

## Apax Partners Europe Managers Ltd

### Pillar 3 Disclosures – 31 March 2015

#### 1. Overview

##### 1.1 Introduction

The EU Capital Requirements Directive IV (“CRD IV”) and the Capital Requirements Regulation (“CRR”) became effective from 1 January 2014 and created an updated regulatory capital framework across Europe based on the provisions of the Basel III Capital Accord and is structured around three “pillars”:

- Pillar 1: Minimum capital requirements;
- Pillar 2: Supervisory review process; and
- Pillar 3: Market discipline.

Pillar 3 aims to facilitate market discipline by developing a set of disclosure requirements which will allow market participants to assess key information on risk exposure and the risk assessment process. The purpose of this document is to provide the Pillar 3 disclosures required in BIPRU Chapter 11 for Apax Partners Europe Managers Ltd (“**APEM**”) an IFPRU EUR 125,000 limited licence firm regulated by the FCA (FRN:194731). APEM was a BIPRU firm until 31 December 2013 and then transferred to the IFPRU regime from 1 January 2014.

##### 1.2 Materiality

The requirements provide for the omission of one or more of the required disclosures if such information is considered immaterial, proprietary or confidential. Where information has not been disclosed for these reasons it is clearly stated in this document.

##### 1.3 Frequency of disclosure

Future disclosures will be issued on an annual basis. Disclosures will be as at the accounting reference date, which is 31 March.

##### 1.4 Location

These disclosures are published on APEM’s website at [www.apax.com](http://www.apax.com).

##### 1.5 Verification

These disclosures have been prepared in order to comply with regulatory requirements to provide information on the firm’s risk management objectives and policies, its capital position, its approach to assessing the adequacy of its capital and its exposure to credit, market and operation risk. They do not constitute financial statements of the firm and are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion in the firm’s annual report. They should not be relied on in making investment decisions in relation to the firm.

## 2. Risk Management Framework

### 2.1 Introduction

The board of directors of APEM (the “**Board**”) has ultimate responsibility for risk management within APEM. Although it is not part of the Apax Partners LLP (“the LLP”) group, bearing in mind that its role as manager and custodian is interlinked to that of the LLP which is the investment adviser to the Apax funds, and it also receives administrative support services from the LLP group, senior management review the risk policy of the LLP and give consideration to the risks posed to the business of Apax as a whole when assessing the risk and setting the risk policies of APEM. Relevant aspects of the LLP’s risk policies may be adopted by APEM where appropriate to enable consistent operation and monitoring and to reduce or mitigate risks.

APEM operates both a top-down and bottom-up approach to risk management so that (1) risk appetite and culture is set from the top and feeds down to each member of staff and (2) the different business units take responsibility for risk management within their areas. APEM’s basic framework for risk management can be summarised as:

- Identification
- Measurement and assessment
- Control and Mitigation
- Monitoring; and
- Reporting

APEM categorises its risks under the following risk groups:

- (1) Investment Risk,
- (2) Strategic Risk
- (3) Operational Risk
- (4) Liquidity Risk

These risks are then further divided into smaller risk groups, such as reputational risk and litigation risk.

### 2.2 Risk Groups

#### 2.2.1 Investment risk

APEM divides investment risk into:

- (1) individual investee company risk; and
- (2) portfolio risk.

Although investment risk is not a direct risk for APEM, a failure to properly manage investment risk could impact on APEM’s regulatory capital (e.g. through a loss of fee income on future funds). Investment risk is managed and controlled through the deal teams, external advisors and the relevant committees.

#### 2.2.2 Counterparty and Credit Risk

APEM has limited exposure to counterparty risk and liquidity risk due to the nature of its business model and the services that it provides. Counterparty risk for APEM primarily arises from bank deposits and receivables from

the funds advised by LLP (the “**Funds**”). With regards to bank deposits, APEM only deposits money with reputable counterparties with substantive EEA operations. The Funds drawdown cash as and when required from investors who have a contractual obligation to commit capital. The credit-worthiness of the underlying investors in the Funds is investigated prior to accepting them as investors. It is extremely unlikely for any investor to default, and given the spread and diversification of investors, the impact of any individual investor being unable to meet its commitment is considered to be very low.

Credit risk (the risk of a counterparty defaulting) is considered to be low as APEM's main counterparty exposures are against banks and the Funds it advises.

### **2.2.3 Strategic risk**

APEM manages its strategic risks through the Board. One of the biggest strategic risks that APEM faces is the risk of reputational damage, e.g. through a regulatory fine or litigation.

### **2.2.4 Operational risk**

Each Department Head is responsible for identifying and managing the risks in their areas, in accordance with their risk appetite approved by the Board. Where any risks identified are significant and material they are escalated to the Operational Risk Committee for discussion and further mitigation.

### **2.2.5 Liquidity risk**

Liquidity risk may arise from delayed payments of management fees and/or custody fees due from the funds managed by APEM. APEM's liquidity risk is relatively low and is managed through the Finance department and Chief Operating Officer.

APEM believes that it has sufficient risk management systems and controls in place to manage these risks.

## **3. Capital Resources (BIPRU 11.5.3)**

APEM's policy has always been to be soundly financed. Our approach to capital management is driven by strategy and organisational requirements, while also taking into account the regulatory and commercial environments in which we operate. APEM has adequate capital for its size and the complexity of its business.

### **3.1 Compliance with Pillar 1 requirement**

From 1 January 2014 APEM became an IFPRU limited licence firm and as such it is required to maintain Pillar 1 requirement equal to the greater of:

- the base own funds capital requirement of EUR 125,000 consisting of common equity tier 1 capital, or
- the sum of its market and credit risk requirements, or
- its fixed overhead requirement.

The Pillar 1 capital requirement is calculated as £134k.

### **3.2 Compliance with Pillar 2 requirement**

The firm's overall approach to assessing the adequacy of internal capital is set out in its Internal Capital Adequacy Assessment Process (ICAAP).

The ICAAP process involves separate consideration of risks to capital resources combined with stress testing using scenario analysis. The level of capital required to cover risks is a function of impact and probability. Impact is assessed by modelling the changes in income and expenses caused by potential risks crystallising over a 5 year time horizon.

APEM's current Pillar 2 regulatory capital requirement is £500k, which is calculated from its operational risk scenarios.

### 3.3 Capital Resources

APEM's tier 1 capital consists of fully paid equity (£41k) and audited profit reserves (£542k) totaling £583k and it has no tier 2 capital. There are no deductions from tier 1 capital. With a total capital requirement of £500k, APEM holds a surplus of £83k.

The capital requirements of APEM are monitored on an ongoing basis to ensure that at any time there is always sufficient capital in place.

### 3.4 Return on assets (IFPRU 9.1.3)

The firm's return on its assets is 6.5%.

## 4. Remuneration Disclosures (BIPRU 11.5.18R)

APEM is required to make Pillar 3 disclosures in relation to remuneration at least annually. APEM is a tier three firm and has therefore applied the FCA's requirements in a way and to an extent that is appropriate to its size, internal organisation and the nature, scope and complexity of its activities.

### 4.1 Decision making process

APEM has worked to create a Remuneration Policy Statement (RPS) that is consistent with and promotes sound and effective risk management. The Board has approved the RPS. APEM does not operate with a separate Remuneration Committee.

### 4.2 Code Staff

SYSC 19A requires the Board to identify and maintain a record of all staff that have a material impact on the risk profile of the firm. APEM's Code staff have been identified as its two directors, being the individuals with responsibility for (a) the day-to-day running of the firm and also (b) the delegated authority to make investment decisions in relation to the relevant funds as well as three control functions being (c) the Head of Safe Custody, the Chief Operations Officer and the Compliance/MLRO roles for APEM and who all undertake roles throughout the Apax group. In addition, there are five Portfolio Managers who advise the Board on the investment decisions.

### 4.3 Risk alignment

The Directors and Officers of APEM are all partners of the LLP. They receive a fixed fee for acting as Directors and Officers of APEM. The Directors have delegated portfolio management for the Apax VI and VII funds to the Investment and Exit committees of the LLP and these individuals are therefore registered as portfolio managers for APEM. Those portfolio managers who are not also Directors are not directly remunerated by APEM in relation to their responsibilities as committee members but APEM pays fixed fees to the LLP in relation to the

provision of their services as part of its administrative services payments. The Operations staff are also not directly remunerated by APEM and their services are provided for under the various legal agreements in place between APEM and the different entities in the LLP group.

## 4.4 Link between pay and performance

Partners and staff at Apax Partners are generally remunerated through:

- basic salary
- variable bonuses;
- carried interest; and/ or
- profit share

As required by the FCA rules, the remuneration package offered is designed to attract and retain staff with the skills, knowledge and expertise to discharge their functions. Given the long term nature of private equity investing, the remuneration package is also designed to reward appropriate risk taking in the long-term. The remuneration package for current funds is aligned with the interests of investors and carried interest operates as a cash-to-cash investment, (i.e. Apax staff only get “cash” after the fund has already repaid all capital plus the hurdle rate out “cash” to investors).

Staff members’ salary and bonus reflect their personal performance and appropriate risk taking in the long-term. Whole-of-fund carried interest is awarded to staff based on personal performance and is fully aligned with the performance of the relevant fund. If a fund does not meet its targets staff do not receive their carried interest entitlement. Apax does not offer deal-by-deal carried interest or co-investment.

## 4.5 Remuneration Disclosure

In accordance with BIPRU 11.5.18R, APEM is required to disclose in relation to its Code staff, aggregate quantitative data on remuneration, broken down by business area as well as aggregate quantitative data on remuneration, broken down by senior management and members of staff whose activities have a material impact on the risk profile of the firm. APEM Code staff do not get separately remunerated in relation to the services they provide. The Directors and Officers receive fixed fees in relation to the provision of their services. The remaining Control Functions are not directly remunerated by APEM and APEM pays fixed fees to companies within the LLP group in relation to the provision of services as part of its administrative service payments.

The remuneration for the Code Staff is as follows:

	Fixed Remuneration	Directors’ Fees	Variable Remuneration	Benefits	Total
	£	£	£	£	£
<b>Directors &amp; Officers</b>	0	48,000	0	0	48,000
<b>Control Functions*</b>	0	72,000	0	0	72,000
<b>Total</b>	0	120,000	0	0	120,000

\*The Control Functions provide similar services across the LLP group of companies and have estimated that the amount of time that they spend dedicated to APEM is minimal, with a lot of the controls exerted by others within

the group. The Control Functions' time, even though minimal, is charged to APEM by the companies within the LLP group.

As there were no employees employed by APEM there is nothing to report in respect to deferred remuneration. As a matter of policy, Apax does not buy-out deferred bonuses for new joiners.