to mitigate the risks of a disorderly wind down. Similarly, where the Firm determines that the KFR is insufficient to mitigate the risk of harm from ongoing operations, the Firm must maintain an 'own funds required for ongoing operations', above the KFR, that is deemed sufficient to ensure the viability of the Firm throughout economic cycles.

The Firm's own funds threshold requirement is the higher of:

- the Firm's PMR;
- the sum of the Firm's FOR and its additional own funds required for winding down; and
- the sum of the Firm's KFR and its additional own funds required for ongoing operations.

This is the amount of own funds that the Firm is required to maintain at any given time to comply with the OFAR.

To determine the Firm's own funds threshold requirement, the Firm identifies and measures the risk of harm faced by the Firm and considers these risks in light of its ongoing operations and also from a wind-down planning perspective. The Firm then determines the degree to which systems and controls alone mitigate the risk of harm and the risk of a disorderly wind-down, and thereby deduce the appropriate amount of additional own funds required to cover the residual risk.

This process is documented and presented to, and ratified by, the Operating Committee on at least an annual basis.

## **6. *Remuneration Policy and Practices***

### **Overview**

As a non-SNI MIFIDPRU investment firm, the Firm is subject to the 'basic' and 'standard' requirements MIFIDPRU Remuneration code. The purpose of the requirements on remuneration are to:

- Promote effective risk management in the long-term interests of the Firm and its clients;
- Ensure alignment between risk and individual reward;
- Support positive behaviours and healthy firm cultures; and
- Discourage behaviours that can lead to misconduct and poor customer outcomes.

The objective of the Firm's remuneration policies and practices are to establish, implement and maintain a culture that is consistent with, and promotes, sound and effective risk management and does not encourage risk-taking which is inconsistent with the risk profile of the Firm and the services that it provides to its clients.

In addition, the Firm recognises that remuneration is a key component in how the Firm attracts, motivates and retains quality staff and sustains consistently high levels of performance, productivity and results. As such, the Firm's remuneration philosophy is also grounded in the belief that its people are the most important asset and greatest competitive advantage.

The Firm is committed to excellence, teamwork, ethical behaviour and the pursuit of exceptional outcomes for its clients. From a remuneration perspective, this means that performance is determined through the assessment of various factors that relate to these values, and by making considered and informed decisions that reward effort, attitude and results.

### **Governance and Oversight**

Governance and oversight of the Firm's remuneration policy is carried out by the Firm's Operating Committee, which reviews the policy on at least an annual basis. Remuneration is determined by the Managing Member, in conjunction with the senior management of Brigade US, which sets and monitors the remuneration and the governance arrangements on a group-wide basis.

The Firm is subject to only the basic and standard remuneration requirements and, as such is not required to establish a remuneration committee.

## **Characteristics of the remuneration policy and practices**

The Firm uses its remuneration policies to incentivise and retain key staff which ensures that the business strategy and objectives are supported by a strong team of trusted staff with proven track records and specialist knowledge in their field. The Firm remunerates individuals with fixed and variable remuneration.

Fixed remuneration is initially set at the time of hiring and is composed of cash in the form of regular partnership drawings or a salary, as applicable. Variable remuneration also takes the form of cash and is awarded on an annual basis, following an annual performance review. All awards of variable remuneration are wholly discretionary. The determination of an individual's variable remuneration may consider all factors including the contribution that such individual has to the Firm's risk appetite and strategy, including environmental, social and governance risk factors, the Firm's culture and values, and the long-term effects of the investment decisions taken by that individual. Variable remuneration is not linked to any targets or the performance of any individual fund or account. As such, decisions on remuneration are not designed to incentivise risk taking or to conduct any activity which would be contrary to the best interests of clients.

The decision-making procedures and governance surrounding the development of the remuneration policies and practices adopted by the Firm, have risk management, equality and conflicts of interest at their core:

- Risk management: The Firm does not pay guaranteed or performance-linked variable remuneration, all bonuses are discretionary, and the performance of the funds and accounts advised or sub-advised by the Firm is not linked to individual remuneration.
- Equality: The Firm treats all staff equally and remuneration is set solely based on the contribution that a staff member makes to the Firm. The Firm is cognisant of the Equality Act and its core provisions, including the protected characteristics.
- Conflicts of interest: Variable remuneration is not linked directly to profit and loss for individuals in the investment team. There are no individual targets set for any individuals that are linked to remuneration. This reinforces the conflicts of interests' policy and ensures no one fund or account that is advised or sub-advised by the Firm is favoured over any other.

## **Material Risk Takers (MRTs)**

The Firm is required to identify its material risk takers; that is, those members of staff whose professional activities have a material impact on the risk profile of the Firm. The Firm's MRTs are made up solely of senior management and individuals that have managerial/supervisory responsibilities for the Firm's regulated activities and ultimately have a direct impact on the Firm's risk profile. As at 31 December 2022 the Board had identified 2 MRTs.

Specific remuneration policies have been established for MRTs to minimise conflicts of interests and ensure that objectivity is not compromised.

## **Quantitative Remuneration Disclosures**

MIFIDPRU investment firms are typically required to disclose quantitative remuneration data into categories for senior management, other material risk takers and all staff. The Firm may omit the information to be disclosed for senior management and other material risk takers when splitting the information between the senior management and other material risk taker categories would lead to the disclosure of information about one or two individuals. As the Firm's senior management are also its only two MRTs, the Firm has relied upon this exemption. The total remuneration paid to all staff in the financial year to 31 December 2022 was £3.94 million (being £0.97 million fixed remuneration and £3.0 million variable remuneration).