



# ELEMENT CAPITAL

## Element Capital Partners LLP

### MIFIDPRU 8 and Stewardship Code Disclosures

**31 December 2023**

#### *Introduction*

The Financial Conduct Authority (the “**FCA**”), in the prudential sourcebook for MiFID investment firms in the FCA Handbook (“**MIFIDPRU**”), sets out the detailed prudential requirements that apply to Element Capital Partners LLP (the “**LLP**”). The LLP is classified under MIFIDPRU as a non-small and non-interconnected MIFIDPRU investment firm (a “**Non-SNI MIFIDPRU Investment Firm**”). As such, the LLP is required by Chapter 8 of MIFIDPRU (“**MIFIDPRU 8**”) to disclose information on the following areas:

- risk management objectives and policies;
- governance arrangements;
- own funds and own funds requirement; and
- remuneration policy and practices.

This disclosure has been prepared by the LLP in accordance with the requirements of MIFIDPRU 8 and has been approved by the LLP’s Management Committee. Unless otherwise stated, all figures are as at 31 December 2023.

#### *Summary of Significant Changes*

The information disclosed herein does not contain any significant changes to previous MIFIDPRU 8 disclosures made by the LLP.

#### *Risk Management Objectives and Policies*

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

- own funds;
- concentration risk; and
- liquidity.

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Element Capital Partners LLP is a limited liability partnership registered in England under company number OC397377. Its registered office is c/o PKF Littlejohn, 15 Westferry Circus, Canary Wharf, London E14 4HD, United Kingdom. Element Capital Partners LLP is authorised and regulated by the Financial Conduct Authority.

## **Business Strategy**

The LLP is part of an alternative investment management group with a *modern macro* style of global macro investing. This style of investing is an evolved investment approach that integrates macro fundamental, systematic and relative value analysis in the formation and implementation of directional views.

The LLP provides portfolio management, trade execution and other services to its sole client and parent company, Element Capital Management LLC. The LLP neither deals on its own account, for itself or for its client, nor does it hold client money or assets.

Given the LLP's business model and its internal systems, controls and oversight, it is the conclusion of the LLP that the overall potential for harm to it, its client or the wider market arising from the LLP's conduct of its business activities is low.

## **Own Funds Requirements**

The LLP is required to maintain own funds that are at least equal to its own funds requirement. The own funds requirement is the higher of the LLP's:

- **Permanent minimum capital requirement ("PMR"):** Based on the MiFID investment services and activities that the LLP currently has permission to undertake, the PMR is set at £75,000;
- **Fixed overhead requirement ("FOR"):** The FOR is calculated as one quarter of the LLP's relevant annual expenditure; and
- **K-factor requirement ("KFR"):** The K-factors that apply to the LLP's business are K-AUM (calculated on the basis of the LLP's assets under management ("**AUM**")) and K-COH (calculated on the basis of the client orders handled by the LLP).

The LLP's own funds requirement is currently set by its FOR, as this amount represents the highest of the three metrics. The potential for harm associated with the LLP's business strategy, based on the LLP's own funds requirement, is considered to be low due to the nature of the LLP's business and client relationship.

In order to mitigate the risk of breaching its own funds requirement, the LLP maintains a healthy surplus of capital over and above requirements. Additionally, relevant expenditure, including anticipated future expenditure, and the level of AUM and client orders handled is closely monitored which would provide ample warning in advance of an increase in the LLP's own funds requirement and enable the LLP to secure additional amounts of capital.

## **Concentration Risk**

Although the LLP has a single client, the potential for harm associated with its business strategy, based on the LLP's concentration risk, is considered to be low. The LLP's client, which is its parent

undertaking, is a well-established and stable financial services business. The LLP does not deal on its own account, be it for itself or for its client, nor does it hold client money or assets. The LLP's own cash balances are maintained at highly rated and reputable financial institutions. The LLP's revenue is received in a reliable and predictable manner, including during stressed market conditions. The concentration risk inherent in the LLP having a single client is further mitigated by a well-developed plan to facilitate an orderly wind down, should the need arise, as well as own funds and liquidity buffers to assist in that endeavour.

## **Liquidity**

The LLP 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 LLP's business strategy, based on its basic liquid assets requirement, is considered to be low. Liquidity risk is managed by the regular monitoring of cash resources and requirements and the maintenance of a generous buffer in excess of the LLP's basic liquid assets requirement. The LLP's liquidity risk is further mitigated and controlled by the reliability and predictability of its revenue as well as oversight and control over costs. The LLP's liquid assets are deposited at reputable financial institutions and remain available upon demand. Historically, the LLP has had sufficient liquidity within the business to meet its obligations and there are no perceived threats to this position given the cash deposits it holds.

## **Governance Arrangements**

### **Overview**

The LLP believes that effective governance arrangements help it to achieve its strategic objectives while also ensuring that the risks to the LLP, its stakeholders and the wider market are identified, managed and mitigated.

The LLP's management body, its Management Committee, has overall responsibility for the LLP and is therefore responsible for defining and overseeing the governance arrangements within the LLP. The Management Committee is comprised of the LLP's individual members, its compliance oversight officer and one of its designated members, Element Capital Partners I Limited. As of the date of this disclosure, the LLP's sole individual member is Michel Kikano who is a partner of the LLP and serves as a portfolio manager.

Among other things and through regular reporting, meetings and the LLP's policies, procedures and risk assessments, which are reviewed and updated regularly, the Management Committee, as relevant, considers, monitors, approves and oversees:

- the implementation of the LLP's strategic objectives, risk appetite and internal governance;
- the LLP's accounting and financial reporting systems, including financial and operational controls;

- compliance with the requirements of the regulatory system;
- the adequacy of policies relating to the provision of services to its client;
- the LLP's business, operations and senior management; and
- new measures to improve aspects of the foregoing, as required.

### **Directorships**

The LLP does not consider that any members of the Management Committee hold more directorships than is appropriate taking into account individual circumstances and the nature, scale and complexity of the LLP's activities.

### **Diversity of the Management Body**

As a matter of written policy, the LLP is committed to providing equal opportunities in the workplace and will not unlawfully discriminate against job applicants, employees and members of the LLP, workers or contract workers on the grounds of their age, disability, gender reassignment, marriage or civil partnership, pregnancy or maternity, race (which includes colour, nationality and ethnic or national origins), religion or belief, sex or sexual orientation.

The LLP does not otherwise comment on the characteristics of any of its staff.

### **Risk Committee**

The LLP does not have a risk committee nor is it, pursuant to MIFIDPRU 7.1.3, required to establish a risk committee contemplated by MIFIDPRU 7.3.1.

## Own Funds

As of 31 December 2023, the LLP had own funds of £1,810k which consisted solely of common equity tier 1 capital contributed by the LLP's members. Such amount is disclosed under *members' capital (classified as equity)* within the statement of financial position contained in the LLP's audited financial statements and is further noted in the table below.

Composition of Regulatory Own Funds			
	Item	Amount (GBP Thousands)	Source Based on Reference Numbers/Letters of the Balance Sheet in the Audited Financial Statements
<b>1</b>	<b>OWN FUNDS</b>	<b>1,810</b>	Members' capital (classified as equity)
<b>2</b>	<b>TIER 1 CAPITAL</b>	<b>1,810</b>	Members' capital (classified as equity)
<b>3</b>	<b>COMMON EQUITY TIER 1 CAPITAL</b>	<b>1,810</b>	Members' capital (classified as equity)
4	Fully paid up capital instruments		
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		

## ***Own Funds Requirements***

The LLP maintains own funds at least equal to the highest of its PMR, its FOR and its KFR.

As of 31 December 2023, the LLP's FOR was £1,181k while its KFR was £828k, comprised of £94k derived from the level of the LLP's assets under management (K-AUM) and £734k derived from the level of the LLP's client orders handled (K-COH). The LLP is not subject to any other K-factor requirements such as K-CMH, K-ASA, K-DTF, K-NPR, K-CMG, K-TCD or K-CON. Being the highest of the PMR, FOR and KFR, the LLP's FOR dictates its own funds requirement.

The LLP is also required to comply with the overall financial adequacy rule ("**OFAR**") which provides that the LLP must, at all times, hold own funds and liquid assets which are adequate, both as to their amount and quality, to ensure that it 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 that its business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

Through its internal capital and risk assessment ("**ICARA**"), which has been formally considered and adopted by the Management Committee, the LLP has undertaken a detailed review of its business and the attendant risks including the ability of the LLP to pay its debts as they fall due. A detailed assessment of such risks has been conducted, their potential impact and likelihood of occurrence assessed and applicable mitigation (e.g. controls and governance) taken into account in order to determine whether there is any residual risk sufficient to warrant the maintenance of additional capital. Suitable stress testing has also been considered alongside detailed orderly wind down planning in the event that the LLP determines that winding down its business becomes necessary. Going forward, the ICARA will be conducted on at least an annual basis.

As such, the LLP's ICARA facilitates its assessment of the adequacy of its own funds in accordance with the OFAR.

## **Remuneration Policy and Practices**

The LLP remunerates its staff through a combination of fixed and variable remuneration. Factors such as performance, reliability, effectiveness, business development and contribution to the business are taken into account when determining the amount of remuneration paid to an individual member of staff.

Fixed remuneration is set at amounts that would reasonably be viewed as competitive for individuals employed in the industry in which the LLP operates while variable remuneration is designed to reward individual performance and encourage staff to remain in the LLP's employment. For staff with responsibility for managing a portfolio of investments, total remuneration is predominantly linked to the performance of the investment portfolio for which the relevant individual has responsibility while, for other staff, variable remuneration is substantially discretionary.

As such, depending on the individual's role, either qualitative or quantitative factors determine variable remuneration awards. Contractually specified circumstances can trigger the forfeiture of an individual's unvested variable remuneration (*malus*) while, for the LLP's material risk takers, vested variable remuneration is subject to clawback consistent with the provisions of SYSC 19G.6.30 to 19G.6.34 of the FCA Handbook.

The LLP's remuneration arrangements are considered (i) to be consistent with and promote sound and effective risk management; (ii) not to encourage excessive risk taking; (iii) to include measures to avoid conflicts of interest; and (iv) to be in line with the LLP's business strategy, objectives, values and long-term interests. In light of its size, nature and complexity, the LLP's Management Committee retains responsibility for adopting the remuneration policy and the LLP has not established an independent remuneration committee.

For the financial year ending 31 December 2023, the LLP identified two material risk takers under SYSC 19G.5 of the FCA Handbook, namely those falling within the scope of SYSC 19G.5.3R(1, 2, 3, 4(d), 5 and 6).

In connection with the disclosure requirements set out in MIFIDPRU 8.6.8R(4, 5(a) and 5(b)), to prevent individual identification of a material risk taker, the LLP is relying on the exemption within MIFIDPRU 8.6.8R(7) and is not making the relevant quantitative disclosures.

## **UK Financial Reporting Council's Stewardship Code Disclosure**

FCA COBS Rule 2.2.3R requires FCA authorised firms to disclose whether they conform to the requirements of the UK Financial Reporting Council's Stewardship Code (the "**Code**"). Adherence to the Code is voluntary. The LLP pursues a global macroeconomic investment strategy and, consequently, its investment exposures are to a wide variety of financial instruments and markets. Therefore, although the LLP supports the objectives set out within the Code, the provisions are not deemed to be relevant to the type of investment strategy and trading currently undertaken by the LLP and the LLP does not presently consider it appropriate to conform to the Code.