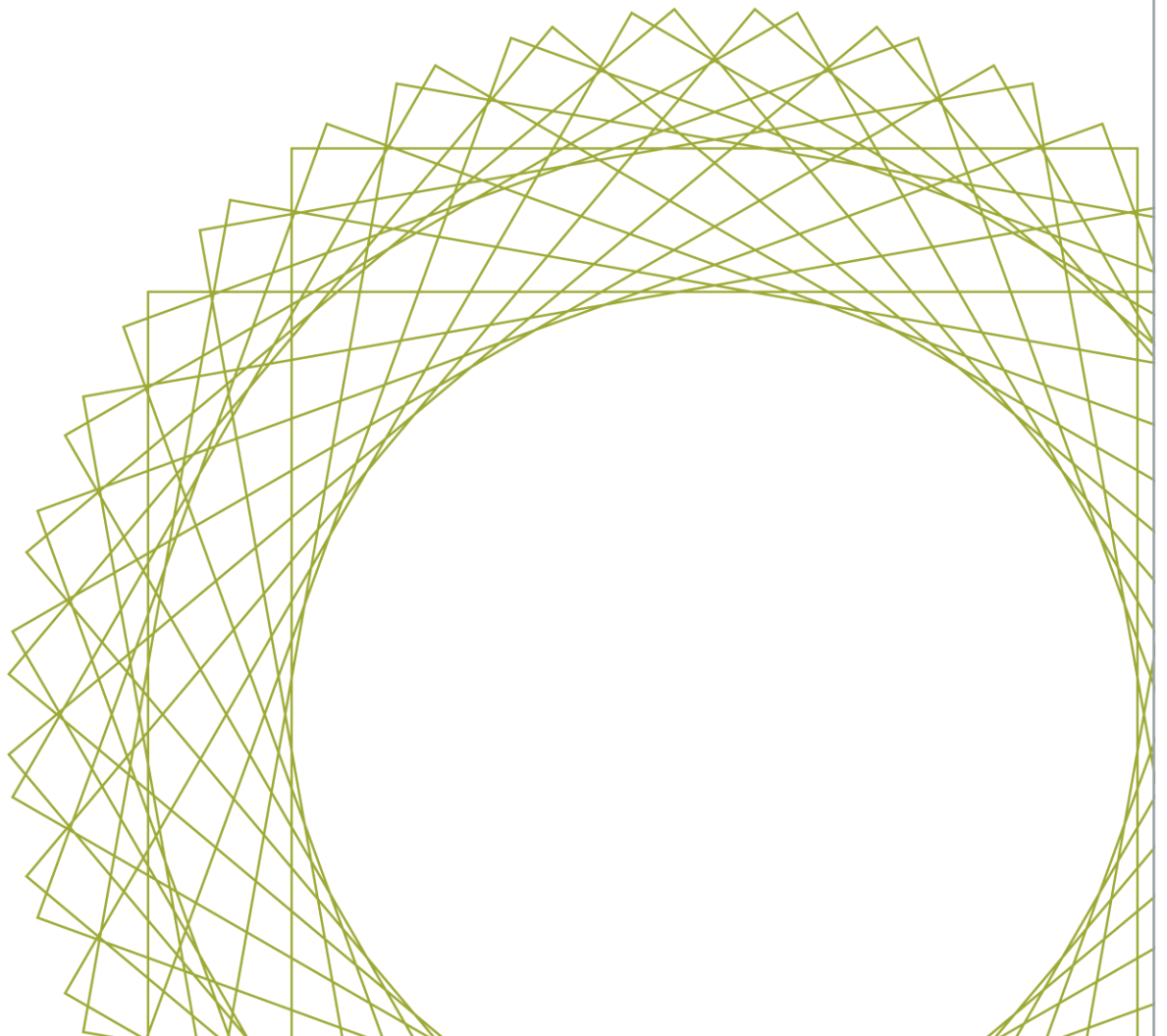


# GSA Capital Partners LLP

Regulatory Disclosures December 2020





## 1. Pillar 3 Risk Disclosure

### Overview

The European Capital Requirements Directive (“CRD”) and the Alternative Investment Fund Managers Directive (“AIFMD”) (“together, the Directives”) establish a revised regulatory capital framework across Europe governing the amount and nature of capital which credit institutions and investment firms must maintain. In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority (“FCA”) in its Handbook of rules and guidance, including in particular in the General Prudential Sourcebook (“GENPRU”), the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”) and the Investment Funds Sourcebook (“FUND”).

The FCA’s CRD framework consists of three ‘Pillars’:

#### *Pillar 1*

This sets out the minimum capital amount required to meet the firm’s credit, market and operational risk.

#### *Pillar 2*

Requires the firm to assess whether its capital is adequate to meet its risks that are not covered by Pillar 1, and is subject to review by the FCA.

#### *Pillar 3*

Requires public disclosure of qualitative and quantitative information about the underlying risk management controls and capital position of a firm.

The AIFMD adds further capital requirements which relate to the assets under management and professional liability risks of the Alternative Investment Funds (“AIFs”) operated by a manager.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet GSA Capital Partners LLP (“GSA”)’s Pillar 3 obligations by setting out the company’s risk management objectives and policies.

We are permitted to omit required disclosures if we believe that the information is immaterial such that its omission or misstatement would not be likely to change or influence the assessment or decision of a reader relying on that information for the purpose of making economic decisions.

In addition, we may omit required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared with the public, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties.

We have not omitted any disclosures on grounds that information is regarded as proprietary or confidential.

#### *Frequency and location of disclosure*

Future disclosures will be issued on an annual basis at a minimum, and will be made available on GSA’s website.

#### *Scope and application of the requirements*

GSA is authorised and regulated for investment management activities in the UK, by the FCA and is classed as a Collective Portfolio Management Investment Firm (“CPMI”). GSA is subject to minimum regulatory capital requirements and is categorised as a CPMI €125,000 limited licence firm by the FCA for capital purposes. It is an investment management firm and as such has no trading book exposures.



GSA, GSA Capital Services Limited, GSA Capital Partners (New York) LP, GSA Capital Partners (USA) LP, GSA NYGP Limited, Green Park Research Limited and GSA PEV LP together form a UK Consolidation Group (the "Group") and are required to prepare consolidated reporting to the FCA for prudential purposes.

There are no current or foreseen material, practical or legal impediments to the prompt transfer of capital resources, or repayment of liabilities, intra-Group.

## Risk management

GSA's Management Committee determines the business strategy and risk appetite of the company, together with the design and implementation of a defined and transparent risk management framework, having regard to relevant laws and regulatory rules.

The Internal Capital Adequacy Assessment Process ("ICAAP") is an integral part of GSA's risk management framework and is reviewed and updated no less frequently than annually. The ICAAP sets out the sources of risk to the firm and then rates the potential impact of each risk to the firm's business, considering the risks against the systems and controls which have been deployed to mitigate those risks.

Reasonable steps are taken by GSA to reduce the probability of any risk crystallising. Furthermore, additional capital resources proportionate to the potential likelihood of occurrence and impact are maintained for risks where the probability is not fully mitigated and which GSA does not wish to bear.

Senior management have identified the main risks to which the Group is exposed. They are as follows:

### *Operational Risk*

This is defined as the risk of loss resulting from inadequate or failed internal processes, people and/or systems, or from external events, including legal risk.

The Group seeks to mitigate all operational risks to acceptable levels in accordance with its risk appetite by maintaining a strong control environment, ensuring that staff have appropriate skills and training, and by establishing an efficient and effective management structure. In addition, the Group has in place comprehensive insurance to cover key operational risks.

### *Business Risk*

The most significant business risk faced by the Group is that of a substantial and sustained reduction in funds under management, caused by adverse market conditions or investor redemptions, resulting in a loss of management fee income.

Regular stress and scenario testing is conducted in order to assess and evaluate the ongoing potential impact of the various key business risks.

### *Market Risk*

The Group has limited exposure to market risk. It does not have a trading book and as such, market risk is limited to exposure to foreign exchange fluctuations, primarily as a result of the management fee income being denominated in US dollars.

Management fee income is converted from US dollars into sterling on a monthly basis and US dollar management fee income is retained only to the extent that it is required to match US dollar denominated liabilities.

### *Credit Risk*

This is the risk that a third party will default on a financial obligation. The Group is exposed to credit risk from:

- Fund management and performance fees due from the funds which GSA acts as Investment Manager for; and



- Cash deposits held in bank accounts and invested across a range of short-term money market funds.

This risk is mitigated by procedures put in place to collect fees promptly when due and the frequent monitoring of the credit worthiness of banking counterparties.

Having assessed all risks to the Group through the ICAAP review, the largest risk in capital terms is that of performing an orderly wind down of the business. Accordingly, the Group's Pillar 2 figure is that of an orderly wind down.

## Regulatory capital

GSA is a limited liability partnership and its capital arrangements are established in its partnership deed.

As above, GSA is a limited licence firm and as such its capital requirements are the greater of:

- Funds Under Management Requirement, which is the Base Capital Requirement of €125k + 0.021% of AIF AUM in excess of €250m (but subject to a maximum of €10m)
- The sum of its market and credit risk requirements; or
- Variable Capital Requirement, which is the Fixed Overhead Requirement and the Professional Negligence Capital Requirement.

GSA's market risk consists primarily of its foreign exchange risk on its accounts receivable in foreign currency, and credit risk from (i) management and performance fees receivable from the funds under its management, and (ii) cash deposits.

GSA follows the standardised approach to market risk and the simplified standard approach to credit risk. GSA is subject to the Fixed Overhead Requirement and is not required to calculate an operational risk capital charge though it considers this as part of its process to identify the level of risk based capital required.

It is GSA's experience that market and credit risks sum to less than the Fixed Overheads Requirement, which therefore establishes the minimum capital requirement of £7,434,000.

Accordingly, GSA considers its market risk capital requirement and its credit risk capital requirement to be immaterial for purposes of this Pillar 3 disclosure.

In addition, the Firm has established that the amount of capital required as a result of its latest ICAAP review is £1,819,000 for GSA and £12,723,000 for the Group, based on an estimated cost of an orderly wind-down, and maintains sufficient capital accordingly.

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

	GSA	Group
	£'000	£'000
Members capital	10,002	9,938
Share capital	-	1
Retained profits	-	23,016
Total tier 1 capital less innovative tier 1 capital	10,002	32,955
Total tier 2, innovative tier 1 and tier 3 capital	0	0
Deductions from tier 1 and tier 2 capital	0	0
<b>Total capital resources, net of deductions</b>	<b>10,002</b>	<b>32,955</b>
Fixed Overheads Requirement	<b>7,434</b>	<b>7,482</b>
ICAAP analysis (based on an orderly wind down)	<b>1,819</b>	<b>12,723</b>
<b>Pillar 2 capital assessment</b>	<b>7,434</b>	<b>12,723</b>

(All figures rounded to nearest thousand)



## **Stewardship Code**

Under Rule 2.2.3R of the FCA's Conduct of Business Sourcebook, GSA is required to include on this website a disclosure about the nature of its commitment to the UK Financial Reporting Council's Stewardship Code (the "Code") or, where it does not commit to the Code, its alternative investment strategy. The Code is a voluntary code and sets out a number of principles relating to engagement by investors with UK equity issuers.

The Firm pursues primarily a quantitative market neutral strategy. Consequently, while the Firm supports the general objectives that underlie the Code, the provisions of the Code are not relevant to the type of trading currently undertaken by the Firm. If the Firm's investment strategy changes in such a manner that the provisions of the Code become relevant, the Firm will amend this disclosure accordingly.