



Muzinich & Co. Limited

MIFIDPRU 8 Public Disclosure Document

September 2023

Reference date: 31 December 2022

## TABLE OF CONTENTS

1.	MIFIDPRU 8 DISCLOSURE .....	1
3.	GOVERNANCE ARRANGEMENTS.....	1
3.1	Overview .....	1
3.2	External Directorships .....	2
3.3	Diversity .....	2
3.4	Risk Committee .....	2
2.	RISK MANAGEMENT OBJECTIVES AND POLICIES .....	1
4.	OWN FUNDS .....	5
5.	OWN FUNDS REQUIREMENT .....	7
6.	REMUNERATION POLICIES AND PRACTICES .....	8

## 1. MIFIDPRU 8 DISCLOSURE

Muzinich & Co. Limited (“Muzinich” or the “Firm”) is a UK domiciled discretionary investment manager to professional clients including funds and segregated account clients authorised and regulated by the Financial Conduct Authority (the “FCA”). Muzinich is subsidiary a of Muzinich & Co., Inc., a U.S. institutional asset management firm based in New York specializing in public and private corporate debt, with subsidiaries and branches in fourteen locations worldwide. The Firm’s clients consist of a number of funds, including Irish domiciled UCITS, Irish AIFs, Luxembourg AIFs, and separately managed accounts. The Firm conducts agency business and does not deal on its own account or hold client money or assets.

The Firm is categorised as a “Non-SNI MIFIDPRU investment firm” by the FCA for capital purposes. The Firm reports on a solo basis. The Firm’s MIFIDPRU 8 disclosure fulfils the Firm’s obligation to disclose to market participants’ key information on a firm’s:

- Risk management objectives and policies
- Governance arrangements
- Own funds
- Own funds requirement
- Remuneration policies and practices

This disclosure is made annually on the date the Firm publishes its annual financial statements. As appropriate, this disclosure is made more frequently, for example if there is a major change to the Firm’s business model.

## 2. GOVERNANCE ARRANGEMENTS

### 2.1 OVERVIEW

The Board of Directors oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management of the Firm, including the segregation of duties in the organisation and the prevention of conflicts of interest, and in a manner that promotes the integrity of the market and the interests of clients.

The Firm’s Board of Directors includes the Firm’s CEO, CFO, Director of Risk, Co-Head of Public Markets, COO and two non-executive directors. The Head of Compliance also attend all board meetings.

The Firm’s governance arrangements ensure that the effective and prudent management of the Firm is prioritised. This is both with respect to the composition of the governing body itself and with respect to the Firm’s overall structure, including the segregation of duties within the wider organisation.

The Firm maintains conflicts of interest procedures and processes. This includes the identification, managing and monitoring of potential or actual conflicts under the overall supervision of the governing body. The Firm emphasises the need to prioritise the interests of its clients and to resolve potential or actual conflicts between clients.

The Firm’s Internal Capital Adequacy and Risk Assessment (“ICARA”) process assists the Firm in determining its material harms, including those affecting its clients and the integrity of the market. The Firm’s governing body reviews the ICARA at least annually, more frequently for example if there is a major change to the Firm’s business model.

## 2.2 EXTERNAL DIRECTORSHIPS

The number of external directorships held by the members of the Firm's management body are as follows<sup>1</sup>:

Management body member	Executive directorships	Non-executive directorships
George Muzinich	0	0
Tatjana Greil-Castro	0	0
Michael Ludwig	0	0
Mark Clark	0	0
Alexander McKenna	1	0
Ersilia Molnar	1	0
Aiga Romanovsky	0	0

## 2.3 RISK COMMITTEE

The Firm is not subject to a mandatory requirement to put in place a risk committee, per MIFIDPRU 7.3.1. However, the Muzinich Group has established a Global Risk and Compliance Committee ("GRICC") which includes the Firm's COO, Head of Risk, GC, Head of Compliance and Head of Operational Risk. It oversees the process for the identification, assessment and ongoing measurement and monitoring of risks. Relevant stakeholders participate in a periodic process in order to form a comprehensive view of the risks to the Firm.

## 2.4 DIVERSITY

The Firm's diversity policy aims to reflect the Firm's values and inclusivity at all levels within the organisation, including the management body.

The Firm believes that diversity in all its forms is good for business, that diverse perspectives can lead to better outcomes and a focus on greater diversity can attract a wider pool of potential employees. Employing individuals with wider perspectives and from a broader skills base will lead to a more dynamic, innovative, responsive organization in touch with changes and developments in the working environment.

The Firm is part of a global group with employees from over 30 nationalities. This breadth of representation gives Muzinich an understanding and appreciation of multiple cultures, languages and regions across all levels of the business. Many of the Firm's investment professionals originate from the markets in which they invest, while locally-based, client-facing teams have a deep connection with their clients' culture. The Firm's diversity statement, which includes further information regarding targets, can be accessed here:

<https://www.muzinich.com/about/diversity-equity-inclusion>

<sup>1</sup> This excludes: (a) executive and non-executive directorships held in organisations which do not pursue predominantly commercial objectives; and (b) executive and non-executive directorships held within the same group or within an undertaking (including a *non-financial sector entity*) in which the *firm* holds a *qualifying holding*.

### **3. RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Firm has implemented and embedded a risk management framework that sets out the overall approach to managing the internal and external risks to which the Firm is currently exposed or may be exposed in the future. It specifies the methodologies employed to identify, assess, monitor, manage and report risk on a continuous basis, which forms the basis of the Firm's core risk management processes.

Mechanisms and methodologies to review, discuss and communicate risks are in place together with risk policies and standards to enable risks to be identified, measured and assessed, managed and controlled, monitored and reported.

The Board sets the risk appetite statement of the Firm, which flows through to the risk management framework. In line with the Firm's business strategy, risk appetite and risk management framework, the Firm identifies and further assesses key risks within the Firm's ICARA process. These key risks are monitored via key risk indicators by the GRICC, which is responsible for reviewing, assessing and providing oversight across the Firm's risk exposures and regulatory compliance.

The Firm maintains a risk register, which includes risk assessment and rating methodologies in accordance with its risk appetite statement.

#### **Own funds requirements – MIFIDPRU 4**

Risks in this category are broad in nature and inherent in most businesses and processes. They include the risk that operational flaws result from a lack of resources or planning, error or fraud, the inability to capitalize on market opportunities, or weaknesses in systems and controls.

The only K-factor currently applicable to the Firm is K-AuM, which covers the assets under management. The Firm's investments risks are captured within its K-AuM calculation and operational risks are predominantly captured within its Fixed Overhead Requirement ("FOR") calculation. The Firm has further assessed any operational risks within its ICARA and quantified additional own funds and liquidity, where required.

#### **Concentration risk – MIFIDPRU 5**

The Firm does not conduct any trading on its own account and does not have regulatory permissions for dealing as principal. The Firm therefore does not have any concentration risks on or off-balance sheet and does not operate a trading book.

#### **Liquidity – MIFIDPRU 6**

The Firm's liquidity risk arises from the need to have sufficient liquid assets to meet financial obligations as they fall due, considered under both business-as-usual and stressed conditions.

The Firm maintains minimum liquidity at all times in compliance with the Basic Liquid Asset Requirement (BLAR), being at least 1/3 of its FOR. The Firm's liquidity policy is to hold core liquid assets as cash in proportion to the currency exposure in the FOR. In addition, its policy is to hold additional cash reserves well in excess of the core liquid asset requirement. Further, significant excess additional liquid resources are held in Firm sponsored daily dealing public funds and government bonds. These are typically held for liquidity management, currency management and income generation, not as long-term seed capital, so can be redeemed at any time without an adverse effect on the client business or fund performance.

### 3.1.1 POTENTIAL HARMS LINKED TO OPERATIONAL RISKS

The risk of harm to the Firm and its clients is captured within the K-AuM capital requirement.

A description of some of the possible operational risks include

- The inability to fairly price assets;
- The oversight of overseas branches and subsidiaries;
- Compliance with regulatory requirements as well as with respect to the monitoring of investment mandate breaches;
- Availability and retention of staff;
- Execution and process management including trading errors;
- Business and systems disruption; and
- Fraud by employees or third-party service providers.

The Firm's mitigating factors include:

- The valuation of most material assets is outsourced to independent third parties which provide oversight;
- An integrated control and management framework which include Risk and Compliance personnel is in place to ensure day-to-day global operations are managed effectively;
- Human resources are regularly reviewed;
- Disaster recovery and backup procedures exist and are tested regularly. All files are backed-up on tape and stored off-site;
- Engagement letters or service level agreements are in place with all significant service providers.

These mitigating factors are expected to offset the most material operational risks.

The main credit risks to which the Firm is exposed are in respect of its cash balances, management fees receivable and seed capital investments in UCITS and private funds.

The Firm holds all its cash positions with international banks assigned high credit ratings and does not perceive any material risk in respect of these balances.

#### **Market Risk**

Market risk is the risk that the value of the Firm's assets or liabilities will fluctuate as a result of movements in factors such as valuations, interest rates and foreign exchange ("FX") rates.

Since the Firm holds no trading book positions on its balance sheet, it does not have any significant market risk exposure. The main market risk it potentially faces relates to FX rates, since certain amounts payable to the Firm are denominated in currencies other than sterling.

A significant proportion of the Firm's Investments are in non-GBP currencies. The value of investments in GBP in the Firm's books is dependent on market value changes and FX rates. As additional capital is being held against Investments in the "Credit risk" category, as assessed during the ICARA process, no capital is allocated under market risk.

#### 4. OWN FUNDS

Under MIFIDPRU 4.3, the Firm must at all times maintain own funds that are at least equal to its own fund's requirement. This is the minimum capital requirement to cover the harms a firm poses to its clients, the firm and the market. As outlined in MIFIDPRU 4.3, the own funds requirement is considered the higher of:

- Permanent Capital Requirement – the minimum level of own funds that a MIFIDPRU investment firm must maintain at all times based upon the MiFID investment services and activities it has permission to undertake. Requirement is £75k for the firm.
- Fixed Overhead Requirement (FOR) – 25% of the fixed expenditure reported in the audited financial statements of the preceding year.
- K-Factors – comprise a mixture of activity and exposure-based requirements which depend on the MiFID investment services and activities undertaken. The risk of harm to the Firm and its clients is captured within the K-AuM capital requirement.

Muzinich's own funds requirement is currently equal to its FOR as this is greater than its K-factor requirement and Permanent Capital Requirement. This has been determined as shown below:

**Table A**

As at the reference date of this disclosure, the Firm's regulatory capital position is:

Composition of regulatory own funds		
Item	Amount (GBP thousands)	Reference to Table A
<b>OWN FUNDS</b>	<b>37,846</b>	
<b>TIER 1 CAPITAL</b>	<b>37,846</b>	
<b>COMMON EQUITY TIER 1 CAPITAL</b>	<b>37,846</b>	
Fully paid up capital instruments	219	A
Share premium	6,913	B
Retained earnings	59,791	D
Accumulated other comprehensive income		
Other reserves		
Adjustments to CET1 due to prudential filters		
Other funds		
Total deductions from common equity Tier 1	(29,077)	E & F *
CET1: Other capital elements, deductions and adjustments		
<b>ADDITIONAL TIER 1 CAPITAL</b>		
Fully paid up, directly issued capital instruments		
Share premium		

Composition of regulatory own funds		
Item	Amount (GBP thousands)	Reference to Table A
Total deductions from common equity Tier 1		
Additional Tier 1: Other capital elements, deductions and adjustments		
<b>TIER 2 CAPITAL</b>	<b>240</b>	
Fully paid up, directly issued capital instruments		
Share premium		
Total deductions from Tier 2		
Tier 2: Other capital elements, deductions and Adjustments	240	C

\* Certain positions deducted from CET1 represent a haircut to assets on the Balance Sheet, as under MIFIDPRU 3.3.7R they are to be treated as qualifying holdings in non-financial sector entities. Deductions are taken in accordance with MIFIDPRU 3.3.15R.

The deductions can be summarised as follows:

	Deduction	Reference to Table A
Investments in subsidiary companies	15,669	E
Investments in Muzinich sponsored managed funds	13,408	E & F
	<b>29,077</b>	



**Table B**

The following table sets out a reconciliation of the Firm's own funds to the balance sheet in the Firm's audited financial statements, in GBP thousands:

<b>Own Funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements</b>			
	A	B	C
	<b>Balance sheet as in published/audited financial statements</b>	<b>Under regulatory scope of consolidation</b>	<b>Reference to Table A</b>
<b>Assets</b>			
Tangible assets	350		
Fixed asset investments	29,076		E
Debtors	9,816		
Current asset investments	38,022		F
Cash and cash equivalent	32,170		
<b>Total Assets</b>	<b>109,434</b>		
<b>Liabilities</b>			
Creditors	41,060		
Deferred taxation	1,211		
<b>Total Liabilities</b>	<b>42,271</b>		
<b>Net assets</b>	<b>67,163</b>		
<b>Shareholders' equity</b>			
Called up share capital	219		A
Share premium account	6,913		B
Revaluation reserve	240		C
Retained earnings	59,791		D
<b>Total Shareholders' equity</b>	<b>67,163</b>		

## 5. OWN FUNDS REQUIREMENT

The Firm's own funds requirement includes the following components:

<b>K-factor requirement:</b>	<b>GBP</b>
Sum of the K-AuM requirement, the K-CMH requirement and the K-ASA requirement:	5,340
Sum of the K-COH requirement and the K-DTF requirement:	

Sum of the K-NPR requirement, the K-CMG requirement, the K-TCD requirement and the K-CON requirement:	
<b>TOTAL K-factor requirement:</b>	5,340
<b>Fixed overheads requirement</b>	5,971

The Firm is required to assess the adequacy of its own funds in accordance with the overall financial adequacy rule. This requires the Firm to hold financial resources that are adequate for the business it undertakes. This is designed to achieve two key outcomes for the Firm:

1. To enable it to remain **financially viable** throughout the economic cycle, with the ability to address any potential material harms that may result from its ongoing activities (including both regulated activities and unregulated activities); and
2. To enable it to conduct an **orderly wind-down** while minimising harm to consumers or to other market participants, and without threatening the integrity of the wider UK financial system.

The Firm achieves this via its Internal Capital Adequacy and Risk Assessment (“ICARA”) process. The Firm sets out:

- A clear description of the Firm’s business model and strategy and how this aligns with the Firm’s risk appetite
- The activities of the Firm, with a focus on the most material activities
- Whether or not the ICARA process is ‘fit-for-purpose’. Where this is the case, the Firm must explain why it has reached this conclusion. Where this is not the case, the Firm must set out the improvements needed, the steps needed to make the improvements and the timescale for making them, and who within the Firm is responsible for taking these steps
- Any other changes to the Firm’s ICARA process that have occurred following the review and the reasons for those changes
- An analysis of the effectiveness of the Firm’s risk management processes during the period covered by the review
- A summary of the material harms identified by the Firm and any steps taken to mitigate them
- An overview of the business model assessment and capital and liquidity planning undertaken by the Firm
- A clear explanation of how the Firm is complying with the overall financial adequacy rule (“OFAR”) (i.e., the obligation to hold adequate own funds and liquid assets) vis-à-vis the Firm’s ongoing business activities and wind-down arrangements
- A summary of any stress testing carried out by the Firm
- The levels of own funds and liquid assets that, if reached, may indicate that there is a credible risk that the Firm will breach its threshold requirements
- The potential recovery actions that the Firm has identified
- An overview of the Firm’s wind-down planning

## 6. REMUNERATION POLICIES AND PRACTICES

The Firm is required to disclose certain quantitative and qualitative remuneration items. Due to its size of operations in the UK, and the structure of the Group, the Firm has not established a Remuneration Committee in the UK. However, certain decisions about the remuneration arrangements applicable to the Company are made by the Group Level Compensation Committee (the “Compensation Committee”) which includes members of the Firm’s governing body. Decisions regarding: (i) the group-wide incentive plans that are applicable to the Firm; and (ii) the overall bonus pools; are made by the Compensation Committee. Compliance with the Firm’s Remuneration Policy is overseen by the Firm’s board of directors.

The Firm's policy is designed to ensure that we comply with the FCA's MIFIDPRU Remuneration Code and ensure that 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 Material Risk Takers ("MRTs") include members of senior management and persons with managerial responsibility for managing investments, control functions, and money laundering. The remuneration of the control function staff is linked to their success in relation to their control functions (amongst other things). In addition, remuneration is benchmarked to ensure that employees in control functions are remunerated adequately.

The Firm did not offer any exceptional or non-standard termination payments to employees in the last year. Guaranteed bonuses are paid only in line with FCA Guidance.

The total remuneration for staff is broken down in the table below by MRTs and non-MRTs:

	Non-MRTs	MRTs	Total
Total Remuneration	21,033	9,941	30,974
Fixed Remuneration	9,936	3,046	12,982
Variable Remuneration	11,097	6,895	17,992