

NAPIER PARK GLOBAL CAPITAL LTD
Pillar 3 Disclosure
For the Period 1 January 2019 to 31 December 2019

Purpose of the Disclosures

The Pillar 3 disclosure of Napier Park Global Capital Ltd (“NPGCUK” or the “Firm”) is set out below as required by the FCA’s “Prudential Sourcebook for Banks, Building Societies and Investment Firms” (BIPRU), specifically BIPRU 11.3.3 R. This is a requirement which stems from the Capital Requirements Directive (“CRD”) which represents the European Union’s application of the Basel Capital Accord. The regulatory aim of the disclosures is to improve market discipline.

The rules are built on three “Pillars”:

- Pillar 1 sets out the minimum capital requirements that companies need to retain to meet their credit, market and operational risk;
- Pillar 2 requires companies to assess whether their Pillar 1 capital is adequate to meet their risks and is subject to annual review by the FCA; and
- Pillar 3 requires companies to develop a set of disclosures which will allow market participants to assess key information about their underlying risks, risk management controls and capital position.

Rule 11 of BIPRU sets out the provisions for Pillar 3 disclosure. The rules provide that companies may omit one or more of the required disclosures if such omission is regarded as immaterial. Information is considered material if its omission or misstatement could change or influence the decision of a user relying on the information. In addition, companies may also omit one or more of the required disclosures where such information is regarded as proprietary or confidential.

This Pillar 3 Disclosure covers 1 January 2019 to 31 December 2019 (the “Period”).

The Firm will be making Pillar 3 disclosures annually, as soon as is practical after the year-end financial statements have been audited and published.

Background

NPGCUK was incorporated as a private limited company in England and Wales on 31 December 2010 under the name Citi Capital Advisors Limited (“CCAL”). It has been authorised and regulated by the Financial Conduct Authority (the “FCA”) since 4 May 2011.

Previously, NPGCUK was a wholly owned subsidiary of Citigroup Alternative Investments LLC (“CAI”). On 28 February 2013, Citigroup Inc. (“Citi”) and CAI completed the spin-out of the Firm and its US affiliate, Napier Park Global (US) LP (“NPGCUS”), into an independent operating entity and CAI assigned its hedge fund and CLO businesses, as well as portions of certain other businesses, to the Firm and NPGCUS (the “Transaction”). In connection with the Transaction, CCAL was re-named Napier Park Global Capital Ltd on 28 February 2013.

NPGCUK is 100% controlled by a Delaware based limited partnership (Napier Park Global Capital L.P. (“NPGCLP” or the “Firm’s Parent”).

A number of costs are accounted for at a group level and the Firm's ICAAP has used allocated group costs in its calculations. The Firm does not, however, report on a consolidated basis for accounting and prudential purposes.

The Firm is categorised by the FCA as a BIPRU 50K limited licence firm, for capital purposes. It is an investment management firm and, as such, has no trading book exposures.

Capital Resources and Requirements

Capital Resources - Pillar 1

The Firm's regulatory capital, as at 31 December 2019¹, is summarised as follows:

Capital Resources	
Permanent Share Capital	£1,652,728
Profit & Loss account and other reserves / Audited Reserves	£426,461

The main features of the Firm's capital resources for regulatory purposes are as follows:

Total capital resources as at 31 December 2019 were £2,079,189, comprised solely of core Tier 1 capital. There were no deductions.

The Firm's Pillar 1 capital requirements are the greater of:

- Its base capital requirement of €50,000;
- The sum of its market and credit risk requirements; or
- Its fixed overhead requirement ("FOR").

As at 31 December 2019, the FOR formed the Firm's Pillar 1 capital requirement. This amounted to £858,489. As such, the Firm holds a surplus of regulatory capital.

Satisfaction of Capital Requirements - Pillar 2

Since NPGCUK's Internal Capital Adequacy Assessment Process ("ICAAP" or Pillar 2) has not identified a need for capital to be held over and above the Pillar 1 requirement, the capital resources detailed above are considered adequate to continue to finance the Firm over the next year. No additional capital injections are considered necessary and the Firm expects to remain profitable.

Risk Management Objectives and Policies

Risk Management Objective

The Firm has a risk management objective to develop systems and controls to mitigate risk to within its risk appetite.

Governance Framework

The Directors are responsible for designing and implementing a risk management framework that recognizes the risks that the business faces, determining how those risks may be mitigated and assessing the ongoing management of those risks. The Directors further assess the effectiveness of the

¹ Based on the audited financials.

framework. Senior management is accountable to the Firm's governing body for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Firm.

Risk Framework

Senior management and the Directors meet at least quarterly on a formal basis at which *inter alia* business and operational risks are discussed, as well as risk management. NPGCUK believes that as a general principle it is preferable to address the risks of the business through a framework of rules and principles (including FCA rules) that lead to a tight and transparent risk management framework, rather than the alternative of a loosely controlled business where the risks are covered by increased capital. The Directors are aware of the material risks faced by the Firm and have sufficient experience to manage the risks appropriately.

The Firm has a moderately cautious appetite to risk and this appetite is discussed at the aforementioned quarterly meetings. The ICAAP forms part of the process of risk management at the Firm. NPGCUK's ICAAP has projected out three years in order to determine its capital requirements to support current and future activities. Further, the Firm has undertaken scenario analysis and stress tests on the most significant risks identified. This informs the Firm of the likelihood of the risks occurring and the potential impact of such risks on the Firm. In addition, it helps the Firm to ensure that regulatory capital requirements are met at all times.

Risks

Credit and Market Risk

NPGCUK is a small firm. It has a very simple operational infrastructure. NPGCUK, being a limited license firm, is not subject to the Pillar 1 operational risk requirement. Further, credit risk primarily arises from management and performance fees receivable from the funds under the Firm's management. The Firm holds all cash and fee balances with banks assigned high credit ratings. The Firm does not carry any market risk other than foreign currency risk on accounts receivable and cash at bank. Given this, NPGCUK believes that the standardised approach to credit risk and the simplified method of calculating risk weights is appropriate.

Credit Risk Calculation	
Credit Risk Capital Requirement	Capital Component
Credit risk capital component	£677,564
Counterparty risk capital component	£0
Concentration risk capital component	£0
Total	£677,564

Credit Risk			
Exposure	Risk Weighting	Risk Weighted Exposure	Capital Requirement
Fixed Assets	100.0%	206,931	206,931
Short Term Investments	100.0%	39,865	39,863
Receivables (Exposure to debtors)	100.0%	1,990,989	1,990,989
Prepayments (including lease deposit)	100.0%	299,059	299,059
Management Fee receivables	100.0%	3,302,324	3,302,324
Performance Fee Receivables	100.0%	2,200,504	2,200,504
Cash (Banks)	20.0%	2,093,896	418,779
VAT/Tax	0.0%	78,257	11,097
Total (8% of risk weighted exposure)			£667,564

Market Risk Calculation	
Position Risk Requirement	Position
Interest rate	£0
Equity	£0
Commodity	£0
Foreign Currency	£2,154,375
Option	£0
Collective Investment Undertaking	£0
Total (8%)	£172,350

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. The Firm considers that it has a strong operational control infrastructure - each member of the senior management team has substantial experience in financial or operational management. Operational controls and processes are documented, and the Firm assesses its exposure to operational risks on a regular basis.

Business Risk

Business risk is any risk to a firm arising from changes in its business, including the risk that a firm may not be able to carry out its business plan and its desired strategy. The primary business risks to NPGCUK are poor investment decisions and/or poor performance, loss of significant numbers of investors and damage to reputation, resulting in fund closure. NPGCUK considers the impact of future business plans, as well as potential adverse scenarios on the capital resources of NPGCUK, to ensure regulatory capital requirements are met at all times.

Reputational Risk

Maintaining a good reputation with investors and suppliers is critical to the success of the business. Any loss in reputation is likely to be very detrimental to the business and could lead to (potentially significant levels of) redemptions. Reputational risk to the Firm could arise *inter alia* as a result of poor performance and/or the departure of senior professionals.

Group Risk

Although the Firm does not form part of a group for FCA consolidation purposes, owing to the fact that the Firm forms part of a larger global group, there is some group risk, through which the same aforementioned operational, business and reputational risks are reflected. Group risk merely heightens these risks, but it does not alter the worst case scenario of shut down.

Non-Applicable Risk Categories

The following risks are not considered to be applicable to NPGCUK's business:

- Liquidity risk;
- Insurance risk;
- Concentration risk;
- Residual risk;
- Securitisation risk;
- Interest rate risk; and
- Pension obligation risk.

Remuneration Code

The Firm has adopted a remuneration policy and procedures that comply with the requirements of Chapter 19C of the FCA's Senior Management Arrangements, Systems and Controls Sourcebook (SYSC), as interpreted in accordance with the FCA's guidance statement entitled "General guidance on proportionality: The Remuneration Code (SYSC 19C) and Pillar 3 disclosures on remuneration (BIPRU 11)" (the "BIPRU Remuneration Code Guidance").

As a BIPRU Remuneration Code firm (as such term is defined in the BIPRU Remuneration Code Guidance), NPGCUK has considered the BIPRU Remuneration Code Guidance and has concluded, on the basis of its size, internal organisation and the nature, scope and complexity of its activities that it does not need to establish a remuneration committee. Instead, the Directors undertake this role.

The Directors set, and oversee compliance with, the Firm's remuneration policy including reviewing the terms of the policy at least annually.

NPGCUK sets the remuneration of its staff in a manner which takes account of individual employee and Firm performance, by reference to individual performance, performance of the Firm, and the overall results of the NP Group. All variable remuneration is adjusted in line with capital and liquidity requirements.

The Firm only has one "business area", namely its investment management business. The aggregate "remuneration" (as defined in the FCA Rules) for that business area for the Period was £9,502,849 with £3,716,068 paid as fixed remuneration and £5,786,781 paid as variable remuneration.

Aggregate remuneration awarded to the Firm's Remuneration Code Staff for the Period was split as follows: (i) Senior Management: £2,813,303 with £930,100 paid as fixed remuneration and £1,883,203 paid as variable remuneration; and (ii) members of staff whose actions have a material impact on the risk profile of the Firm: £6,689,546 with £2,785,868 paid as fixed remuneration and £3,903,578 paid as variable remuneration.

Notes to the Remuneration Disclosure

Certain Remuneration Code Staff were only employed by the Firm for part of the Period as they either joined or left the Firm during the year.

UK Financial Reporting Council's Stewardship Code Disclosure Statement

FCA COBS Rule 2.2.3R requires FCA authorised firms to disclose the nature of their commitment to the UK Financial Reporting Council's Stewardship Code (the "Stewardship Code"), which was first published by the Financial Reporting Council ("FRC") in July 2010, and then revised in September 2012.

The Stewardship Code sets out the principles of effective stewardship by investors. It sets out good practice and is to be applied by firms on a "comply or explain" basis. The FRC recognises that not all parts of the Stewardship Code will be relevant to all signatories and that smaller institutions may judge some of the principles and guidance to be disproportionate.

The seven principles of the Stewardship Code, so as to protect and enhance the value that accrues to the ultimate beneficiary, are that institutional investors should:

- Publicly disclose their policy on how they will discharge their stewardship responsibilities;
- Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed;
- Monitor their investee companies;
- Establish clear guidelines on when and how they will escalate their stewardship activities;
- Be willing to act collectively with other investors where appropriate;
- Have a clear policy on voting and disclosure of voting activity; and
- Report periodically on their stewardship and voting activities.

NPGCUK acts as investment manager to certain private investment funds and managed accounts. Its investment strategy primarily involves credit and credit-related investments and only infrequently involves voting interests in listed companies and interaction with the management of companies listed in the UK. Therefore, while the Firm generally supports the principles of the Stewardship Code, it does not consider it appropriate to conform to the Stewardship Code at this time.