

Devon Equity Management Limited (FRN: 841960)**Pillar 3 Disclosure Statement****30th September 2020****Introduction**

The Financial Conduct Authority (“FCA”) has set out its regulatory capital requirements in its Handbook of Rules and Guidance for regulated firms. The regulatory framework has three “pillars”:

- **Pillar 1** sets out the minimum capital requirements for credit, market and operational risk and includes consideration of assets under management (“AuM”) and professional negligence risks;
- **Pillar 2** requires regulated firms, and the FCA, to take a view on whether additional capital should be held against capital risks not covered adequately or at all by Pillar 1; and
- **Pillar 3** requires regulated firms to publish certain information on their risk management objectives and policies and on their capital resources.

These disclosures are made in respect of Devon Equity Management Limited (“Devon”) in compliance with the rules and guidance set out in the FCA Handbook¹.

These disclosures are required to be made at least annually and, where required, disclosures will be made more frequently. Devon has a reporting date of 31st December, and disclosures will be made as soon as is practical after publication of its Annual Report and Accounts.

The Firm

Devon is a London-based investment management company that invests in a concentrated, long-only portfolio of mid and large-cap equities for institutional clients only. Devon is a UK limited company which was formed on 11th April 2019, with company number 111939535.

The Devon Board has oversight responsibility and meets on a quarterly basis. The Devon Board consists of:

Member	Position
Simon Troughton	Non-Executive Chairman
Richard Pavry	Chief Executive Officer
Alexander Darwall	Chief Investment Officer
Luca Emo	Senior Fund Manager

The Devon Board ensures that the firm’s risk management framework is designed to manage risks consistently within the risk appetite and in an appropriate manner given the size, nature and complexity of the business. The Board has ultimate responsibility for ensuring that all of the firm’s policies and procedures, that form part of the framework, are in place and working effectively. Devon has also established an Oversight Committee to provide additional support to the Board in meeting its required objectives. The Oversight Committee has the responsibility for ensuring that Devon meet its regulatory requirements.

1 FCA rules provide that required disclosures may be omitted if the information is believed to be immaterial or here it is regarded as proprietary or confidential. Materiality is based on the criteria that the omission or misstatement could change or influence the assessment or decision of a user relying on that information. Information is regarded as proprietary if sharing that information with the public would undermine a firm’s competitive position. Information is regarded as confidential where the firm is bound by conditions of confidentiality. Where a disclosure is considered to be immaterial, proprietary or confidential, this has been described.

Risk Management

The FCA requires that a regulated firm manage a number of different categories of risk, as outlined below:

Credit Risk - the potential risk that arises from clients or counterparties failing to meet their obligations as they fall due. Devon has adopted a standardised approach to credit risk. Devon's credit risk is limited to that arising from counterparty obligations, investment management fees, cash deposits, prepaid expenses and fund investments.

Devon mitigates the risk of counterparties not meeting their obligations through assessing the creditworthiness of their brokers and ensuring the vast majority of its trades are done with established counterparties. Investment management fees are calculated on an ad valorem basis in arrears and are normally paid within four business days of each month end. Devon's cash deposits are held in current accounts offered by major banking institution(s). No provisions have (to date) been required in respect of asset impairment or non-recovery. Credit risk arising in relation to prepaid expenses is not material.

Devon also makes seed investments in its own funds to assist with the funds' initial growth. Consequently, Devon has an exposure to equities not included in the trading book. The risk of losses from a market decline in value of these initial investments is treated as credit risk for regulatory capital purposes because these exposures are not trading book investments.

Market Risk - the risk that the value of, or income arising from, assets and liabilities varies as a result of changes in interest rates, exchange rates or other market prices. Devon's revenue is exposed to market risk as asset fluctuations would impact management fees.

However, from a capital adequacy perspective, Devon does not hold any financial instruments on its trading book, take proprietary positions or invest in commodities.

Consequently, Devon's market risk exposure is therefore limited to foreign exchange risk on balance sheet exposures, but this is not deemed a material risk. Devon does not actively seek foreign exchange exposures and any foreign currency balances are kept to a working minimum.

Liquidity Risk - the risk that a firm may have insufficient liquid resources to cover cash flow shortfalls or fluctuations in funding and be unable to meet its obligations as they fall due. Devon has no borrowing and is not dependent on external financing. Devon has exposure to liquidity risk through potentially having insufficient financial resources to meet its obligations as they fall due and/or the firm having to secure such resources at excessive cost.

Liquidity risk is not considered a material risk for Devon, and sufficient measures are in place to monitor the firm's cash positions and financial obligations. This ensures Devon can identify potential liquidity issues in a timely manner to enable corrective action.

Business Risk - the risk that a firm may not be able to carry out its business plan and/or desired strategy. The principal business risks facing Devon are:

- **Operational Risk** - the risk of loss, or breach of contractual requirements, resulting from inadequate or failed internal processes, people or systems; human error; or external events. This includes the risk of loss or breach arising from the inadequate supervision of third-party service providers.

Devon seeks to mitigate these risks by: (i) taking advantage of technology solutions; (ii) identifying and managing sources of risk; maintaining a risk register that outlines all material risks and the effectiveness of associated controls and ensuring insurance or other capital is in place to offset

financial losses; (iii) documenting procedures; and (iv) reviewing material business operations on a periodic basis.

Devon is not required to calculate an operational risk requirement.

- **Concentration Risk** - the risk that exposures to specific sectors or asset concentration could result in losses. Devon invests client assets principally in publicly traded equity securities. Devon's business could suffer from (i) a decline in its investment performance; and/or (ii) a change of sentiment on the part of institutional investors away from publicly traded equity securities and/or a shift of their asset allocations to private equity, hedge funds, commodities or other types of investments.

To mitigate this risk, appropriate limits have been implemented to assess concentration risk and these are monitored on an ongoing basis.

- **Interest Rate Risk** - the risk that significant changes in interest rates may have an adverse impact on the business. Devon does not engage in or run a trading book and has no borrowings. Given its cash balances, Devon would expect to benefit from increases in interest rates as a result of increased interest income.

Devon's risk management framework is updated when needed to reflect material changes in Devon's business, capital obligations and/or resource requirements. Devon's operational risk appetite is regularly reviewed. Devon ensures that staff remain focused on complying with applicable regulations, improving procedures, minimising risk and establishing a robust risk, capital and performance structure.

Capital Resources and Regulatory Obligations

Devon must maintain capital equal to the higher of (i) its base capital requirement (€50,000), (ii) its fixed overhead requirement, and (iii) the sum of its credit and market risk capital requirements.

	Pillar 1 Capital (€000's)
Pillar 1 Base Capital Requirement €50,000	43.7
Pillar 1 Credit Risk	409.5
Pillar 1 Market Risk	0
Pillar 1 Fixed Overhead Requirement (FOR)	978.4
Pillar 1 Capital Requirement (higher of Credit + Market risk, €50,000 and FOR)	978.4

Devon's Available Capital Resources

Tier 1	(£000's)
Share Capital	1,000
Profit and Loss account	1,978
Deductions for Investment in own funds and material holdings	0
Total Tier 1 Capital (After Deductions)	2,978
Tier 2 Capital	0
Tier 3 Capital	0
Total Regulatory Capital (After Deductions)	2,978
Regulatory Capital Requirements	978
Regulatory Capital Surplus	2,000

Credit Risk

Devon calculates its credit risk via the standardised approach. Consequently, Devon is required to hold a credit capital component worth 8% of all of the firm's non-trading book assets, with the exception of cash which, as the deposits are with investment grade institutions, only requires 1.6% of the total exposure as capital allocation.

The table below illustrates the credit capital breakdown requirements as of 30th September 2020.

Current Assets	Credit Exposure	Risk Weighted Exposure	Capital Allocation Required
Cash & equivalents	£3,764,756	£752,951	£60,236
Accounts receivable	£1,446,086	£1,446,086	£115,687
Investment in own funds	£2,668,584	£2,668,584	£213,487
Prepayments & deposits	£250,973	£250,973	£20,078

Total Capital Allocation Required	£409,488
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Market Risk

Devon does not hold any financial instruments on its trading book and, therefore, could only be exposed to market risk via the firm's foreign exchange balances held on its non-trading book. The majority of the firm's revenue and, therefore, cash balances are held in the local currency (GBP). Consequently, the firm considers market risk to be immaterial and any long balances in foreign currencies are kept to a minimum.

Pillar 2 requirements

During the ICAAP process, the firm did not identify any additional risks that require further allocation of capital, as per the requirements of Pillar 2. The firm is, therefore, deemed to have sufficient capital to finance its operations.

Internal Capital Adequacy Assessment Process

Devon has prepared an assessment of capital adequacy (Internal Capital Adequacy Assessment Process document or "ICAAP") in accordance with the CRD Pillar 2 requirements set out in BIPRU 2.2 of the FCA Handbook. The ICAAP takes account of the principal risks and uncertainties set out above. As a long-only asset manager that invests client assets primarily in publicly traded equity securities, Devon is exposed principally to operational risk. However, there is some small exposure both to business risk and credit risk. These exposures are regarded as typical for an asset management business.

Devon's Chief Compliance Officer ("CCO"), who is independent of the investment function, is responsible for risk management. Devon has dedicated risk resources who are responsible for monitoring and managing risk exposures. In assessing operational risk appetite, consideration has been given to identifying the material risks facing Devon's business. The ICAAP process involves separate consideration of risks to firm capital, combined with stress testing using scenario analysis and consideration of the financial resources required in a wind-down situation. The ICAAP is updated formally on an at least annual basis and in the interim, should a material change occur in the risk or business profile of the firm.

Remuneration Code Provisions Link between pay and performance - the agreement that governs Devon's business specifies the ratio of profits less direct costs before any remuneration or drawing (internally referred to as profits before remuneration and tax or "PBRT") to be shared. These ratios ensure that employees and members are focused on growing Devon's business in a profitable and efficient manner.

Code Staff Criteria - Under this code Devon has identified individuals who have a material impact on the business. Consequently 2 code staff have been identified.

Code Staff compensation discourses

The FCA rules require firms with assets of c£50bn to disclose aggregate information on remuneration in respect of its BIPRU Remuneration Code Staff broken down by business area, senior management and other Code Staff, including "risk takers". As Devon does not fall into this category, the following limited disclosure is being made: *The aggregate remuneration of BIPRU Remuneration Code Staff was £50,000 as per the managed accounts at 30th June 2020. This will be updated with the audited annual figures post 31st December 2020.*

Decision-making process for determining remuneration - responsibility for determining variable remuneration rests with the Remuneration Committee, which seeks to obtain feedback on the

performance and contribution of each individual employee or member. Remuneration is not based on the profitability of any specific investment recommendation, the implementation of a given trade(s) or the growth/retention of any particular investor. Broad parameters have been established to reward individuals having regard to risk management and compliance, contribution and ownership of responsibility, reliability and total remuneration. Market levels are also taken into account. Variable remuneration payments are primarily made in the form of cash bonuses. Bonuses and discretionary drawings are only paid after Devon ensures that FCA capital and liquidity requirements are satisfied and fees are collected.