

TCI Fund Management Limited

MIFIDPRU 8 DISCLOSURE

(Based on the audited financial statements as at 28 February 2022)

Contents

1. Introduction	3
2. Governance Arrangements	3
3. Risk Management Objectives and Policies.....	4
4. Own Funds.....	7
5. Own Funds Requirement	11
6. Remuneration Policy and Practices.....	12

1. Introduction

TCI Fund Management Limited (the “**Firm**” or “**TCI**”) is authorised and regulated in the UK by the Financial Conduct Authority (the “**FCA**”) and is classified as a Collective Portfolio Management Investment Firm (“**CPMI**”). The Firm is a full-scope Alternative Investment Fund Manager and has permissions to conduct Markets in Financial Instruments Directive (“**MiFID**”) activities.

The provisions for public disclosure of the Firm’s risk management objectives and policies, governance arrangements, own funds requirements and approach to remuneration are set out in MIFIDPRU 8. Under the Investment Firms Prudential Regime (“**IFPR**”) and the MIFIDPRU section of the FCA Handbook, TCI is categorised as a non-small and non-interconnected (“**Non-SNI**”) investment firm and this document has been produced in order to meet the MIFIDPRU 8 disclosure obligations as applicable to Non-SNI firms.

TCI does not fall within MIFIDPRU 7.1.4R as the relevant thresholds are not met. As such MIFIDPRU 8.7 (Investment Policy) does not apply to it.

This public disclosure has been prepared on an individual firm basis and is based on the audited financial statements as at 28 February 2022.

The Firm has not adopted the transitional provisions in MIFIDPRU TP12.

2. Governance Arrangements

The governing body of TCI is the Board of Directors (the “**Board**”) which has the overall responsibility for the Firm and approves and oversees the implementation of TCI’s strategic objectives, risk strategy and internal governance. The Board comprises two executive directors both of whom perform senior management functions (“**SMF**”) under the Senior Managers and Certification Regime. The segregation of duties between these senior managers ensures the effective and prudent management of the Firm as well as the prevention of conflict of interest.

The Firm is not required to maintain remuneration, audit, or nomination committees and, given its nature, size and complexity, it does not consider it appropriate to do so.

The Firm is also not required to maintain a risk committee; however, it has established one which has overall responsibility for TCI’s risk framework. The Risk Committee is responsible for the supervision, monitoring and review of the activities carried out by the risk management function in respect of the Firm’s activities.

One of TCI’s executive directors holds three other executive directorships, while the second director holds none.

TCI values the innovation and creativity that diversity of thought brings to the Firm and understands that diversity, equality and inclusion play a critical role in establishing strong governance and maintaining a healthy culture within the business. However, due to the size of the Firm, it did not implement a formal Equality, Diversity and Inclusion Policy.

3. Risk Management Objectives and Policies

The governing body for the risk framework within the Firm is the Board, with the support of the Management Committee. The Board is responsible for determining the Firm's business strategy and risk appetite, taking into account the risks that the Firm is likely to meet.

As discussed in the previous section, the Firm is not required to maintain a risk committee. However, the Firm established a Risk Committee in addition to maintaining an independent risk management function. The risk management function is responsible for implementing the risk framework and ensuring on-going compliance. The risk management function is hierarchically separate from the portfolio management function. It is supported by the Risk committee which supervises, monitors and reviews the activities carried out by the risk management function in respect of the Firm's activities.

The single area of the Firm's business is investment management and as such risk is inherent part of it. TCI's risk management framework incorporates an analysis of the impact of each material risk on the Firm, its clients and counterparties, and on the market, the probability of each risk occurring and the procedures in place for mitigation. The risk management function and the Risk Committee receive regular updates from the Finance and Compliance teams on the various components of the Internal Capital Adequacy and Risk Assessment ("ICARA") process and provides periodic management information to the Firm's board, focusing on business and operational risk management issues, and including any notification that the Firm is likely to breach an early warning indicator regarding the Firm's own funds and liquid assets requirements under IFPR.

TCI considers that the potential for harm associated with its business strategy is low. Notably, the Firm does not engage in proprietary trading, underwriting, placing, clearing or settlement activities, hold significant on balance sheet exposures, have tied agents or provide custody services or services to retail clients. The Firm's business strategy reflects its low risk appetite towards conduct risk; prudential risk; reputational risk; legal, compliance and regulatory risk; financial crime risk; data and cyber security risk; and sustainability risk. The Firm is remunerated by the investment funds under management. The fees are calculated by reference to assets under management (during the funds' investment period) and are therefore a predictable source of income. Furthermore, the investment strategies pursued by the Firm on behalf of clients do not employ the use of leverage on a substantial basis.

The Firm has applied a three-stage approach to dealing with material harms:

- 1) **Identification:** the Firm's business model was assessed to identify all material harms that could result from:
 - a. the ongoing operation of the Firm's business; and
 - b. the winding down of the Firm's business.
- 2) **Systems and controls:** the Firm considered each material harm identified and determined whether it is appropriately mitigated by the Firm's systems and controls.
- 3) **Additional own funds or liquid assets:** for those material harms which were not appropriately mitigated by the Firm's systems and controls, the Firm assessed whether it should hold additional own funds and/or liquid assets to mitigate the harm appropriately.

The Firm's assessment of harms is dynamic and forward-looking and seeks to take into account the potential for harms to evolve through the course of an economic cycle. In carrying out this process the Firm has referred specifically to the FCA guidance on identifying and assessing the risk of harm.

MIFIDPRU 8.2.1 requires the Firm to disclose its risk management objectives and policies for the categories of risk addressed by:

- (1) MIFIDPRU 4 (Own funds requirements);
- (2) MIFIDPRU 5 (Concentration risk); and
- (3) MIFIDPRU 6 (Liquidity).

MIFIDPRU 4 (Own Funds) Risks

The level of own funds required to be held by the Firm reflects, amongst other factors, the potential harm that might be incurred by TCI, its clients, and the markets it operates in. TCI own funds and liquid assets assessment looks through the following non-exhaustive list of risks, arising from both its AIFMD and MiFID business:

- Harms from managing investments;
- Harms from executing and/or receiving and transmitting client orders;
- Harms from dealing in investments;
- Harms from marketing and distribution activities;
- Harms from the actions of appointed representatives or tied agents;
- Harms from reporting and disclosures;
- Harms from conflicts of interest;
- Harms from business development and management of cost bases;
- Credit risk;
- Outsourcing risk;
- Operational risk;
- Cybersecurity and IT systems failure risk;
- Data protection risk;
- Legal, regulatory and compliance risk;
- Group risk; and
- Reputational risk.

The likelihood of a risk crystallising, the financial impact if it materialises, and the systems and controls in place to mitigate these are reflected in the assessment of the own funds and liquid assets. This assessment determines the minimum amount of own funds and liquid assets TCI must hold at all times.

The analysis is refreshed as and when risks change, or new risks emerge from its business activities, and at least annually.

Liquidity Risk

This is the risk that TCI, although meeting the required level of own funds and liquid assets, either does not have sufficient resources available to meet its obligations when they fall due or can only secure them at an excessive cost.

The majority of cash held by the Firm is held in USD in one or more UK bank accounts in the name of the Firm and is not encumbered (e.g. as a result of being subject to a security interest or some other legal restriction which affects the Firm's ability to liquidate, sell or transfer the assets). The investment management and performance fees are also being paid in USD.

The Firm's principal liabilities are denominated in USD.

The Firm therefore does not consider that it is materially exposed to any of the following material harms:

- currency conversion risk;
- restrictions on the Firm's ability to access the cash in a timely manner;
- mismatches between the maturity of its assets and its liabilities;
- intra-day obligations which could affect its ability to meet its payment and settlement obligations in a timely manner; or
- any requirements arising from off-balance sheet arrangements.

The Firm has also considered the concentration of its funding arrangements. The Firm has a positive net cash flow and is not reliant on debt to satisfy its liquidity needs.

The Firm is aware of the specific intra-day liquidity risk factors set out in paragraph 1.11G (2) of MIFIDPRU 7 Annex 1, but, owing to the nature of its business as an alternative asset management firm specialising in publicly-listed equity, it does not consider that any of them present a material risk to the Firm, its clients or the market.

Concentration Risk

According to MIFIDPRU 5.2.2G, the Firm is required to monitor and control all sources of concentration risk. In accordance with the FCA guidance, the Firm has identified the following two concentration risks and has put in place the control strategies discussed below.

- 1) **Earnings:** the risk that the Firm has a significant amount of its revenue concentrated in a small number of clients, leaving it exposed if it loses one or more of those clients.

The Firm's revenue is derived predominantly from the main fund under management. However, its feeder funds have a varied investor base comprising numerous investors. This reduces the concentration risk of loss of any one single investor or small number of investors to an acceptable level. In addition, it is further noted that investors are subject to lock-ups on their investments, which potentially limits the speed of redemptions.

- 2) **Cash deposits:** the risk that the Firm's cash deposits are held with a narrow range of credit institutions, leaving it exposed if one or more of them becomes insolvent.

- 3) The Firm maintains instant-access cash accounts with one or two UK credit institutions with whom the Firm has strong and well-established relationship, and which typically have a minimum Moody's or S&P rating of investment grade. The ratings of these financial institutions are monitored on an ongoing basis. The Firm considers this to reduce its cash deposit risk to an acceptable level.

The Firm's assessment in relation to each concentration risk is that, given its control strategies, it does not present a material risk to the Firm, its clients or the market.

4. Own Funds

Under MIFIDPRU 8.4, TCI is required to disclose:

- a reconciliation of common equity tier 1 items, additional tier 1 items, tier 2 items, and the applicable filters and deductions applied in order to calculate the own funds of the Firm – see Table 1 below;
- a reconciliation of 1 (above) with the capital in the balance sheet in the audited financial statements of the Firm – see Table 2; and
- a description of the main features of the common equity tier 1 instruments, additional tier 1 instruments and tier 2 instruments issued by the Firm – see Table 3.

These are presented in the three tables below based on audited figures as at 28 February 2022.

All of the Firm's capital resources are held in the form of Common Equity Tier 1 capital; it does not hold any Additional Tier 1 Capital or Tier 2 capital. TCI's CET1 capital consist of share capital, audited retained earnings and other reserves.

As at the FYE on 28 February 2022, TCI complied with the relevant capital regulatory obligations as outlined in the IFPR.

Table 1: Composition of regulatory own funds			
	Item	Amount (USD thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements
1	OWN FUNDS	284,035	
2	TIER 1 CAPITAL	284,035	
3	COMMON EQUITY TIER 1 CAPITAL	284,035	
4	Fully paid up capital instruments	15	Page 17, called up share capital
5	Share premium	1,668	Page 17, share premium account
6	Retained earnings	228,825	Page 17, profit and loss account
7	Accumulated other comprehensive income	-	
8	Other reserves	53,527	Page 17, 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 as at 28 February 2022	Under regulatory scope of consolidation	Cross-reference to template OF1
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Debtors	86,463	N/A	N/A
2	Cash at bank and in hand	207,439	N/A	N/A
	Total Assets	293,902	N/A	
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
1	Creditors: Amounts falling due within one year	9,867	N/A	N/A
	Total Liabilities	9,867	N/A	
Shareholders' Equity				
1	Called up share capital	15	N/A	Item 4
2	Share premium account	1,668	N/A	Item 5
3	Other reserves	53,527	N/A	Item 8
4	Profit and loss account	228,825	N/A	Item 6
	Total Shareholders' equity	284,035		

Table 3: Own funds - main features of instruments issued by the Firm	
Issuer	TCI Fund Management Limited
Instrument type	Ordinary shares, divided into different classes
Amount recognised in regulatory capital (USD thousands)	15
Nominal amount of instrument	\$1.50
Issue price	\$1.50
Redemption price	N/A
Accounting classification	Called up share capital
Original date of issuance	Various (Oldest on 17.02.2014)
Perpetual or dated	Perpetual
Maturity date	N/A
Issuer call subject to prior supervisory approval	N/A
Optional call date, contingent call dates and redemption amount	N/A
Subsequent call dates, if applicable	N/A
Coupons/dividends	N/A
Fixed or floating dividend/coupon	N/A
Coupon rate and any related index	N/A
Existence of a dividend stopper	N/A
Convertible or non-convertible	N/A
Write-down features	N/A
Link to the terms and conditions of the instrument	N/A
Write-down features	N/A
Link to the terms and conditions of the instrument	N/A

5. Own Funds Requirement

As a non-SNI firm, TCI has to comply with the provisions contained within MIFIDPRU 4.3.2R by holding the highest of: 1) Its permanent minimum capital requirement (per MIFIDPRU 4.4); 2) Its FOR (per MIFIDPRU 4.5); or 3) Its K-factor Requirement (per MIFIDPRU 4.6).

The only K-factor relevant to TCI's activities is K-AUM. TCI does not expect the other K-Factors to be relevant to its calculations given the Firm's current permissions and activities.

Category of requirement	As at FYE 28 February 2022 in USD
Permanent Minimum Requirement (£75,000)	100,580
Fixed Overheads Requirement	9,337,426
K-Factor Requirement This is determined solely by the Firm's K-AUM. There are no other K-Factors applicable to the Firm.	1,206,280
Basic Own Funds Requirement (the highest of the three rows above)	9,337,426

Additionally, the rules to determine the level of the Own Funds Threshold Requirement ("**OFTR**") and the Liquid Assets Threshold Requirement ("**LATR**") mandate that additional amounts may have to be held in the event they are needed to support an orderly wind down, and to reflect the assessment of risks that relate to TCI.

Under MIFIDPRU 8.5.2, the Firm is required to disclose its approach to assessing the adequacy of its own funds and liquid assets in accordance with the overall financial adequacy rule ("**OFAR**") in MIFIDPRU 7.4.7R.

Under the IFPR and, in particular MIFIDPRU 7, as a CPMI firm, TCI is required to conduct an ICARA, which serves as the means of assessing the key risks to which TCI is exposed.

The ICARA process builds on a number of capital and liquidity requirements to which the Firm is subject:

- as a condition of its authorisation, the Firm is required to have appropriate resources;
- the Firm is subject to the FCA's Principles for Businesses, one of which (Principle 4) is that it maintains adequate financial resources; and
- the Firm is required to meet a Basic Own Funds Requirement and a Basic Liquid Assets Requirement.

The Firm uses its ICARA process to identify whether it is complying with the OFAR and, if it is not, to identify what steps it should take to remedy this.

The risk of some material harms can be reduced through proportionate measures other than holding additional financial resources, for example implementing additional internal systems and controls, strengthening governance and oversight processes or changing the manner in which the Firm conducts certain business.

However, for other harms identified, it may be that the only realistic option to manage them and to comply with the OFAR is for the Firm to hold additional own funds and/or additional liquid assets above its Basic Own Funds Requirement and Basic Liquid Assets Requirement.

The Firm has therefore formed a judgment about what is appropriate and proportionate in its particular circumstances, informed by its risk appetite. This has led TCI to conclude that it must hold \$9,337,426 as the Firm's OFTR which is the higher figure required under the two assessments, namely risk of harm from ongoing operations and risk of harm from wind-down. Furthermore, the amount determined to be TCI's LATR is \$7,428,950. The own funds held are \$284,034,740 and the eligible liquid assets - \$207,957,644, which is sufficient to meet the Firm's OFTR and LATR respectively.

The ICARA is conducted at least annually and is reviewed following any significant business change (including changes to strategy or operational environment which suggest that the current level of capital resources is no longer adequate). For the FYE 2022, taking into account the material harms faced and posed by the Firm, as well as the stress tests it has conducted, the recovery and wind-down plans it has prepared, and the governance framework it operates, the Firm has determined that it satisfies both its OFTR and LATR, and therefore its OFAR, and, as far as the Firm can reasonably determine, it will continue to do so on an ongoing basis.

6. Remuneration Policy and Practices

Qualitative Disclosure

The Firm is subject to both, the FCA AIFM Remuneration Code as described in SYSC 19B and the MIFIDPRU Remuneration Code as described in SYSC 19G of the FCA Handbook. In case some of these provisions are imposing different remuneration requirements, (according to SYSC19G.1.20) TCI must comply with the most stringent of the relevant provisions.

In accordance with these Remuneration Codes and the European Securities and Markets Authority's (ESMA) Guidelines on sound remuneration policies under the AIFMD, the Firm has a remuneration policy in place which is aimed at promoting sound and effective risk management. The purpose of TCI's remuneration policy is to set out how TCI will provide remuneration in form and amount that is consistent with the FCA's Remuneration Codes, with the main objective of the financial incentives being to attract, motivate and maintain high-calibre employees. The remuneration strategy has been designed to ensure consistency with the risk profiles, rules and instruments of incorporation of the funds TCI manages and with the objectives set out in TCI's business plan and to ensure no conflict of interest between TCI's staff and investors, and compliance with conduct of business rules.

Some parts of the Firm's remuneration policy apply to staff members whose professional activities have a material impact on the risk profile of the Firm or of the funds it manages (material risk takers or "MRTs") while other parts apply to all staff. TCI's MRTs include members of the Board, senior management (members of the Management Committee) and persons with trading responsibility. As at the date of this disclosure, there were thirteen MRTs engaged in the Firm's business.

As discussed in the previous sections, the Firm has determined that it is not a 'significant firm' and consequently has not set up a remuneration committee. However, the Firm's governing body

undertakes this role. The decisions of the governing body on setting remuneration are based on, amongst other things, risk management, supporting business strategy, objectives, values and interests and avoiding conflicts of interest, governance, control functions, and measurement of performance. The leading rationale of the decision-making is to achieve the main objective of the Firm, that is maximising its client assets, while remaining consistent with the risk profile of the Firm's business strategy.

The Firm's governing body considers remuneration in the context of a wider agenda including retention, recruitment, motivation and talent development and the external market environment. It also receives updates on regulatory developments and general remuneration issues, as well as market and benchmarking data.

The various components of total remuneration (which comprise base salary and variable bonus) are considered and are balanced appropriately having regard to the overall Firm performance and fund performance and is less focussed on individual profit and loss. No remuneration is made by payments directly by a fund itself or by any transfer of units or shares of a fund made for the benefit of staff members.

Firm performance and the input of the individual are the significant contributors to the determination of variable bonus awards. The principal objective in determining variable bonus awards is to reward individual contribution to the Firm whilst ensuring that such payments are warranted given business results. In this context performance can include financial and non-financial measures, risk measures, compliance with regulatory obligations and other relevant factors. There is a focus on differentiation so that any rewards are determined according to the contribution of individuals. All staff is subject to variable remuneration. However, bonus pools and individual awards are subject to the discretion of the Board and it is possible that in any year no variable bonus will be awarded, either at all, or to particular individuals. The Firm may also impose vesting, retention, and clawback mechanisms to take into account the Firm's business cycle.

Quantitative Disclosure

The Firm considers that it has a single business area (investment management). The aggregate remuneration of the individuals engaged in the business for the period under review was \$254m. The aggregate remuneration for management and other MRTs includes total fixed remuneration of \$2.9m and \$25.1m of total variable remuneration. The remuneration for all other staff includes total fixed remuneration of \$12.3m and \$213.3m of total variable remuneration. There were no guaranteed variable remuneration ("sign-on bonuses") and severance payments awarded to MRTs during the financial year ending 28 February 2022.

According to MIFIDPRU 8.6.8 (4), a firm needs to disclose the fixed, variable and total remuneration split into categories of senior management, other MRTs and other staff. However, disclosure under these requirements would lead to the identification of one or two MRTs and therefore, the Firm is relying on the exemption in relation to these obligations provided by MIFIDPRU 8.6.8 (7) (a).