Fair Oaks Capital Limited

MIFIDPRU 8 Disclosure

Financial year-ended 30th November 2023

Introduction

The Financial Conduct Authority ("FCA" or "regulator") in the Prudential sourcebook for MiFID Investment Firms in the FCA Handbook ("MIFIDPRU") sets out the detailed prudential requirements that apply to Fair Oaks Capital Limited ("Fair Oaks" or the "Firm"). Chapter 8 of MIFIDPRU ("MIFIDPRU 8") sets out public disclosure rules and guidance with which the Firm must comply, further to those prudential requirements.

Fair Oaks is classified under MIFIDPRU as a Non-SNI MIFIDPRU Investment Firm. As such, the Firm is required by MIFIDPRU 8 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 and data on the Firm's own funds and own funds requirements to allow potential investors to assess the Firm's financial strength.

This document has been prepared by Fair Oaks in accordance with the requirements of MIFIDPRU 8 and has been verified by the directors of Fair Oaks (the "Board"). Unless otherwise stated, all figures are as at the Firm's 30th November 2023 financial year-end.

Risk Management Objectives and Policies

This section describes Fair Oaks' risk management objectives and policies for the categories of risk addressed by the requirements of the Firm in the following areas:

- Own funds.
- Concentration risk.
- Liquidity.

Business Strategy

Fair Oaks is a specialist corporate credit asset management firm, launched in 2013. The Firm's core expertise is in CLOs (collateralised loan obligations) and secured loans, providing investment management and advisory services to a wide range of mandates including separately managed accounts, open-ended and closed-ended fund structures and CLOs. As at 30 November 2023 the Firm had assets under management of approximately £2.2 billion.

The Firm's clients are institutional investors, such as pension funds, insurance companies, and other types of professional investors. Fair Oaks primarily seeks to grow its revenues by growing the underlying asset base on which it charges investment management or advisory fees. This is achieved by the prudent growth of the Firm's assets under management and advice and by seeking additional asset inflows from prospective clients and investors.

Costs are controlled carefully to ensure long-term profitability. The business seeks to make investments to expand its business and product lines and to continuously improve its control environment.

Having considered Fair Oaks' business model, controls, and controls assessment, the Board have concluded that Fair Oaks' overall potential for harm is low.

Own Funds Requirement

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

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

Fair Oaks'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 Fair Oaks' business strategy, based on its own funds requirement, is low. This is due to the relatively consistent and stable nature of Fair Oaks' revenues, the excess capital that is maintained on the Firm's balance sheet and close monitoring of the capital position and any deviations to budget on a monthly basis.

A method adopted by Fair Oaks to manage the risk of breach of its own funds requirement is the maintenance of a healthy own funds surplus above the own funds requirement. In the event that Fair Oaks' own funds drop to an amount equal to 110% of its own funds threshold requirement, the Board will immediately consider the matter and notify the FCA. The Board will consider the necessary steps required in order to increase Fair Oaks' own funds buffer; this may include injecting more own funds into the Firm.

Concentration Risk

Fair Oaks has multiple clients, which provides for a diverse stream of revenue. Moreover, many of the vehicles to which Fair Oaks provides management or advisory services are closed-ended structures, with capital committed over a medium-term time horizon. This, coupled with Fair Oaks' institutional investor client base, means that Fair Oaks' assets under management tend to be relatively stable and not prone to substantial fluctuations, including during stressed market conditions. Given this, the potential for harm associated with Fair Oaks' business strategy, based on the Firm's concentration risk, is low. The Firm deposits its cash with well-established multinational institutions that meet with its counterparty credit requirements.

Liquidity

Fair Oaks' appetite for liquidity risk is low. The Firm exercises tight controls over expenditure, cash management and cashflows and retains its capital in liquid form in bank accounts held with well-established multinational institutions. The Firm retains an amount it considers suitable for providing sufficient liquidity to meet the working capital requirements under various conditions. In relation to its own funds requirement, there has been relatively stable and consistent growth in the Firm's revenues from its advised/managed investment asset base. Fair Oaks voluntarily maintains a healthy, core liquid assets surplus, above the FCA basic liquid assets requirement. There are no significant perceived threats to this given the level of cash deposits held with highly-rated banks and the closed-ended nature of much of its client base. The cash position of the Firm is monitored by the Board and the shareholders would inject further capital into the business if required. There are no identified probable material risks likely to occur within the next 12 months which require additional liquidity or capital, beyond those required to be held in relation to regulatory requirements to reserve for potential wind down costs under a theoretical wind down scenario. Given all the above, the potential for harm associated with Fair Oaks' business strategy, based on the Firm's basic liquid assets requirement, is currently low.

Risk Management Structure

Due to the nature, size and complexity of the Firm, Fair Oaks does not have an independent risk management function. The Board is responsible for the management of risk within the Firm and their individual responsibilities are clearly defined. The relevant internal personnel report to the Firm's Board on a frequent basis regarding applicable risks. Fair Oaks has clearly documented policies and procedures, which are designed to minimize risks to the Firm and all staff are required to confirm that they have read and understood them.

Fair Oaks undertakes an Internal Capital Adequacy and Risk Assessment ("ICARA"), at least annually, which is the process through which Fair Oaks determines that it is able to identify and manage its key risks on an ongoing basis and that it has sufficient capital in respect of such risks. The process is forward-looking and is an integral part of the management of the Firm.

The ICARA identifies the major sources of risk to the regulated entity, how the Firm intends to deal with those risks and details of the stress tests and scenario analyses carried out and the resulting financial resources estimated to be required. Fair Oaks also carries out regular assessments of the types and distribution of financial resources, capital resources and internal capital, which are documented in the ICARA.

As a result of the ICARA process, the Firm Identified operational risk, business risk and reputational risk as the material risks to the Firm's business. The Firm's analysis led it to the conclusion that these risks are appropriately mitigated. If necessary, the Firm would allocate extra capital to the relevant risk, but this has not been deemed necessary.

Governance Arrangements

Overview

Fair Oaks' management body is its board of directors (the "Board") which is comprised of::

Director	SMF Function	Number of other external directorships held	
		Executive	Non-Executive
Miguel Ramos Fuentenebro	SMF 3	1	0
Roger Coyle	SMF 3	0	0

The Board has overall responsibility for Fair Oaks and typically meets on a quarterly basis, or more frequently as required. In particular the Board defines, oversees and is accountable for the implementation of arrangements to ensure effective and prudent management of Fair Oaks, including appropriate segregation of duties of senior managers in line with the FCA's Senior Management and Certification Regime ("SMCR") and the management of conflicts of interest. The Board is supported by a number of committees across Fair Oaks that are responsible for various matters. Fair Oaks believes that such effective governance arrangements help it achieve its strategic objectives while also ensuring that the risks to Fair Oaks, its stakeholders, and the wider market are identified, managed, and mitigated.

Due to the nature, size, and complexity of Fair Oaks activities, there is no independent risk management committee function in place as part of Fair Oaks' governance arrangements, nor is Fair Oaks required to establish such a committee pursuant to MIFIDPRU 7.1.4R. The Board is responsible for the management of risk within Fair Oaks and their individual responsibilities are clearly defined. Senior management reports to the Board on a frequent basis regarding applicable risks. Fair Oaks has clearly documented policies and procedures, which are designed to minimise risks and all staff members are required to confirm that they have read and understood these.

Diversity, Equality and Inclusion

Fair Oaks believes passionately that employing a diverse workforce is central to its success and it has actively encouraged applications for any open positions from all members of society irrespective of age, gender, disability, sexual orientation, race, religion, or belief. This is reflected in Fair Oaks' workforce including approximately fourteen nationalities with ten languages/cultures being represented. Fair Oaks takes a zero-tolerance approach to any form of bullying, harassment, victimization or discrimination.

Fair Oaks is currently working with groups such as Women Returners to further encourage and facilitate applications from professionals who may be wishing to return to work after career breaks. Furthermore, Fair Oaks collaborates with IntoUniversity, a charity founded in 2007 to support young people growing up in Britain's least privileged neighbourhoods. In addition to financial support from Fair Oaks' directors, Fair Oaks professionals are offered the opportunity to join a one-to-one mentoring programme supporting a student in their final year of school with the transition to Higher Education.

Over the medium to longer term and in line with the foregoing, Fair Oaks will take similar steps to seek to increase the diversity of its management body.

Own Funds

As at 30 November 2023, Fair Oaks had own funds of £1,750,307. The below regulator-prescribed tables provide a breakdown of the Firm's own funds:

Table 1: Composition of Regulatory Own Funds			
	Item	**Amount (GBP thousands)**	**Source based on reference numbers/letters of the balance sheet in the audited financial statements**
1	**OWN FUNDS**	1,750	
2	**TIER 1 CAPITAL**	1,750	
3	**COMMON EQUITY TIER 1 CAPITAL**	1,750	
4	Fully paid up capital instruments	250	Share capital; Note 15
5	Share premium		
6	Retained earnings	1,500	Statement of Changes in Equity – Profit and Loss Account less Dividends Payable
7	Accumulated other comprehensive income		
8	Other reserves		
9	Adjustments to CET1 due to prudential filters		

10	Other funds		
11	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1		
19	CET1: Other capital elements, deductions and adjustments		
20	**ADDITIONAL TIER 1 CAPITAL**		
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		
25	**TIER 2 CAPITAL**		
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		

Table 2: Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements			
		Balance sheet as in published/audited financial statements	**Cross-reference to Table 1**
		As at period end	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements (GBP thousands)			
1	Tangible assets	348	
2	Investments	52	
3	Debtors	2,188	
4	Cash at bank and in hand	3,037	
	Total Assets	5,625	
Liabilities - breakdown by liability classes according to the balance sheet in the audited financial statements (GBP thousands)			
1	Creditors: amounts falling due within one year	2,261	
2	Deferred tax	73	
3	Other provisions	40	
	Total liabilities	2,374	
Shareholders' equity (GBP thousands)			

1	Called up share capital	250	4
2	Profit and loss account	3,000	
	Total Shareholders' equity	3,250	

Table 3: Own funds: main features of own instruments issued by the firm	
Fair Oaks’ own funds consist of common equity tier 1 capital and additional tier 1 capital. The main features of the own funds issued by the Firm are highlighted below:	
Public or private placement:	Private
Instrument type:	Ordinary
Amount recognised in regulatory capital (GBP thousands, as of most recent reporting date):	250
Nominal amount of instrument:	£1
Issue price:	£1
Redemption price:	Not applicable
Accounting classification	Ord
Original date of issuance	18 October 2012
Perpetual or dated	Not applicable
Maturity date	Not applicable
Issuer call subject to prior supervisory approval	Not applicable
Optional call date, contingent call dates and redemption amount	Not applicable
Subsequent call dates, if applicable	Not applicable
Coupons/dividends	Not applicable
Fixed or floating dividend/coupon	Not applicable
Coupon rate and any related index	Not applicable

Existence of a dividend stopper	Not applicable
Convertible or non-convertible	The Class C Shares (6.7% of total shares) will be converted to Deferred Shares in certain circumstances.
Write-down features	Not applicable
Link to the terms and conditions of the instrument	Not applicable

Own Funds Requirements

Fair Oaks 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 and FOR.

The below illustrates the core components of Fair Oaks's own funds requirements:

Item	Amount (GBP thousands)
(A) Permanent Minimum Capital Requirement ("PMR")	75
(B) Fixed Overhead Requirement ("FOR")	1,345[1]
(C) K-Factor Requirements ("KFR")	363
- ΣK-AUM, K-CMH and K-ASA	362
- ΣK-COH and K-DTF	1
- ΣK-NPR, K-CMG, K-TCD and K-CON	-
(D) Own Funds Requirement (Max. [A, B, C])	1,345

[1] Based on audited 30th November 2023 figures

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

- 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
- The Firm’s business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

Where Fair Oaks determines that the FOR is insufficient to mitigate the risk of a disorderly wind-down, the Firm must maintain ‘additional own funds required for winding down’, above the FOR, that are 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 amount of ‘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 Fair Oaks is required to maintain at any given time to comply with the OFAR.

To determine the Firm’s own funds threshold requirement, Fair Oaks 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 deduces the appropriate amount of additional own funds required to cover the residual risk.

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

Remuneration Policy and Practices

Overview

The following disclosure on remuneration is made for the year ended 30 November 2023.

As a Non-SNI MIFIDPRU Investment Firm, Fair Oaks is subject to the basic and standard requirements of the MIFIDPRU Remuneration Code (as laid down in Chapter 19G of the Senior management arrangements, Systems and Controls sourcebook in the FCA Handbook (“SYSC”)). The purpose of the remuneration requirements is 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 Fair Oaks' remuneration policy and practices (the "Remuneration Policy") is 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.

The Board is responsible for setting and overseeing Fair Oaks' Remuneration Policy, which applies on a consolidated basis and so will also capture Fair Oaks Capital US LP.

Characteristics of Fair Oaks' Remuneration Policy

Remuneration at Fair Oaks consists of both a fixed and variable component.

Fair Oaks has sought to set the fixed element of remuneration at a sufficient level to provide staff with comfortable living standards, in an attempt to avoid reliance on any variable element of remuneration, whilst ensuring the Firm's capital and liquidity position continued to be preserved. The Firm seeks to ensure that the fixed element of remuneration is competitive and aligned with the going market rate.

Variable remuneration at Fair Oaks is not based solely on the quantitative, investment-related performance of relevant individuals. Fair Oaks' Board also considers an individual's overall (non-financial) performance to the whole team and the overall financial results and capital position of the Firm. The performance of the individual is assessed over the entire financial year. All staff members are eligible to receive variable remuneration.

Certain staff and Material Risk Takers may also receive carried interest awards or be awarded a share in the revenues of their particular business unit. Carried interest awards are made at the discretion of the Board based on the performance of the relevant member of staff and will typically be made following the launch of a new fund that charges a carried interest fee. Carried interest awards will satisfy the requirements of SYSC 19G.1.27R (3).

Fair Oaks has set a ratio between the variable and fixed components of total remuneration to ensure such components are appropriately balanced and that the fixed component represents a sufficiently high proportion of the total remuneration to enable the operation of a fully flexible policy on variable remuneration. This allows for the possibility of paying no variable remuneration component, which the Firm would do in certain situations, such as where the Firm's profitability is particularly constrained, or where there is a risk that the Firm may not be able to meet its capital or liquidity regulatory requirements.

Material Risk Takers

Fair Oaks is required to identify its Material Risk Takers - those members of staff whose professional activities have a material impact on the risk profile of the Firm (and of the assets that the Firm manages). The types of staff that have been identified as Material Risk Takers under the Remuneration Policy are:

- Members of the management body in its management function;
- Members of the senior management team;
- Those with managerial responsibility for a client-facing or client-dealing business unit of the Firm;
- Those with managerial responsibilities for the activities of a control function[2];
- Those with managerial responsibilities for the prevention of money laundering and terrorist financing;
- Those that are responsible for managing a material risk within the Firm;
- Those that are responsible for managing information technology, information security, and/or outsourcing arrangements of critical or important functions; andThose with authority to take decisions approving or vetoing the introduction of new products.

Fair Oaks can reduce all or part of deferred variable remuneration that has been previously allocated to Material Risk Takers, both (a) before the end of the vesting period (for 'malus') and (b) within three years of the payment of any elements of the variable remuneration (known as 'clawback').

Quantitative information

The below table quantifies the remuneration paid to staff for the financial year ended 30th November 2023. For these purposes, 'staff' is defined broadly, and includes, for example, employees and directors of the Firm itself, employees of other entities in the Firm's investment group and secondees:

Remuneration for financial year-ended 30th November 2023			
	Material risk takers	All other staff	Total
Fixed remuneration	£ 1,114	£ 1,251	£ 2,365
Variable remuneration	£ 942	£ 981	£ 1,923
Total	£ 2,056	£ 2,232	£ 4,288

The total number of material risk takers identified by the firm under SYSC 19G.5 was 4.

2 A control function is defined as a function (including, but not limited to, a risk management function, compliance function and internal audit function) that is independent from the business units it controls and that is responsible for providing an objective assessment of the Firm's risks, and for reviewing and reporting on those risks.

The following disclosures are made in relation to guaranteed variable remuneration awards and severance payments.

Remuneration for financial year-ended 30th November 2023			
	Senior Management	Other material risk takers	Additional explanations
Total value of guaranteed variable remuneration awards	-	-	No guaranteed variable remuneration awarded during the period
Total value of severance payments awarded	-	-	No severance payments were made to material risk takers during the period
Highest severance payment awarded to an individual material risk taker	-	-	

MIFIDPRU investment firms are typically required to split the quantitative data in the above table, where relevant, into categories for senior management and other material risk takers. However, the regulator allows firms to aggregate or altogether omit the information to be disclosed for senior management and other material risk takers, where splitting the information between these two categories would lead to the disclosure of information about only one or two individuals. Fair Oaks has relied upon this exemption and has aggregated the disclosure of fixed, variable and total remuneration awarded in order to prevent the identification of an individual material risk taker.