MIFIDPRU 8 Disclosure

Patron Capital Advisers LLP ("the **Group**")

For the year ended 31 December 2022

Contents

1. INTRODUCTION

1.1 Purpose of MIFIDPRU Disclosure

The Investment Firms Prudential Regime ("**IFPR**") is the Financial Conduct Authority's ("**FCA**") prudential regime for MiFID investment firms, which came into effect on 1st January 2022. As a FCA regulated firm, Patron Capital Advisers LLP ("**PCA**" or the "**Firm**") is subject to IFPR and is required to publicly disclose, at least annually, the information set out in MIFIDPRU 8 for the financial year ended 31 December 2022.

This disclosure seeks to describe the Firm's own funds (financial strength), behaviour (investment policy) and culture (risk management, governance, and remuneration). This disclosure will be published more frequently than annually should any significant change to the relevant characteristics of the business require more frequent disclosure.

1.2 Entity Description

PCA is an advisor to the Patron Funds (defined below) dedicated to making value-oriented and opportunistic real estate and real estate-related investments primarily in Western Europe. Across all Patron Funds to date, the Patron Funds represent approximately euros 5.0bn of equity capital from over 100 primarily institutional investors, including sovereign wealth funds, leading global pension plans and endowments, and foundations across several funds and co-investment pools.

PCA is authorised and regulated by the Financial Conduct Authority ("**FCA**") and is subject to regulations published by the FCA (the "**FCA Rules**"). The FCA Rules require firms to ensure they maintain adequate financial resources and to take reasonable care to organise and control their affairs responsibly and effectively, with adequate risk management systems. Those principles are supplemented by detailed requirements, which for PCA include those under the Investment Firms Prudential Regime ("**IFPR**").

1.3 Scope of application

Unless stated otherwise, the financial information and related disclosures are based on financial data as at, and for the year ending, 31 December 2022 and on the Internal Capital Adequacy and Risk Assessment ("**ICARA**") process which has a reference period that is co-terminus with the financial reporting year. It has also been produced solely for the purpose of satisfying IFPR disclosure requirements.

The disclosures are not subject to audit and do not constitute any form of the audited financial statement. Therefore, the information set out should not be relied upon in making a judgement about the Firm.

Additional information can be found in the Firm's Annual Financial Statements for the year ended 31 December 2022. The information contained within the financial statements is audited.

2. GOVERNANCE ARRANGEMENTS

2.1 Business

The Firm's core business is the provision of a full range of investment advisory services to our clients namely the Patron Capital funds (including without limitation Patron Capital L.P.I, Patron Capital L.P.II, Patron Capital L.P.III Patron Capital L.P.IV Patron Capital L.P.V Patron Capital L.P.VI Patron Capital L.P.VII) (the "**Patron Funds**"), related pools of capital and the Women In Safe Homes Fund.

2.2 Our values and ethics

A key component of the Firm's culture is always to put the interests of the Patron investors first and we serve our investors with integrity, courtesy, fairness, loyalty and transparency. The Firm operates under a Code of Ethics and fully respects its ESG responsibilities. The Code of Ethics and the Firm's Impact Report together with the Responsible Investment Policy can all be found on our website at www.patroncapital.com.

2.3 Directorships of Executive Members Board

Name	Role at PCA	Number of external directorships (for profit organisations only) *
Keith Breslauer	Chairman/Managing Director	5
Shane Law	Chief Operating Officer	20
Mark Parnell	Financial Director	0
Kendall Langford	Compliance Officer	2
Sir David Capewell	Non-executive consultant ("NEC")	8

* Directorships for UK incorporated entities only

2.4 The Executive Members Board

The Executive Members Board is ultimately responsible for the ongoing success and development of the Firms business as well as setting the risk appetite for the Firm.

The Executive Members Board is also responsible for the Firm's strategy, long term objectives and financial performance and ensuring the maintenance of a robust system of internal controls and risk management.

The Executive Members Board is responsible for ensuring the prudent and effective management of the Firm. To that end it has implemented segregation of duties between its business functions and control functions and has setup various committees to help implement its objectives.

The Executive Members Board is responsible for:

- Setting business strategy;
- Setting business appetite for risk;
- Overseeing and controlling business financial performance;
- Identifying and managing conflicts of interest that exist within the business;
- Governing the business's compliance with regulatory requirements and risk management; and
- Exercising operations and organisational governance

2.4.1 Executive Members Board composition

The current membership of the Executive Members Board comprises of:

- Keith Breslauer (Chairman/MD)
- Shane Law (Chief Operating Officer/COO)
- Mark Parnell (Finance Director/FD)
- Kendall Langford (General Counsel Compliance Officer/CO)
- Sir David Capewell (NEC)

2.4.2 Executive Members Board Leadership and Purpose

To ensure the Firm successfully executes its responsibilities and that its business model remains sustainable and viable it continually reviews threats to its business model, emerging opportunities and macro and environmental risks. This includes:

- evaluating strategic proposals to ensure that they are aimed at enhancing the business model and generating value for stakeholders;
- considering the views and priorities of stakeholders and the impact on strategy;
- identifying and reviewing existing and emerging threats to plan and business risks, and how these are being managed or mitigated,

- ensuring the Firm's resources and competencies are sustainably aligned with achievement of its strategy;
- reinforcing the Firm's values by adopting ESG policies and practices that are consistent therewith;
- promoting effective channels for staff to raise any concerns;
- promoting diversity
- implementing robust procedures to manage conflicts of interest;
- regularly reviewing cyber security issues;
- providing direct opportunities for the Firm's team to educate themselves on current macro developments; and
- undertaking regular assessments of the Group's prospects and viability and its ability to continue as a going concern, including consideration of cash and counterparty management.

Particular attention was given during 2022 to reassessing the Firm's risk profile in the context of the Ukraine conflict and the ongoing COVID-19 pandemic on the global economy and capital markets.

Notwithstanding the role of the Executive Members Board, the primary responsibility of the oversight of the Firm rests with individuals who hold SMF functions and prescribed responsibilities under the FCA Senior Managers & Certification Regime ("**SMCR**").

The existing committees ("the **Committees**") include an Audit Committee, Remuneration Committee and Valuation Committee. Please see below for further detail.

2.4.3 Engagement with Stakeholders

The Executive Members Board fully recognises the importance of regular, timely, meaningful, transparent and effective communication with stakeholders, in particular the Patron Fund Investors. This is principally achieved, inter alia, through:

- the Annual General Meeting to report and make a detailed presentation to the Patron Fund Investors. All of the Firm's senior personnel attend and are available to answer questions individually. The Chairman actively encourages and welcomes all stakeholders' participation in the AGM;
- the Chairman and COO maintaining regular contact with Patron Investors; and
- the regular maintenance of the Firm's website at www.patroncapital.com.

2.4.4 Effectiveness

The Executive Members Board is cognisant of its responsibility to direct the Firm effectively, to actively participate in, contribute to and to promote a culture of objectivity, openness and debate. The Executive Members Board believes it achieves this with its current composition and the active participation of senior management.

2.5 Committees

Ensuring that the Firm's Executive Members Board purpose and objectives are carried out effectively and the Firm remains aligned with its purpose, values and strategy, the Executive Members Board and Committees meet no less than on a quarterly basis with the exception of the Remuneration Committee that meets no less than twice a year. As the Firm is quite small the Committees are made up of a combination of the Executive Members Board and ultimately report to the Executive Members Board Committee as a whole as further described below.

The Committees include the Valuation Committee (Chairman, MD, COO, FD) the Audit Committee and the Remuneration Committee. The chairman of each of these groups is responsible for reporting to the Executive Members Board on how the Committee has discharged its duties. The NEC and the CO, in their respective roles on the Executive Members Board, provide relevant input to the Audit Committee and the Executive Board, based on their professional expertise and training namely, in the case of the NEC, cyber security risk and management and, in the case of the CO, conflicts and regulatory risk and management.

2.5.1 Audit Committee
The Executive Members Board is responsible for establishing and maintaining an Audit Committee and for appointing its members. It comprises the Chairman, COO and the FD. This reflects the size, scale and complexity of the Firm's business. The role of the Audit Committee is to assist the Executive Members Board in its oversight of the:

- integrity and quality of financial reporting and disclosure;
- selection and application of accounting policies and practices;
- risk management systems and internal control environment;
- the Firm's compliance with legal and regulatory requirements relevant to financial reporting and accounting;
- appointment/reappointment, independence and performance of the external auditor, including the quality and effectiveness of the external audit;
- integrity of significant financial returns to regulators;
- effectiveness of internal audit;
- the Firm's compliance with statutory tax obligations;
- determination of distributable reserves; and
- other issues, if any, on which the Firm may request the Committee's opinion.

2.5.2 Internal Control
The Executive Members Board is cognisant of its responsibility for the Firm's system of internal control and has formalised the process for its review of internal control (including financial, operational and compliance controls).

The Executive Members Board keep the Group's internal control and risk management systems under review by conducting an annual assessment, involving dialogue with relevant senior managers, of the effective design and operation of the controls to meet key control objectives and to mitigate key risks. The Directors consider that the controls and risk management procedures established and to be implemented are appropriate for the Firm. Any system of internal control and risk management can only provide reasonable, not absolute, assurance against material misstatement or loss. Accordingly, the Firm's internal controls are the subject of an external Independent Assurance Report (performed separately from the Firm's statutory audit by a different external audit firm). The latest such Report can be found on the Firm's website at www.patroncapital.com.

2.5.3 The Remuneration Committee
The Remuneration Committee is responsible for all aspects of remuneration policy, together with any staff hiring and termination decisions. The Remuneration Committee comprises of the MD and COO.

As the Firm is authorised and regulated by the Financial Conduct Authority, it is subject to FCA Rules on remuneration. These are contained in the FCA's Remuneration Code located in the SYSC Sourcebook of the FCA's Handbook. The Remuneration Code ("the **RemCode**") covers an individual's total remuneration, fixed and variable. The Firm incentivises staff through a combination of the two.

The Firm's compensation arrangements are:

- To encourage employees and members to deliver on the key objective of the provision of strong investment management and advisory to its clients and delivering value to its clients whilst promoting and delivering a strong ESG focus and improvement across the investments / assets it advises;
- To be aligned with business strategy, objectives, values and the long-term interests of PCA and its clients as set out in the respective funds' LPAs;
- To provide competitive total remuneration potential, designed to attract, retain, motivate and reward employees and members to deliver outstanding long-term performance and corporate behaviours;
- To promote sound and effective risk management;
- To ensure remuneration is linked to investment, business and personal performance and corporate behaviours for all employees and members, and where appropriate measured over the

short, medium and long term;
- To differentiate and reward strong performance and demonstration of behaviours and to proactively manage poor performance and behaviours not aligned to our values; and
- To deliver fixed and variable compensation structures which are transparent to and understandable by the team

Additionally:
- No individuals are remunerated with guaranteed variable remuneration;
- No individuals decide their own remuneration outcome; and
- The discretionary variable elements of the remuneration packages are structured to allow for a reduction if necessary to ensure appropriate balance between fixed and variable remuneration.

The FCA has applied proportionality in the disclosure of remuneration by categorising firms into three levels. Our Firm falls within the second level of the FCA's proportionality. The Firm is required to disclose certain information on at least an annual basis regarding its Remuneration policy and practices for those staff whose professional activities have a material impact on the risk profile of the Firm. The disclosure is made in accordance with the Firm's size, internal organisation and the nature, scope and complexity of its activities and is set out in section 7 of this document.

2.5.4 The Valuation Committee
Patron's Valuation Committee (consisting of Managing Director, COO and FD) conducts a detailed quarter-on-quarter review of the key assumptions and metrics underlying all investment projections, a review of any changes in these assumptions relative to the previous quarter (and why), the impact these changes have on Fair Value, required equity, projected proceeds, investment IRR and equity multiple, and considers any other significant change or item of note, including the discount rate used on future investment cashflows to determine Fair Value. These assumptions are based on comparable transactions, and third-party market reports on market metrics relating to rents, yields, and where relevant, construction costs.

It is worth noting the following with respect to the Fund investment valuations:
- Advisers (e.g. Mark Zmijewski) and third parties (i.e. valuers like CBRE) are consulted on various key assumptions;
- Auditors are consulted regularly but always as part of the annual audit;
- The Audit process is in respect of valuation as stated above;
- Many of Patron's investments have debt related covenant tests requiring valuations by third parties that are incorporated into PCA process;
- Patron undertakes an extremely rigorous internal valuation process at the initiation of each investment and through its respective life.

2.6 Culture and staff engagement
The Firm maintains an organisational culture founded upon an adaptive, responsive and interactive work environment with broad equity participation in the Patron Fund investments. This culture fosters a strong commitment to the Firm, a clear sense of fiduciary responsibility and a well-calibrated risk appetite and a deep understanding of the Patron investments and their key dynamics and value drivers. Many members of the team have spent a significant portion of their careers working together primarily at the Firm or with the Firms' personnel in their previous roles. Individual members of the Firm's Team have diverse backgrounds, which bring complementary and valued perspectives. The Firm's team is aligned to the goals of the Firm by virtue of having a significant interest in the funds the Firm advises through the carried interest pool.
Separate to the Committees put in place, the Firm also:
- holds bi-monthly meetings with senior management, the senior investment team and the junior investment team;
- encourages "speak up" policies; and

Implements periodic review and approval of all policies regarding conduct, health and safety, human resources and social responsibility, amongst others

2.7 Diversity and Inclusion

The Executive Members Board recognises the range of benefits that breadth of perspective and diverse traits deliver both at a board level and also within the wider business. It is fully committed to promoting talented individuals as executives on merit, both internally and through recruitment, with the Executive Board's whole-hearted encouragement supported by regular open communication.

Patron takes an integrated approach to diversity, equity, and inclusion, applying corporate level practices at the fund and investment level, including engagement and management of local operating partners, or underlying company holdings. Patron actively promotes diversity-led initiatives within its numerous charitable activities, with participation encouraged from all employees and actively and transparently engages clients on diversity-related issues Within the Patron team itself, we have built the business with the aim of having a diversified team both from a gender and culture perspective (18 different cultures / nationalities across the team as well as of the full Patron team 31% are female and 26% minorities).

Patron believes that this integrated approach is reflected in its hiring and retention process, seeking to hire equitably, also in line with a range of skills and expertise required to deliver for the firm's clients.

3. Own Funds

3.1 Transitional Provisions

In accordance with the transitional provisions for the Own Funds Regulatory Requirement contained in rule 2.10 of MIFIDPRU TP 2, for the financial year that ended on 31 December 2022, Patron has substituted its fixed overheads requirement ("FOR") and the K-factor requirement for an amount equal to the firm's permanent minimum capital requirement ("PMR") after any transitional relief. In accordance with rule 2.12 of MIFIDPRU TP 2 Patron has substituted the alternative requirement of £50,000 for PMR under MIFIDPRU 4.4 for the period 1 January 2022 to 31 December 2022.

3.2 Own Funds Regulatory Requirement

A MIFIDPRU investment firm must at all times maintain own funds that are at least equal to its own funds requirement which consists of a basic own fund's requirement plus an Additional Own Funds requirement to meet the Overall Financial Adequacy Rule. The basic own funds requirement of a non-SNI MIFIDPRU investment firm (previously an exempt CAD firm) using transitional provisions for fixed overheads requirement ("FOR") and the K-factor requirement is the highest of:

1. its PMR, which for the LLP is £50,000; or
2. its FOR, which amounts to £50,000 in year one of the transitional period; or
3. its K-factor requirement, a series of risk parameters/indicators representing the specific risks investment firms face and the risks they pose to customers/markets. IFPR uses nine K-factors and PCA is only subject to K-AUM, which is equal to £50,000 in year one of the transitional period

The Additional Own Funds requirement is derived from the ICARA process where PCA is required to produce a reasonable estimate of the own funds that PCA needs to hold to address any potential material harms identified, which cannot be adequately mitigated through proportionate systems and controls.

3.4 OFAR Compliance

PCA was compliant with the OFAR as at 31 December 2022 and the OFTR and LATR are continually monitored. PCA sets internal requirements for both the OFTR and LATR, to ensure that there are sufficient buffers in place so that the OFAR is met.

These metrics are monitored at least monthly.

As part of the ICARA process, PCA considers the risk of disorderly wind-down and assesses the level of financial resources required to ensure the business can close without undue disruption to clients or the market. PCA has prepared a wind down plan in line with the Wind Down Planning Guide published by the FCA. The wind down plan is reviewed and updated as part of the annual ICARA process, most recently of which, concluded that PCA will hold additional Own Funds of £20,000 to cover the cost of an orderly wind-down and financial risks with an additional amount of 10% added to the OFTR to reflect the early warning indicator.

3.5 Own funds requirement

The table below shows PCA's Own Funds Requirement as at 31 December 2022.

	£k
Basic Own Funds Requirement	
Higher of:	
Permanent Minimum Requirement (£50,000)	50
Fixed Overhead Requirement (FOR)	50
K-Factors:	
K-AUM	50
Basic Own Funds requirement	**50**
Additional Capital to meet ICARA Overall Financial	-
Adequacy Rule (OFAR)	**20**
Additional Own Funds requirement	
Total Own Funds Threshold Requirement (OFTR)	70
Total Own Funds Threshold Requirement (OFTR) with 10% early warning indicator	**77**

Table OF1: Composition of Regulatory Own Funds

The own funds of a firm are the sum of its common equity tier 1 capital (‘CET1’), additional tier 1 capital (‘AT1’) and tier 2 capital (‘T2’). Patron’s own funds consist of fully paid-up members’ regulatory and other capital and accumulated profits.

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**	**466**	
2	**TIER 1 CAPITAL**	**466**	
3	**COMMON EQUITY TIER 1 CAPITAL**	**466**	
4	Fully paid up capital instruments	466	12
5	Share premium		
6	Retained earnings		
7	Accumulated other comprehensive income		
8	Other reserves	433	12
9	Adjustments to CET1 due to prudential filters		
10	Other funds	-433	
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 OF2: Reconciliation of regulatory own funds to balance sheet in the audited financial statements

The table below shows the reconciliation of own funds to the balance sheet of the LLP as at 31 December 2022. The balance sheet below is as per the audited financial statements.

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements				
Figures should be given in GBP thousands unless noted otherwise.				
		a	b	c
		Balance sheet as in published/audited financial statements	**Under regulatory scope of consolidation**	**Cross-reference to template OF1**
		As at period end	**As at period end**	
Assets				
1	Tangible fixed assets	182		
2	Trade debtors	4,237		
3	Other debtors	3,680		
4	Cash at balance	447		
	Total Assets	**8,546**		
Liabilities				
1	Trade creditors	486		
2	Current tax liabilities	120		
3	Other creditors	419		
4	Accruals	6,622		
	Total Liabilities	**7,647**		
Shareholders' Equity				
1	Members' regulatory capital	50		4 – Fully paid-up capital instruments
2	Members' other capital	416		4 – Fully paid-up capital instruments
3	Members' current accounts	433		8 – Other reserves
	Total Shareholders' equity	**899**		

Main features of Own Instruments issued by the Firm		
Capital Item	£'000s	
Tier 1 capital	466	Includes members' capital classified as equity as shown above.
Tier 2 capital	-	
Total capital resources, net of deductions	**466**	

4. MEETING THE OVERALL FINANCIAL ADEQUACY RULE (“OFAR”)

MIFIDPRU 7.8 of the Investment Firms Prudential Regime (IFPR) requires the Firm to assess its own funds and liquidity requirements and document these in its Internal Capital Adequacy and Risk Assessment process (“**ICARA**”). The ICARA provides a clear explanation of how the Firm is monitoring and complying with its OFAR giving particular attention to Own Funds, available Liquid Assets and Group’s Threshold Requirements.

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Executive Members Board is ultimately responsible for establishing an effective risk management framework to support the Firm in achieving its strategic objectives. The Executive Members Board also covers, as a primary role, determining the appetite for risk of the Firm as well as its management and controls thereof. Our approach to risk management continually evolves as we manage our principal risks and respond to emerging risks.

Risk management is a central part of the Firm’s strategic management. It is focused on identifying what could go wrong, evaluating and prioritising those risks are important to deal with and implementing strategies to mitigate those risks. Thereafter continual assessment, monitoring and updating of procedures and benchmarks are all essential parts of our risk management strategy.

It is the Firm’s policy to fully embed risk-based principles throughout the organisation and to maintain a risk control framework and register, known as the Risk Matrix, which is used to effectively identify, evaluate, monitor and control the risks of the Firm’s business.

The Risk Matrix has been devised to provide a working assessment of the main risks and to highlight areas which need to be targeted, having a high probability and impact, to ensure the Firm has sufficient regulatory capital to withstand failings in these areas.

Procedures and controls are in place to identify, assess and ultimately control the inherent operational risks prevalent in every operation which generally arise through error or failure. Steps are taken to mitigate these risks with established and effective procedures and controls, efficient systems and the adequate training of staff.

The assessment and identification of the principal risks considers which risks could materially harm client and other stakeholder relationships, the markets in which the Firm operates; and the Firm itself. It is the Executive Members Board’s responsibility to ensure that it is cognisant of all material issues, including the Firms’ risk management objectives around own funds, concentration risk, and liquidity risks as addressed by MiFIDPRU4, 5, and 6 respectively.

Our Risk Management Policy aims to:

- Promote a strong risk management culture from the top and within, based around our long- standing and core values of integrity, courtesy, fairness, transparency and loyalty.
- Operating a three lines of defence model.
- Horizon scanning to ensure developments in the risk landscape are identified and proactively addressed.
- Subjecting new business initiatives to robust challenges via the Firm’s New Initiative Risk Assessment (“**NIRA**”) process, ensuring requisite controls are embedded within any new activities.
- Comprehensive risk identification and assessment captured within the Firm’s Risk Matrix.
- Establishing risk appetites, tolerances and limits to allow business to be conducted within clear parameters and an appropriate balance between risk and reward.
- Ongoing risk monitoring and escalation via quantitative and qualitative management information.
- Ongoing assessment of the Firm’s overall approach to risk via the Firm’s Internal Capital and Risk Assessment (“**ICARA**”) process document.

5.1 Our risk framework

The Firm adopts a three line of defence model to support its risk management framework. Under the framework responsibility and accountability for risk management are effectively broken down as follows.

5.1.1 First Line

The Executive Members Board is responsible for managing risks, by developing and maintaining effective internal controls to mitigate risk.

First Line risk owners

- Perform quarterly assessment of risks within Firm's Risk Matrix
- Ensure risks within their areas remain robustly identified, assessed, controlled and mitigated
- Engage with professional advisers and the second line to ensure compliance with regulatory obligations is designed and embedded in operational arrangements
- Includes Legal, Finance, HR teams

5.1.2 Second Line

The risk function and compliance function maintain a level of independence from the first line. They are responsible for providing oversight and challenge of the first line's day-to-day management, monitoring and reporting of risks to both senior management and governing bodies.

Risk Management Objectives

- Evaluates, reviews and reports on:
    - ⊣ risk appetite, strategy and tolerance, including integration with the Firm's culture, values and behaviour
    - ⊣ the operation of risk management frameworks in the effective mitigation of strategic, operational and external risks
- Defines, monitors and review key risk indicators, evaluates risk exposure, strategy and tolerance and reviews significant risk exposures
- Reviews the ICARA for approval by the Board
- The development and maintenance of the Firm's succession plan and wind-down plan

The Executive Members Board in this respect of risk management ensures that all new initiatives and projects are formally assessed and evaluated for the degree of risk exposure and regulatory capital impact to the Firm, thus enabling strategies for the management, mitigation, transfer or avoidance of risk to be formulated. The Executive Members Board assesses principal risks facing the Firm, including those that threaten its business model, future performance, solvency and liquidity.

Compliance Officer

- Considers the Firm's regulatory obligations and determines how they should be disseminated, engaged with and implemented.
- Develops and maintains Compliance policies and ensures they are implemented and embedded including without limitation requirements under the SMCR regime.
- Alerts the Executive Members Board to areas of weakness and suggests remedial actions.
- Escalates persistent issues of non-compliance to the Audit Committee, pursues the enforcement of remedial action, and where necessary, imposition of penalties upon non-compliant individuals
- Advises and consults with the Executive Board on areas of potential conflicts of interest

The purpose of Second Line controls is to:

- Provide independent challenge and oversight of first line control activities
- Monitor and report significant risks to the Executive Members Board
- Ensure first line risk owners adopt best risk control practice in their operational processes

5.1.3 Third Line

The internal audit function is responsible for providing independent assurance to both senior management and governing bodies as to the effectiveness of the group's governance, risk management and internal controls.

6. REMUNERATION POLICY AND PRACTICES

6.1 Summary of the Firm's Approach to Remuneration for all Staff

Participation in any incentive plan is discretionary and individual participation is based on their contribution to both financial and non-financial measures.

Given the scale, complexity and nature of the Firm, it assesses the individual contributions of its employees and members to the Firm itself, their individual business units and other contributions that enhance the value of the Patron brand to determine whether the following financing and non-financial measures are met.

Financial measures include the level of surplus management fee (pre bonus) across the respective funds the Firm advises and an individual's contribution to the performance of the deals that person is working on within the respective funds advised by the Firm.

Non-financial measures include demonstration of corporate behaviours (including adherence to the Code of Ethics and a satisfactory AAF 01 / 20 report) and successfully delivering on agreed objectives which are used to adjust the overall discretionary bonus awarded up or down. In addition to individual contribution, consideration is given to group performance, compliance with regulatory requirements, team performance & development and market factors.

Below sets out a high-level description of our approach to measuring the performance of individuals including both financial and non-financial metrics, and explains how this assessment influences an individual's remuneration:

- All department heads review the performance and behaviours of their employees and to provide summary feedback
- Across the Firm, certain individuals (e.g. within the investment team this is Investment Directors and below) fill in a summary review form detailing their own view on performance, against previous objectives and suggested new objectives for the year
- All roles are benchmarked against the market to ensure that their remuneration is comparable; and
- A rigorous review is undertaken to ensure a strong correlation between positive assessments and positive remuneration outcomes, and negative assessments and negative remuneration outcomes.

What sets the Firm apart is its additional benefits provided to the team including the participation and financial support on both the Firm's and an individual's charity initiatives, its Greatness Lecture Series, provision of in-house fitness facilities.

Throughout the different remuneration processes, there are layers of review ultimately culminating in the review and finalisation by the Remuneration Committee ("RemCo"). The elements of compensation support the objectives - balancing risk with reward; and these discussions are underpinned by a robust review process (summarised above) including individual review meetings with all employees and members

6.2 Summary of the Objectives of the Firm's Financial Incentives

The Firm ensures that remuneration policies are in line with business strategy, objectives, values and long-term interests on the following basis:

- To encourage employees to deliver on the key objective of the provision of strong investment advisory to its clients and delivering value to its clients whilst promoting and delivering a strong ESG focus and improvement across the investments / assets it advises on;

- To be aligned with business strategy, objectives, values and the long-term interests of the Firm and its clients as set out in the respective funds' LPAs;
- To provide competitive total remuneration potential, designed to attract, retain, motivate and reward employees to deliver outstanding long-term performance and corporate behaviours;
- To promote sound and effective risk management;
- To ensure remuneration is linked to investment, business and personal performance and corporate behaviours for all employees, and where appropriate measured over the short, medium and long term;
- To differentiate and reward strong performance and demonstration of behaviours and to proactively manage poor performance and behaviours not aligned to our values; and
- To deliver fixed and variable compensation structures which are transparent to and understandable by the team

6.3 Components of Remuneration

The Firm benchmarks its base salaries and discretionary annual cash bonuses to market, primarily RE / PE / PERE funds of a comparable size, in addition to discussions with third party recruitment firms. Carried interest is primarily based on outperformance of the respective funds.

Employees are eligible to receive remuneration in the following methods:

6.3.1 Fixed Remuneration

Fixed remuneration applies to all employees and members and includes salary, pension contribution, medical and other benefits. The Firm aims to provide competitive fixed pay at a level that reflects market compensation for the role and supports the recruitment and retention of talented people required to deliver the business strategy. Pension and other corporate benefits apply to all employees.

6.3.2 Variable Remuneration

Discretionary Annual Cash Bonus

The aim of the discretionary bonus scheme is to focus employees and members on the delivering of strong investment returns for the funds advised by the Firm, the demonstration of strong corporate behaviours, risk management, governance and controls within the Firm and achievement of an individual's own key performance objectives as discussed as part of the annual review.

Carried Interest

The funds advised by the Firm incorporate carried interest plans. These arrangements allow individual employees and members to participate in the financial gain of an underlying fund based on financial metrics documented in the relevant fund agreements. Such plans are present to increase the long-term alignment between the fund investor, the Firm and the employees / members.

The award of carried interest is based on a number of factors including performance and tenure but ultimately is at the discretion of RemCo and their recommendation to the GP of the respective funds.

6.4 Summary of the Decision-Making Procedures and Governance Surrounding the Development of the Remuneration Policies and Practices

The Remuneration Policies and Practices are set to ensure full alignment of the Firm's employees and members with consultation across ultimate members of the team.

The Firm's Remuneration Policy is designed to ensure that it is compliant with the RemCode. The Firm's policy has been agreed by the Remuneration Committee in line with the RemCode principles laid down by the FCA. The Firm's policy will be reviewed every three years or following a significant change to the business requiring an update to its internal capital adequacy assessment. The RemCo which comprises the Managing Partner and the Chief Operating Officer have ultimate review and sign off.

The Firm's remuneration policy aims to maintain a strong link between pay and performance. Individuals are rewarded based on their contribution to the overall strategy of the business, including Investment origination and performance. Other factors such as performance, reliability, effectiveness of controls and business development are taken into account when assessing the performance of the senior staff responsible for the infrastructure of the Firm.

6.5 Types of Staff Identified as Material Risk Takers

Broadly MRTs can be interpreted to include:

- Key senior management and heads of key departments
- Employees / Members of responsible for risk management and compliance functions
- Employees / Members whose professional activities can exert material influence on the risk profile of the LLP.

The Firm has undertaken a comprehensive review to identify those persons which it considers to be MRTs for the purposes of the Code. In doing so, consideration has been given to all employees who have a material impact on the Firm's risk profile, including any employee who performs a Senior Manager Function under the Senior Managers & Certification Regime ("SMCR") for the Firm.

4 LLP members were identified and notified of their status in 2022.

6.6 Key Characteristics of the Firm's Remuneration Policies and Practices

We ensure that remuneration decisions take into account the implications for risk and risk management of the firm, as set out below:

- The discretionary annual cash bonus is conditional on the Firm achieving sustainable and risk-adjusted performance and therefore is subject to forfeiture or reduction at the LLPs discretion.
- Carried interest is inherently aligned to the risk profile and performance of the fund and outcomes for investors and whilst has its own clawback provisions based on a respective fund achieving its minimum return, it is subject to additional clawback (see below) where it is awarded to MRTs.
- The RemCo has the ability to apply discretion to adjust the bonus pool and any individual payments.
- The RemCo is empowered and charged to approve or not approve recommendations put before them by department heads or appropriate individuals.
- In approving annual bonus and discretionary remuneration pools, and individual awards, the RemCo will take account of any current and future risks, including sustainability risks.

<u>6.6.1 Risk Adjustment</u>

The RemCo will consider the application of clawback or in-year adjustment of carried interest in situations where the MRT has (i) participated in or was responsible for conduct which resulted in significant losses to the firm; and/or (ii) failed to meet appropriate standards of fitness and propriety.

Clawback applies for a minimum of 3 years from the date the award is granted or the RemCo becomes aware of any conduct or circumstances that the RemCo determines make it appropriate to make an adjustment to an award.

6.7 Quantitative disclosures

Certain quantitative information regarding remuneration paid to the Firm employees and members in respect of the performance year from 1 January 2022 to 31 December 2022 is set out below.

As at 31 December 2022 the Firm had 4 Material Risk Takers assessed on an individual basis.

Total remuneration for the year to 31 December 2022 was as follows:

	Fixed Pay £'000	Variable Pay £'000	Total £'000
Senior members *	1,360	2,314	3,674
Other staff	3,941	5,379	9,319
TOTAL	**5,301**	**7,693**	**12,993**

* MRTs comprise the 4 senior members

No guaranteed variable remuneration or severance payments were made to the MRTs during 2022.