

The Capital Requirements Directive (“**the Directive**”) of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain.

In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority (“**FCA**”) in its regulations through the General Prudential Sourcebook (“**GENPRU**”) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“**BIPRU**”), specifically BIPRU 11.

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 Adequacy Assessment Process (“**ICAAP**”) to assess the adequacy of capital held in relation to its material risks.
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position to encourage market discipline.

The Pillar 3 disclosure document has been prepared by Stone Harbor Investment Partners (UK), LLP (“**SHIP UK**”) (“**the Firm**”) in accordance with the requirements of BIPRU 11 and is verified by the Partners. Unless otherwise stated, all figures are as at 31 December 2021. The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet our Pillar 3 obligations.

Pillar 3 disclosures will be issued on an annual basis after the year end and published as soon as practical when the audited annual accounts are finalised.

We are permitted to omit certain information relating to BIPRU 11.5 if we have deemed the information to be 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, we may omit certain information relating to BIPRU 11.5 where we consider that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties.

We have made no omissions on the grounds that it is immaterial, proprietary or confidential.

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

SHIP UK is a discretionary investment manager authorised and regulated in the UK by the FCA. SHIP UK is a MiFID firm and is categorised by the FCA, for prudential purposes, as a BIPRU firm. As such the Firm is subject to minimum regulatory capital requirements. SHIP UK has no trading book exposure. The Corporate Partner of SHIP UK is Stone Harbor Services (UK) Limited which in turn is 100% owned as of 31 December 2021 by Stone Harbor Investment Partners LP (“**SHIP NY**”) SHIP NY was acquired by Virtus Investment Partners, Inc. on January 1, 2022, and on June 30, 2022, SHIP NY merged with an into Virtus Fixed Income Advisers, LLC (“**VFIA**”). As of June 30, 2022, SHIP UK is a wholly owned subsidiary of VFIA, and SHIP NY operates as a separate division of VFIA. The Pillar 3 covers the entities comprising a UK consolidation group, namely SHIP UK and Stone Harbour Services (UK) Limited, and is for the period ending 31 December 2021.

## **Risk management**

SHIP UK'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 ICAAP. 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 SHIP UK to SHIP NY including accounting, operations, settlements, IT and systems, and certain compliance and legal functions. As such, the Partners consult with appropriate individuals from SHIP NY in many of these functions; including SHIP NY's Managing Partner and Co-Chief Investment Officer, General Counsel, Group Compliance Officer, and Head of Operations and Finance. In addition, Paul Timlin, CEO of SHIP UK, is also a member of the Executive Committee of SHIP NY.

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

## **Capital Resources Requirement**

The Pillar 1 capital requirement for a BIPRU 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 Firm's Pillar 1 capital requirement has been determined by reference to the Firm's FOR and calculated in accordance with GENPRU 2.1.53. 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 ICAAP analysis, the Management Committee of SHIP UK 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 2021, the Firm's FOR was calculated to be £610k based on our estimated 2022 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:

*SHIP UK Capital*

As set out below, current regulatory capital stands at £2,777,000 which is comfortably in excess of our FOR requirement.

<b>Capital Item</b>	<b>£'000</b>	
Tier 1 capital less innovative tier 1 capital	1,310,000	
Total tier 2, innovative tier 1 and tier 3 capital		0
Deductions from tier 1 and tier 2 capital		0
<b>Total capital resources, net of deductions</b>	<b>1,310,000</b>	

*UK Consolidated Group Capital*

As set out below, current regulatory capital stands at £2,777,000 which is comfortably in excess of our FOR requirement.

<b>Capital Item</b>	<b>£'000</b>	
Tier 1 capital less innovative tier 1 capital	2,777,000	
Total tier 2, innovative tier 1 and tier 3 capital		0
Deductions from tier 1 and tier 2 capital		
<b>Total capital resources, net of deductions</b>	<b>2,777,000</b>	

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

### **Remuneration code disclosure**

SHIP UK must comply with the BIPRU 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 are 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.

SHIP UK's policy is designed to ensure that we comply with the Code and our compensation arrangements:

1. are consistent with and promotes sound and effective risk management;
2. do not encourage excessive risk taking;
3. include measures to avoid conflicts of interest; and
4. 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 process 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. 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 SHIP UK 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**

SHIP UK 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 2021 to 31 December 2021 was £2.2 million