DG Partners LLP
Capital Requirements Directive
Pillar 3 Disclosures

As of 31 December 2018

1. Overview

This document sets out the Pillar 3 market disclosures for DG Partners LLP (the "LLP"). The LLP is authorised and regulated by the UK Financial Conduct Authority (the "FCA").

The General Prudential Sourcebook ("GENPRU") and Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") rules implement the Capital Requirements Directive, which is the common framework for implementing Basel II in the European Union. In July 2013, as a result of the implementation of the Alternative Investment Fund Managers Directive ("AIFMD"), the Interim Prudential Sourcebook for Investment Businesses ("IPRU (INV)") also came into effect for Alternative Investment Fund Managers ("AIFMs") such as the LLP.

The prudential framework for BIPRU firms consists of three pillars:

Pillar 1: concerning minimum capital requirements;

Pillar 2: concerning the setting of bespoke capital requirements by the firm's senior management through the Internal Capital Adequacy Assessment Process ("ICAAP") to assess the adequacy of capital held in relation to a firm's material risks; and

Pillar 3: concerning the public disclosure of risk and capital management, including capital adequacy.

The purpose of Pillar 3 is to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess key pieces of information with respect to a firm's capital adequacy, risk exposures and risk assessment process. The disclosures are required to be made public for the benefit of the market.

Background

The LLP is an English limited liability partnership. It provides discretionary investment management services to certain investment funds, as an AIFM Investment Firm (as defined in the FCA Handbook), and certain managed accounts (its "Clients").

Investors in the LLP's Clients assume the risks and rewards arising from their investment. The governance of each Client is independent of the LLP.

The LLP also has a service company, DG Partners Services Limited (the "Company"). The LLP does not form part of a consolidating group with the Company, accordingly, unless otherwise stated, references in this document to the LLP exclude the Company.

Risk Governance

The LLP is committed to implementing a good practice, firm-wide governance and risk management framework appropriate to the size, nature and complexity of the firm's business. The governing body responsible for the risk framework within the LLP is the Board which has the ultimate responsibility for managing and controlling risk within the risk appetite of the LLP.

2. Risk management objectives and policies

The LLP's risk management objective is to safeguard the assets both of the LLP and Clients, whilst allowing sufficient operating freedom to secure a satisfactory return. The Board of the LLP empowers the business to be entrepreneurial and actively take on risk. However, risk must be fully understood and adequately measured to ensure that the risk exposure is appropriate for the returns anticipated and is consistent with the LLP's long-term goals and obligations to its stakeholders.

Risk in the LLP is managed according to common principles and policies approved by the Board. The following key principles are central to the LLP's risk management strategy:

1. The setting of risk limits;

2. Clearly articulated roles and responsibilities with appropriate segregation of duties;
3. Monitoring the adequacy and effectiveness of key internal controls;
4. Regular reporting on risk-related issues, including stress tests, to the Board; and
5. Documented and communicated policies and procedures addressing key areas of risk to the business.

Risk limits

Risk limits set out the amounts and type of risk that the LLP regards as appropriate for it to accept in order to execute its strategy. The Board sets and approves, on an annual basis, risk appetite statements for areas of actual or potential significant risk to the business. The Board has considered all relevant risk categories suggested by the FCA and has put in place risk appetite statements for those risk categories which are applicable to the nature of its business.

Roles and Responsibilities

The LLP's senior management are accountable for the identification of material risks assumed in their areas of responsibility and for ensuring that these risks are controlled and managed in line with the LLP's risk policy and within the risk appetite of the LLP. The principle of individual accountability and responsibility for risk management is an important feature of the LLP's culture.

Independent review and challenge of trading and associated risks is provided by the Chief Risk Officer who ensures that the risk limits are consistently implemented within the LLP and monitors the overall adequacy and effectiveness of the risk management framework in relation to Clients on behalf of the Board.

The General Counsel/CCO is responsible for the review and assessment of legal and compliance related risks affecting the LLP.

As a key part of ensuring a good control environment, functions where an internal conflict may occur are segregated wherever possible.

Key Control monitoring

The LLP believes that an effective system of internal control is an essential element of good management and has put in place appropriate procedures to ensure that key risks are appropriately controlled within the LLP's risk appetite. Day to day assessment and monitoring of key controls in relation to trading and associated risks is provided by the Chief Risk Officer. Monitoring of key controls in other areas is carried out by the appropriate head of function in conjunction with senior management and the Board.

Risk reporting

Regular reporting is in place to allow the Board to review the LLP's risk profile against its risk appetite, monitor losses, incidents and any breaches of the LLP's risk policy.

Policies and Procedures

The LLP has in place documented policies and procedures with respect to key areas of risk to the LLP. These include Prevention of Market Abuse, Personal Account Dealing, Risk, Valuation, Conflicts, Errors, Best Execution, Business Continuity, Compliance generally and the LLP's staff handbook.

3. Capital Resources

The Pillar 1 regulatory capital requirement for the LLP as at 31 December 2018 was £1,067,132.

The Pillar 2 capital requirement as at 31 December 2018 was £1,645,161.

The actual capital held by the LLP as at 31 December 2018 was £4,382,748, giving a Pillar 1 capital surplus of £3,315,616 and a Pillar 2 capital surplus of £2,737,588.

The LLP's capital resources as at 31 December 2018 are shown in the table below:

Capital item	
Tier 1 capital less innovative tier 1 capital	**£4.38m**
Total tier 2, innovative tier 1 and tier 3 capital	**£0**
Deductions from tier 1 and tier 2 capital	**£0**
Total capital resources, net of deductions	**£4.38m**
Regulatory capital requirement	**£1.07m**
Surplus	**£3.31m**

The LLP's approach to assessment of capital adequacy

The LLP maintains sufficient capital to meet UK regulatory requirements. In line with these requirements, the LLP maintains the higher of Pillar 1 and Pillar 2 ICAAP capital requirements. The adequacy of the capital held by the LLP is assessed, at least annually, as part of the ICAAP and is subject to formal sign off by the Board.

Pillar 1 capital calculation

Based upon its regulatory permissions and scope of activities, the LLP is subject to the capital requirements for a BIPRU Limited Licence Firm. The LLP's Pillar 1 capital is based upon the sum of the LLP's Credit Risk and Market Risk exposure, being greater than the LLP's Fixed Overhead Requirement ("FOR").

Risk type	**Calculation Method**	**Capital**
Credit risk	The LLP uses the standardised approach, under which the capital requirement is calculated as 8% of the risk weighted exposure amounts as set out by the FCA.	£360,317
Market risk	The LLP calculates its market risk capital requirement using the foreign currency PRR method set out in the FCA's rules.	£126,955
FOR	The FOR is calculated in accordance with GENPRU 2.1.53-59.	£1,067,132

Pillar 1 Capital	Higher of the sum of the credit and market risk charges and the FOR.	£1,067,132

Pillar 2 (ICAAP)

The LLP's ICAAP assesses the amount of capital required to mitigate the risks to which the LLP is exposed over a 12 month time horizon. The ICAAP considers the impacts of future business plans as well as potential adverse scenarios (such as market downturns or significant operational errors) on the capital resources of the LLP, to ensure regulatory capital requirements are met at all times.

3. Risk Exposures

The LLP's exposure to risk categories as defined by the FCA and LLP's strategies with respect to material risk categories is shown below:

Risk type	Treatment
Credit Risk	Credit risk is defined as the risk of loss caused by the failure of a counterparty to perform its contractual obligations. A factor which may contribute to increased credit risk is concentration of assets held with a single counterparty. The LLP's primary exposure to credit risk relates to (i) receivables from third parties relating to outstanding management and performance fees; and (ii) cash deposits with banks and money market funds. The LLP only places deposits with institutions having a minimum credit rating of "AA" and ensures that all monies placed on deposit have daily liquidity. As a consequence, the LLP considers the credit risk to which it is exposed to be low.
Market Risk	Market risk is defined as the risk of loss arising from fluctuations in values of, or income from, assets or arising from fluctuations in foreign exchange rates. The primary market risk faced by the LLP is foreign exchange risk due to management and performance fees being received in currencies other than sterling. The LLP monitors the position closely and converts currency as required to mitigate against this risk.
Liquidity risk	Liquidity risk is defined as the risk that the LLP, although solvent, either does not have sufficient available financial resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. The LLP consistently maintains sufficient liquid resources to meet its obligations. As mentioned above, the LLP only places deposits with institutions having a minimum credit rating of "AA" and ensures that all monies placed on deposit have daily liquidity.
Operational Risk	Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events, including legal risk. Examples of significant operational incidents that could arise are: fraud, theft of intellectual property, technology failures and valuation errors. Central to the management of operational risk is the monitoring of key controls. As a discretionary investment manager, the LLP places a significant emphasis on

	monitoring key controls so that it can mitigate business and operational risks and maintain a low risk profile. The LLP also maintains appropriate insurance cover to mitigate its exposure to liability arising upon the occurrence of certain events and to protect its assets. The LLP also maintains an internal Legal & Compliance team.
Insurance risk	Risk category deemed insignificant to the LLP's activities.
Concentration risk	Risk category deemed insignificant to the LLP's activities.
Residual risk	Risk category deemed insignificant to the LLP's activities.
Securitisation risk	Risk category deemed insignificant to the LLP's activities.
Business and strategic risk	Business risk is any risk arising from changes in business, including the risk that the LLP may not be able to carry out its business plan and its desired strategy. It also includes risks arising from a firm's remuneration policy. In a narrow sense, business risk is the risk that the LLP may suffer losses because its income falls or is volatile relative to its fixed cost base. However, in a broader sense, it is exposure to a wide range of macroeconomic, geopolitical, industry, regulatory and other external risks that might deflect the LLP from its desired strategy and business plan. The LLP regularly considers risks which may threaten its business strategy, performance and maintenance of assets (and related fee income) utilising a range of assumptions as to the state of the current and anticipated economic or business environment.
Interest rate risk	Risk category deemed insignificant to the LLP's activities.
Pension obligation risk	Pension obligation risk is the risk to the LLP arising from its pension related contractual obligations and liabilities. The LLP contributes to a defined contribution scheme (the "Scheme") for the benefit of its employees. The failure to maintain the Scheme correctly could result in fines or penalties from the Pension Regulator. The Scheme was subject to review prior to implementation by the Finance Department, the General Counsel and the COO as well as the third-party administrator of the Scheme. There are no on-going funding obligations with respect to the Scheme, aside from monthly contributions and a nominal annual fee. Pension obligations are subject to ongoing review by the Finance Department and the Scheme administrator.
Group risk	Group risk is the risk that the financial position of the LLP may be adversely affected by its relationships with other entities in the same group or by risks which may affect the financial position of the whole group. There are entities that provide shared services and staff to the LLP and there are controls in place to ensure that the performance of these entities are monitored on a regular basis.
Reputational risk	Reputational risk is defined as the risk of damage to the LLP's reputation that could lead to negative publicity, costly litigation, a decline in the customer base

	or the exit of key employees and therefore directly or indirectly to a loss of revenue. Maintenance of the LLP's reputation is a key component of its ability to achieve its strategic objectives. Some of the key events which could significantly impact the reputation of the LLP include poor performance relative to peers, general adverse market conditions or high profile operational risk events such as market abuse or the loss of high profile key people. The LLP monitors the potential reputational impact of all risk categories and takes appropriate action where possible to prevent and manage the kinds of events which may give rise to reputational damage. It is the responsibility of the Board to identify areas of the business or external factors which may significantly affect the reputation of the LLP and to ensure that these are adequately managed.