

PILLAR 3 DISCLOSURE STATEMENT

Introduction and Purpose of Pillar 3

The Pillar 3 disclosure of Virtus International Management, LLP (“VIM” or “the Firm”) is set out below as required by the “Investment Firms Prudential Regime” (“IFPR”) specifically the new MIFIDPRU sourcebook of the Financial Conduct Authority (the “FCA”). This is a requirement flowing from the UK’s Capital Requirements Directive (“CRD”) III implementing regulations, which represented the European Union’s application of the Basel Capital Accord. The Firm is not subject to CRD, but is subject to the UK’s implementation regulations of CRD prior to CRD IV. The regulatory aim of the disclosures is to improve market discipline.

The FCA framework consists of three ‘Pillars’:

- Pillar 1 sets out the minimum capital amount that meets the firm’s credit, market and operational risk capital requirement;
- Pillar 2 requires the firm to undertake an Internal Capital and Risk Assessment (“ICARA”) to assess whether its capital reserves, processes, strategies and systems are adequate to meet the Pillar 1 requirements, and further determine whether it should apply additional capital, processes, strategies or systems to cover any other risks that it may be exposed to; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position to encourage market discipline.

The rules in MIFIDPRU set out the provision for Pillar 3 disclosure. This document is designed to meet VIM’s Pillar 3 obligations. Pillar 3 disclosures will be issued on an annual basis after the Firm’s 31 December year end and published on the Firm’s web site or alternatively on a suitable hosting website as determined by the Firm.

The Firm is permitted to omit required disclosures if we believe that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions about the Firm. In addition, the Firm may omit required disclosures where it regards the information as proprietary or confidential. Proprietary information is that which, if it were shared, would undermine the Firm’s competitive position. Information is considered to be confidential where there are obligations binding the Firm to confidentiality with our customers, suppliers and counterparties. In the event that any information is omitted, we shall disclose such and explain the grounds on which it has been omitted.

The information contained in this document has not been audited by the Firm's external auditors, as this is not required, and it does not constitute any form of financial statement. It must not be relied upon in making any judgment of the Firm.

Scope and Application of the Requirements

Virtus International Management, LLP ("VIM" or "the Firm") is a discretionary investment manager, is authorised and regulated by the FCA, and as such is subject to minimum regulatory capital requirements. The Firm is categorised as an IFPR Firm by the FCA for capital purposes and is not authorised to hold client money or to take proprietary trading positions.

The Corporate Partners of VIM is Virtus International Services Limited (UK) and Virtus Investment Partners International Ltd (UK).

VIM is a subsidiary of Virtus International Services Limited (UK). The entities comprising a UK consolidation group, namely VIM and Virtus International Services Limited (UK), are covered by the internal capital and risk assessment ("ICARA") and is for the period ending 31 December 2023. The Firm does not report on a consolidated basis for accounting and prudential purposes, and applies the IFPR Remuneration Code and the proportionality rules as set out in the related guidance.

Risk Management

VIM's Management Committee comprises its Partners and is chaired by Paul Timlin, the Firm's CEO and Compliance Officer. The Management Committee determines the business strategy and risk appetite of the Firm. It is also responsible for establishing and maintaining the Firm's governance arrangements along with designing and implementing a risk management framework that recognises the risks that the business faces. The Management Committee also determines how the risks the Firm faces may be mitigated and assesses the arrangements to manage those risks on an ongoing basis. This process is undertaken through and documented within the ICARA. The Partners meet formally and informally on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, business planning and risk management. The Partners manage the Firm's business and identify risks through a framework of policy and procedures taking account of relevant laws, standards, principles and rules (including FCA principles and rules) with the aim of operating a defined and transparent risk management framework. These policies and procedures are updated as required.

Several functions are outsourced by VIM to Virtus Investment Partners Inc and its subsidiaries including accounting, operations, settlements, IT and systems, and certain compliance and legal functions. As such, the Partners consult with appropriate individuals in many of these functions.

The Firm's appetite for risk is conservative and therefore seeks to employ prudent and appropriate risk management controls. The Partners' representatives meet periodically to assess risk, and at least annually they formally review the risks, controls and other risk mitigation arrangements to assess their effectiveness. Where material risks are identified, the representatives consider the financial impact of these risks and conclude whether the amount of regulatory capital is adequate.

Capital Resources Requirement

The Firm is subject to the fixed overhead requirement ("FOR") and is not required to calculate an operational risk capital charge, though it considers this as part of its process to identify its required level of risk-based capital. The Pillar 1 capital requirement for an IFPR firm is calculated as the higher of the:

- Fixed Overheads Requirement ("FOR"); and
- the sum of market and credit risk requirements or
- the base capital requirement of €50,000.

The FOR is calculated, in line with FCA's new ICARA rules in accordance with the Investment Firms Prudential Regime, which came in to force on the 1 January 2022, based on the Firm's previous year's audited expenditure. The Firm has adopted the standardised approach to credit and market risk and the above figures have been produced on that basis. The requirement is based on the FOR since this exceeds the total of the credit and market risk capital requirements it faces and also exceeds its base capital requirement of €50,000.

Regulatory Capital

As set out above, based on the Firm's ICARA analysis, the Management Committee of VIM has determined that the Firm's capital is deemed to meet the Firm's current FOR under Pillar 1. The FOR calculates 13 weeks of non-discretionary expenditure for the Firm. As at 31 December 2023, the Firm's FOR was calculated to be £910,000 based on our estimated 2024 costs.

All known risks have been assessed and appropriate stress tests and scenario analyses have been undertaken to help determine any additional capital required under Pillar 2. The Firm follows the standardised approach to market risk and the simplified standard approach to credit risk.

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

VIM Capital

As set out below, current regulatory capital stands at £1,305,000 which is comfortably in excess of our FOR requirement.

	31/12/2023	
Capital Item	£000	
Tier 1 permanent share capital*	£1,305	
Tier 2 capital		£0
Tier 3 capital		£0
Deductions from Tiers 1 and 2		£0
Total capital resources	£1,305	

*No hybrid tier one capital is held

UK Consolidated Group Capital

As set out below, current regulatory capital stands at £2,385,000 which is comfortably in excess of our FOR requirement.

	31/12/2023	
Capital Item	£000	
Tier 1 permanent share capital*	£2,385	
Tier 2 capital		£0
Tier 3 capital		£0
Deductions from Tiers 1 and 2		£0
Total capital resources	£2,385	

*No hybrid tier one capital is held

The level of Capital Adequacy will continue to be reviewed periodically by the Firm's Management Committee.

Remuneration Code Disclosure

VIM must comply with the IFPR Remuneration Code contained within the SYSC Sourcebook of the FCA's Handbook (the "Code"). The purpose of the Code is to ensure that firms have risk focused remuneration policies, which are consistent with and promote effective risk management and do not expose themselves to excessive risk. The Firm has reviewed all existing employment contracts to ensure they comply with the Code.

The Management Committee is responsible for setting the Remuneration Policy Statement for all staff. The Compliance Officer is a member of the Management Committee. No external consultants have been engaged on remuneration matters.

We are required to disclose certain information on at least an annual basis regarding our remuneration policy and practices for those staff whose professional activities have a material impact on the risk profile of the Firm (the "Code Staff"). Our disclosure is made in accordance with our size, internal organisation and the nature, scope and complexity of our activities.

VIM believes that its remuneration arrangements do not encourage inappropriate risk taking. This is due to the features inherent in its business model, such as separation of key functions, and the key elements of its compensation procedures. Our policy is designed to ensure that the Firm complies with the Remuneration Code and our compensation arrangements:

- are consistent with and promote sound and effective risk management;
- do not encourage excessive risk taking;
- include measures to avoid conflicts of interest; and
- are in line with the Firm's business strategy, objectives, values and long-term interests.

The Firm's policy will be reviewed as part of annual processes and procedures or following a significant change to the business requiring an update to its internal capital adequacy assessment.

Variable remuneration is not based solely on the financial performance of the individual. The Management Committee also considers the individual's overall (non-financial) performance to the whole team and the overall results of the Firm and its client(s). The performance of an individual is assessed over the entire year.

Proportionality

The Code can be applied in a proportionate way and the FCA have stated that it will normally be appropriate to disapply certain rules. The Management Committee of VIM has determined that the following rules are not proportionate to the Firm and have not implemented these detailed rules:

- SYSC 19C.3.44 - Ratios between fixed and variable components of total remuneration;
- SYSC 19C.3.47 - Retained shares or other instruments;
- SYSC 19C.3.49 - Deferral; and
- SYSC 19C.3.51 - Performance adjustment.

Due to the size, nature and complexity of the Firm, we are not required to appoint an independent remuneration committee.

Quantitative Information

VIM has one business area, investment management. All members of staff whose actions have a material impact on the risk profile of the Firm are also members of senior management. Total remuneration for senior management in the period from 1 January 2023 to 31 December 2023 was £2.8 million.

Application of the requirements

Aggregate quantitative information on remuneration, broken down by business area and by senior management and members of staff whose actions have a material impact on the risk profile of the Firm is reviewed. VIM considers that there is only one business area within the Firm, which is investment management and the associated support and administration functions. In accordance with CRD III and CEBS guidance, the Firm takes a proportionate approach to its Remuneration Code disclosures in line with the nature, scale and complexity of the Firm. The Firm may omit required disclosures where it believes that the information could be regarded as prejudicial to the UK or other national transposition of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data. As such, the Firm has chosen not to disclose aggregate remuneration figures with regard to the remuneration of the 2 Code Staff identified by the Firm's Policy, all of whom are senior management. With respect to the Firm's total staff costs and the aggregate remuneration paid to all of the Firm's members in 2023, please refer to the audited financial statements of the Firm for the year ended 31 December 2023.