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## 1. Purpose and Background

CRUX Asset Management ('CRUX' or 'the Firm') is regulated by the Financial Conduct Authority ('FCA') as a FCA investment firm and is subject to the financial resource adequacy requirements set by the FCA Prudential Sourcebook for MiFID Investment Firms ('MIFIDPRU') for a MIFIDPRU Non-Small & Interconnected ('Non-SNI') Firm. MIFIDPRU provides the framework for regulatory financial resource management and includes components that require FCA investment firms, including CRUX, to assess the adequacy of their financial resources.

Under MIFIDPRU 8 (Disclosure), FCA investment firms are required to disclose certain information concerning their risk management policies and procedures, including their regulatory financial resource adequacy position. MIFIDPRU came into force on 1st January 2022 and for the first MIFIDPRU disclosure there are transitional provisions, as set out in MIFIDPRU Transitional Provision ('TP') 12, which impacts what investment firms are required to disclose in the first disclosure document under MIFIDPRU. These transitional requirements are summarised below:

- Governance arrangements
- Own funds
- Own funds requirements
- Remuneration (as required under BIPRU and SYSC19A)

In subsequent MIFIDPRU disclosures, the following will also be included:

- Risk management objectives and policies,
- Remuneration (as required under MIFIDPRU and SYSC19G), and if relevant
- Investment policy as per MIFIDPRU 8.7

These disclosures have been prepared on an individual basis for CRUX, and cover the financial position for the year ended 30 September 2022 and were approved by the Board on [date]. The audited annual accounts and financial statements were also approved by the Board on 29 November 2022

These disclosures have not been audited by the Firm's external auditors except where the information is equivalent to that included in the 2022 audited annual accounts and financial statements. These disclosures have been reviewed by the relevant areas of the Firm.

The disclosures in this document are required to be published annually and if appropriate, more frequently. This document shall be made available to view at <https://www.cruxam.com/>.

## 2. Overview of CRUX Asset Management Ltd

CRUX was incorporated as CRUX Asset Management Ltd in September 2013.

CRUX is an active equity investment manager, based in London, with £1.2bn assets under management. Established in 2014, the firm's core equity teams focus on Europe, UK and Asia to deliver outstanding investment performance through bottom-up, high-conviction stock selection.

Each team uses proven valuation methodologies and has intimate knowledge of long-term capital growth opportunities in the specific geographies where they invest. The fund managers align investment aims with those of their global clients by investing meaningful amounts of their own assets in CRUX funds and owning equity in the company.

The senior management team is responsible for the day-to-day running of the business, and this allows the investment management team to focus purely on delivering superior investment returns.

Since its launch in 2014, CRUX has expanded its operations to create a lasting business and further establish CRUX's presence in active management and now manages 8 funds.

CRUX principal activities have direct financial consequences for CRUX that require financial resources to be held to protect against that risk and require CRUX to be directly regulated (by the FCA).

CRUX is authorised by the FCA under Part 4A of the Financial Services and Markets Act 2000 ('FSMA') as an authorised investment firm with the FCA firm reference number 623757.

### **3. Risk Management and Objectives**

For the year ended 30 September 2022, the Firm has applied the transitional provisions available for public disclosure requirements contained in rule 12.6 of MIFIDPRU TP12 and, as such, has not prepared disclosure required under MIFIDPRU 8.2.

## **4. Governance Arrangements**

### **4.1. Governance Overview**

The CRUX Board has ultimate responsibility for the management of the Firm and is responsible for establishing and monitoring the effectiveness of the Firm's corporate governance framework. The Board is also responsible for determining the Firm's strategy and risk appetite.

The Board meets its responsibilities by delegating the day-to-day running of the Firm to the CEO. In turn, the CEO has delegated particular responsibilities to senior management within the organisation. The CEO has established the Executive Committee which has the objective of aiding the CEO with the continuous oversight of the key business areas in the context of approved budgets, business plans and risk appetite.

CRUX develops and solidifies its governance approach with clearly defined roles. CRUX is a small firm, and the structure of its risk governance reflects this. Matters related to risk governance structures are regularly discussed between the CEO and COO, and any issues which require escalation are brought to the Executive Committee and/or the Board for discussion.

The ultimate reporting authority for the CRUX business is the Board, which has delegated authority to the Executive Committee. The Executive Committee meets on a Bi-monthly basis (or more frequently, as determined at the discretion of the CEO) and discuss risks arising for the firm and/or clients. Compliance and Operations has risk as a standing agenda item and these meetings are recorded in minutes with key risk issues escalated to the Board by the CEO in a formal report submitted at each Board meeting.

The Executive Committee and Board delegate the day-to-day running of the business to the CEO. The CEO and COO/ Compliance Officer meet to review and discuss risk and regulatory compliance.

### **4.2. CRUX Board Director Overview**

The directors (executive and non-executive) on the CRUX Board and the number of directorships held by each member, including external directorships, is summarised in the table below.

*Table 1 – Summary of directorships held by each member of CRUX Asset Management Ltd*

Name	Position	Directorships Held	
		Executive	Non-Executive
Karen Zachary	Chief Executive Officer	1	2
William Kerr	Non-Executive Director	0	1
Richard Blaksley	Non-Executive Director	0	1
Philip Howard	Executive Chairman	1	0
Richard Pease	Executive Director	1	0
James Milne	Executive Director	1	0

In accordance with MIFIDPRU 8.3.2, directorships held in organisations which:

- a) do not pursue predominantly commercial objectives; and or
- b) are within the same group or within an undertaking in which the Firm holds a qualifying holding;

Have not been included in this disclosure.

### 4.3. Diversity Policy for the Board

CRUX recognises the benefits of a diverse workforce and management team in terms of innovation, creativity and decision making. Diversity is promoted through a range of firm-wide activities, including hiring practices, senior management objectives, training and awareness sessions and Board level oversight. The Firm recognises this as an area of ongoing development for the Firm and financial services industry generally and will report annually on progress.

### 4.4. Risk Committee

CRUX does not have a risk committee and is not obligated to establish one under MIFIDPRU 7.3.1R because they fall into the exemption in MIFIDPRU 7.1.4R(1)(a).

## 5. Own Funds

Under MIFIDPRU 8.4 (Own funds), CRUX must disclose the following information:

- a) 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,
- b) A reconciliation of (a) with the capital in the balance sheet in the audited financial statements of the firm, and
- c) 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.

MIFIDPRU 8.4 requires the above information be presented in the template found in Appendix 1. A summary of the own funds as at the reference date can be found below:

Table 2 – Own Funds as of 30 September 2022

Summary of Own Funds	
Item	Amount (GBP 000's)

Fully Paid-up capital instruments	450
Share Premium	2,252
Share Option Reserve	1,129
Own Shares	(2,312)
Profit and Loss Account	4,577
<b>Own funds</b>	<b>6,096</b>

## 6. Own Funds Requirement

Under MIFIDPRU 8.5 (Own funds requirement), CRUX must disclose:

- a breakdown of its K-Factor Requirements ('KFRs') and Fixed Overheads Requirement ('FOR') (MIFIDPRU 4.3) and
- CRUX's approach to assessing the adequacy of its own funds in accordance with the Overall Financial Adequacy Rule ('OFAR') (MIFIDPRU 7.4.7R)

### 6.1. Own Funds Requirement

MIFIDPRU 8.5 specifies a breakdown for the disclosure of the KFRs, split into the sum of each of the following groupings, which reflect:

- assets for which the firm is responsible
  - K-AUM, K-CMH and K-ASA
- execution activity undertaken by the firm
  - K-DTF and K-COH
- its exposure-based risks
  - K-NPR, K-CMG, K-TCD, K-CON

As at 30 September 2022, the calculations for K-DTF and K-COH were nil because the Firm was not undertaking any dealing on own account activities nor were they receiving or transmitting client orders or executing orders on behalf of a client.

Table 3 - Breakdown of own funds requirement as of 30 September 2022

Breakdown of Own Funds Requirement	
	Amount (GBP 000's)
<b><u>Fixed Overheads Requirement (a)</u></b>	1,827
<b><u>K-Factor Requirements (b)</u></b>	376
• K-AUM, K-CMH and K-ASA	304
• K-DTF and K-COH	0
• K-NPR, K-CMG, K-TCD and K-CON	72
<b>Own Funds Requirement [Max a or b] (c)</b>	<b>1,827</b>

### 6.2. Overall Financial Adequacy Approach

The OFAR, as laid out in MIFIDPRU 7.4, requires that CRUX must, at all times, hold own funds and liquid assets which are adequate, in their amount and their quality, to ensure that:

- a) CRUX is able to remain financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities, and
- b) CRUX's business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

As at time of publication of this MIFIDPRU disclosure document, CRUX's first iteration of the Internal Capital Adequacy and Risk Assessment ('ICARA') has been completed in line with the Investment Firm Prudential Regime ('IFPR') – (subsequently laid out in MIFIDPRU of the FCA Handbook) and additional FCA guidance on assessing adequate financial resources (FG20/1) to estimate their potential future impact on prudential financial resources requirements.

The starting point of the ICARA process is an assessment of CRUX's business and operating model. The risk owners discuss and assess, with risk oversight, the harms which could arise from the business and operating model, the risk events which, if manifested, would result in the harms occurring, and the scenarios in which those risks are likely to occur in. The input provided by the risk owners is then used as the basis for the risk of harm assessments and stress testing.

CRUX has developed its own risk management culture and governance framework: the CRUX RMF. The CRUX RMF has defined and implemented tools and reporting capabilities. The Framework contains risk assessments, governance structure, product development, investment risk limits, liquidity, stress testing, and risk event management. All risks are measured by their inherent (severity) and residual (expected) impact, and probability (likelihood). Risk assessment is a continual process and is recorded within the CRUX Risk Assessment Matrix. The Executive Committee, on a yearly basis, will review the risks identified in the 'top down' approach for CRUX. This review will be fully documented and will extend to incorporate a review of breaches and errors.

Various risk assessment methodologies are used to calibrate the own funds and liquid assets to be held by CRUX to remain a going concern. The methodologies and tools used in the assessment vary depending on the nature of the risks and harms. The methodologies are proportionate to the scale and complexity of the risks and harms to CRUX's viability. Principally, CRUX has developed a Risk Assessment Matrix ("RAM") to document the material risks of harm, their inherent impact and likelihood, mitigating controls, and residual risk and value. The RAM is used to ensure the risk management process uses objective and consistent criteria.

CRUX conducts business model planning and forecasting, using severe but plausible stress scenarios to test the business's ability to generate profit and maintain sufficient own funds and liquid assets in adverse circumstances. The results of this are factored into the assessment of financial and non-financial resources forecasting which is required in order to wind down in an orderly fashion. The financial resources required to do so are then considered in the ICARA financial resources requirement calculations.

CRUX then determines that it must hold own funds in excess of the greatest of the below amounts:

- Permanent Minimum Requirement,
- Fixed Overhead Requirement (FOR)<sub>t</sub>,
- Own funds required to remain an on-going concern; or
- Own funds required to wind down in an orderly fashion.

In the reporting year, CRUX determined that the FOR was greatest. This amount was CRUX's Own Funds Threshold Requirement (OFTR).

CRUX then determines that it must hold liquid assets in excess of the greatest of the following amounts:

- Basic Liquid Asset Requirement (BLAR),
- Liquid assets required for ongoing operations (LAOO); or
- Liquid assets required to wind down in an orderly fashion.

In the reporting year, CRUX determined that their LAOO was greatest. As this was greater than the additional liquid assets required for wind-down (already covered by BLAR) was added to the BLAR. The sum of this became CRUX's Liquid Asset Threshold Requirement (LATR).

CRUX's 3-year business plan is stress tested for scenarios which risk owners have assessed as resulting in risks manifesting which would lead to material harm to the Firm, its stakeholders, its customers and the wider market.

Where scenarios have been determined to be outside of the Firm's direct control, the reduction in own funds and liquid assets surplus over the relevant threshold requirement is used to calibrate Early Warning Indicators which are used as action triggers in the Financial Recovery Plan.

If a breach of one or both of the threshold requirements were to form, a notification would be sent to the FCA along with a recovery plan setting out the likely actions available to the Board to remediate the breach. CRUX has a Financial Recovery Plan in place which is reviewed annually and updated to reflect changes to the business, the stress scenarios selected, and resources available to the Firm. The Financial Recovery Plan includes the charges and duties of individuals and functions in a recovery situation, escalation triggers and process, of recovery actions and their impact, and recovery plan testing.

## 7. Remuneration

For the year ended 30 September 2022, the Firm has applied the transitional provisions disclosure requirements contained in rule 12.8 of MIFIDPRU TP12. As such, this section of the disclosures has been prepared under the previous regime's rules and the remuneration disclosure is set out below, as required by BIPRU and the IFPRU Remuneration Code (SYSC 19A). The disclosure provides information in relation to Remuneration Code Staff, employees whose professional activities have a material impact on the firm's risk profile, including any employee who is deemed to have a material impact on the firm's risk profile in accordance with the SYSC 19G.5. This includes categories of staff, such as senior management, Material Risk Takers (MRTs), staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management.

### 7.1. Remuneration Governance

Remuneration decision-making is undertaken by the Remuneration Committee and their decisions are approved by the board. The duties of the Committee are delegated and agreed by the Board and governed by its Terms of Reference, which is reviewed annually. The Committee's main purpose is to consider and agree an appropriate Remuneration Policy for all employees. Furthermore, the Committee has specific responsibility for matters, including MRT remuneration and identification, staff remuneration policies, approval and oversight of risk adjustment and ensuring the alignment of variable remuneration outcomes with CRUX's culture and values.

### 7.2. Remuneration Policy

The Board has delegated authority to the Remuneration Committee to consider and agree a Remuneration Policy for all employees, with particular focus on MRTs (other than non-Executives). The Board retains the



function of approving the Remuneration Policy. The Remuneration Committee ensures that remuneration is aligned to the Firm's business objectives, values, risk appetite, regulatory compliance and long-term sustainable success in order to support a high performance culture and drive appropriate behaviours. The Firm's Remuneration Policy, which is reviewed annually, is designed to adhere to regulatory and legislative principles and aims to recognise the interest of relevant stakeholders of CRUX and drive an appropriate risk-based culture within the firm.

### **7.3. Link Between Remuneration and Performance**

During the year under review, the total remuneration of an employee comprised of fixed (i.e. salary) and variable components.

Salary is set in line with market competitiveness at a level to retain, and when necessary attract, skilled staff.

CRUX runs a bi-annual discretionary bonus scheme. The bonuses are recommended by the CEO, and ultimately approved by the Remuneration Committee. The Remuneration Committee consider bonus allocation by defined business area allocation which are determined at the discretion of the Remuneration Committee and approved by the Board.

Bonuses are designed to reflect the performance of an individual in contributing to the success of CRUX and their success in meeting, or exceeding, targets that have been set by the business on an individual basis. In addition, any bonus will take into account the performance of the business unit concerned, the overall results of the Firm, and the market averages for remuneration among the recipient's peer group and related roles.

The performance of CRUX will be assessed on an evaluation of the Firm's financial performance, the performance of CRUX funds relative to their benchmark and competitors, the Firm's adherence to effective risk management and compliance with applicable regulation including consideration of any sanctions and penalties imposed upon CRUX by its regulators.

All MRT and SMF bonuses are subject to a malus principle under which payments may be clawed back in certain circumstances.

The Firm operates a share options scheme. Awards of options and the terms related to the options shall be made upon recommendation to the Remuneration Committee on a bi-annual basis, in line with the timing of the bi-annual audited valuation of the company. Shares may be made available to employees when allotted by CRUX, as a reward or as an incentive.

On an annual basis, the Compliance Officer (SMF16) will review the firm's compliance with this Remuneration Policy. Any issues identified because of this review will be reported to the Board.

### **7.4. Quantitative Remuneration Disclosures**

CRUX operates as a single business unit. The aggregate total remuneration for the financial year ended 30 September 2022 was £7,434,000, of which £4,533,000 was variable remuneration awarded.

The aggregate quantitative information has been broken down into the following categories:

- a) Senior Management: defined as executives whose roles need to be approved by the FCA under the Senior Management Functions (SMFs).

- b) Other Material Risk Takers ('MRT'): defined as per SYSC19G.5 a staff member at a non-SNI MIFIDPRU investment firm whose professional activities have a material impact on the risk profile of the firm or of the assets that the firm manages.

Table 4 - Remuneration amounts for the financial year-ended 30 September 2022

Fixed and Variable Remuneration (GBP 000's)		
Remuneration Type	Senior Management	Other MRTs
Fixed	740	750
Variable	1,104	2,616
Cash	560	1,424
Shares	0	286
Share Options	544	906
Number of Staff	5	4

## 7.5. Sign-on and Severance Payments

During the year ended 30 September 2022, there was one sign-on cash payment of £177,500 awarded to one beneficiary; and one severance payment of £66,200 awarded to one beneficiary.

## Appendixes

### Appendix 1 – Composition of Own Funds

Composition of regulatory own funds			
	Item	Amount (GBP thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements
1	OWN FUNDS	6,096	Sum of 11a:14a.
2	TIER 1 CAPITAL	6,096	
3	COMMON EQUITY TIER 1 CAPITAL	6,096	
4	Fully paid up capital instruments	450	10a
5	Share premium	2,251	11a
6	Retained earnings	4,577	14a
7	Accumulated other comprehensive income		
8	Other reserves	1,129	13a
9	Adjustments to CET1 due to prudential filters		
10	Other funds		
11	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	2,312	12a
12	CET1: Other capital elements, deductions and adjustments		
13	ADDITIONAL TIER 1 CAPITAL		
14	Fully paid up, directly issued capital instruments		
15	Share premium		
16	(-) TOTAL DEDUCTIONS FROM ADDITIONAL		

	TIER 1		
17	Additional Tier 1: Other capital elements, deductions and adjustments		
18	<b>TIER 2 CAPITAL</b>		
19	Fully paid up, directly issued capital instruments		
20	Share premium		
21	(-) TOTAL DEDUCTIONS FROM TIER 2		
22	Tier 2: Other capital elements, deductions and adjustments		

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements				
Flexible template - rows to be reported in line with the balance sheet included in the audited financial statements of the investment firm.				
Columns should be kept fixed, unless the investment firm has the same accounting and regulatory scope of consolidation, in which case the volumes should be entered in column (a) only.				
Figures should be given in GBP thousands unless noted otherwise.				
		a	b	c
		Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross-reference to template OF1
		As at period end	As at period end	
<b>Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements</b>				
1	Intangible Benefits	1,152		
2	Tangible Assets	22		
3	Fixed Asset Investments	6		
4	Debtors	2,528		
5	Current Asset Investments	207		
6	Cash and Cash Equivalents	5,498		
7	<b>Total Assets</b>	9,405		
<b>Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial Statements</b>				
8	Creditors: amounts falling due within one year	3,309		
9	<b>Total Liabilities</b>	3,309		
<b>Shareholders' Equity</b>				
10	Share Capital	450		
11	Share Premium	2,252		
12	Own shares - Employee Benefit Trust	(2,312)		
13	Share option reserve	1,129		
14	Profit and Loss Account	4,577		
15	<b>Total Shareholders' equity</b>	6,096		

## Appendix 2

Features of Own Funds		
Tier 1 Capital Instruments (values in GBP 000's)		
1	Issuer	<b>CRUX</b>
2	Public or Private Placement	Private Placement
3	Governing Law(s) of the instrument	UK
4	Regulatory Capital Classification	Common Equity Tier 1
5	Instrument Type	Cash
6	Amount recognised in regulatory capital	1,827
7	Nominal Amount of instrument	1,827
9	Number allotted, called up and fully paid	N/A
10	Issue price	N/A
11	Redeemable	N/A
12	Redemption Price	N/A
13	Accounting Classification	Shareholder's Equity
13	Original Date of Issuance	N/A
14	Non-cumulative or cumulative	N/A
15	Perpetual or Dated	N/A
16	Maturity date	N/A
17	Issuer call subject to prior supervisory approval (Y/N)	N/A
18	Optional call date, contingent call date and redemption amount	N/A
19	Subsequent call dates, if applicable	N/A
	<b>Coupons/Dividends</b>	
19	Fixed or floating dividend/coupon	N/A
20	Existence of a dividend stopper	N/A
21	Existence of step up or other incentive to redeem	N/A
22	Convertible or non-convertible	N/A
23	Write-Down Features	N/A