

**MIFIDPRU 8 Disclosure  
for year ending 31 December 2023**

# 1. Overview

## 1.1 Introduction

This disclosure is in relation to BH-DG Systematic Trading LLP (“BH-DG” or the “Firm”). BH-DG is an English limited liability partnership, incorporated in the United Kingdom (“UK”), authorized and regulated by the Financial Conduct Authority (“FCA”) under the firm reference number 540897.

BH-DG holds the following FCA permissions<sup>1</sup>:

- Advising on investments;
- Arranging (bringing about) deals in investments;
- Arranging safeguarding and administration of assets;
- Dealing in investments as agent;
- Making arrangements with a view to transactions in investments; and
- Managing investments.

The Firm’s principal activity is providing discretionary investment management services to certain managed accounts. Further information regarding the Firm’s history and strategies can be found on the Firm’s website at <https://www.bhdgsystematic.com/>.

As a UK investment firm BH-DG is subject to the prudential requirements of the Investment Firms Prudential Regime (“IFPR”) contained in the MIFIDPRU Prudential sourcebook of the FCA Handbook (“MIFIDPRU”). This document sets out the IFPR public disclosures for BH-DG as at 31 December 2023, which represents the end of the financial accounting period 1 January 2023 to 31 December 2023. This document is available on BH-DG website (<https://www.bhdgsystematic.com/>)

Under the IFPR’s firm categorization, BH-DG is categorized as a non-small non-interconnected (“Non-SNI”) MIFIDPRU investment firm. This disclosure document covers all aspects of the disclosure requirements within the scope of the MIFIDPRU rules applicable to Non-SNI investment firms.

## 1.2 Objectives

Based on the Firm’s IFPR prudential classification as a Non-SNI firm, this disclosure document has been prepared to contain information in relation to the Firm’s remuneration policy and practices, own funds, own funds requirements, governance, risk management objectives and policies. This document is intended to provide investors, stakeholders and wider market participants with transparency and accountability regarding BH-DG’s business.

## 1.3 Basis and Frequency of Disclosure

The Firm is required to publicly disclose the information specified in this Policy on an annual basis on the date it publishes its annual financial statements (at the latest by 31 September 2024). The Firm will consider making more frequent public disclosure where particular circumstances demand it, for example, in the event of a major change to its business model or where a merger has taken place.

The Firm believes that its qualitative disclosures are appropriate to its size and internal organisation, and to the nature, scope and complexity of its activities. The annual audited accounts of BH-DG which are available from UK Companies House set out further information which complements the information in this disclosure.

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<sup>1</sup> BH-DG’s FCA permissions are subject to certain limitations as set forth on the FCA register at <https://register.fca.org.uk/s/firm?id=001b000000NMbdDAAT>

BH-DG is part of an investment firm group (along with its affiliate, DG Partners LLP) for the purposes of prudential consolidation under IFPR. However, these disclosures have been prepared on an individual basis in accordance with MIFIDPRU.

## 1.4 Policy and Disclosure Validation

BH-DG is committed to implementing robust internal controls to ensure the completeness and accuracy of public disclosure regulatory requirements. Accordingly, this document is subject to an internal governance and verification process, and approval by the Board.

As a Non-SNI firm, this disclosure document covers the following key areas:

- Governance arrangements;
- Risk management objectives and policies;
- Own funds;
- Own funds requirements; and
- Remuneration policy and practices.

The disclosure drafting and validation/sign off process involves input from a number of internal teams prior to approval and publication.

Area of disclosure	Responsible individual(s)/team(s) for data provided
Governance arrangements	Chief Operating Officer
Risk management	Chief Risk Officer
Own funds	Head of Finance
Own funds requirements	Head of Finance
Remuneration	Chief Operating Officer and Head of Finance
Guidance on the application of the IFPR regime to the Firm	Legal & Compliance Department

Information contained within this document has not been subject to external audit. The disclosures have been prepared purely for the purpose of explaining the basis on which BH-DG has prepared and disclosed certain own funds requirements and information about the management of certain risks, and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any judgement on the financial position of BH-DG.

## 2. Risk management objectives and policies

### MIFIDPRU REQUIREMENT:

*Under MIFIDPRU 8.2, the Firm is required to disclose information regarding its risk management objectives and policies in relation to the following risks:*

- (1) MIFIDPRU 4 (own funds requirements);*
- (2) MIFIDPRU 5 (concentration risk); and*
- (3) MIFIDPRU 6 (liquidity).*

*The risk management objectives and policies for each of these items must include:*

- (1) a concise statement approved by the Firm's governing body describing the potential for harm associated with the business strategy; and*
- (2) a summary of the strategies and processes used to manage each of the categories of risks listed above and how this helps to reduce the potential for harm.*

### 2.1 Categories of risk

#### Own funds requirements – MIFIDPRU 4

This is the level of own funds required to be held by BH-DG to reflect the potential harm that might be incurred by BH-DG, its clients, and the markets it operates in from its activities. In assessing the adequacy of the Own Funds Requirement, the Firm has considered the key risks to the Firm's operating model. Due to BH-DG's prudential classification as a Non-SNI Firm, the Firm's own funds requirement is based on the higher of the Permanent Minimum Requirement ('PMR'), the Fixed Overheads Requirement ('FOR') or the K-Factor Requirement ('KFR'). The Firm's FOR as at the Firm's year-end 31 December 2023 is £1,196,000.

#### Concentration risk- MIFIDPRU 5

Concentration risk is monitored to reduce the risk of BH-DG being exposed to too much risk from a single client or group of connected clients and the risk arising from concentration of credit exposures via counterparties. The Firm does not conduct trading on own account and does not have regulatory permissions for dealing as principal hence it has no concentration risk with respect to trading. The Firm does not hold client money and does not hold custody of client assets, but monitors where client assets are custodied. The Firm monitors its own cash deposits and earnings.

#### Liquidity risk - MIFIDPRU 6

The MIFIDPRU basic liquid assets requirement is for investment firms to hold a certain amount of liquid assets in order to cover commitments as they become due. This is to ensure that the Firm has enough liquidity to meet obligations to counterparties and clients.

The Firm maintains minimum liquidity at all times in compliance with the Basic Liquid Asset Requirement, being at least 1/3<sup>rd</sup> of its FOR. The Firm does not provide any client guarantees and therefore its entire liquidity requirement is driven by its expenses, as captured by the FOR. As part of the Firm's Internal Capital Adequacy and Risk Assessment ('ICARA'), the Firm also maintains liquidity to satisfy its net wind-down costs and any additional liquidity requirements needed for supporting the ongoing business activities of the Firm as identified by the ICARA.

## 2.2 Approach to managing risk

The Firm is primarily focused on providing investment advice and its performance as a business is driven by client AUM and performance. As with most advisory businesses based around people, it typically does not incur large capital expenditure and expenses tend to fluctuate with income making it a relatively low risk business model. The Firm's Governing Body (see below) is committed to managing all of the Firm's risks. The Governing Body has decided that the Firm's overall appetite for risk in business operations is low and it encourages all staff to identify, escalate and minimise risks as far as possible. The Firm has a conservative approach to tax and regulatory compliance risk and employs reputable external advisors that are specialised in those areas.

The Firm has conducted a comprehensive risk identification exercise of potential harms in line with MIFIDPRU 7 Annex 1 across all business lines to ensure that all significant risks are identified. The Firm has developed a comprehensive Risk Register within the framework of the Firm's ICARA which sets forth relevant details relating to each category of risk, including a 'risk appetite' statement. Any risk rated above the risk appetite is deemed to be unacceptable to the Firm and will be addressed as a priority to ensure that it is either managed to fall within our risk appetite or that additional capital is assigned to manage the risk.

Relevant business areas of the Firm have input into the development of the Risk Register to ensure all areas of potential harm are identified. All risks recorded in the Risk Register are categorised in terms of potential harms to clients, the Firm itself or markets. Categories of risk including credit, market, operational, business and liquidity risks are mapped to potential harms. The Firm has historically been willing and remains committed to ensuring that there are adequate reserves and capital to meet all likely business scenarios and particularly to ensure that it has sufficient funds to meet an orderly wind down of the business.

The Firm's risk appetite is formally reviewed annually. There are a variety of formal and informal risk controls in place at the Firm.

## 2.3 The Firm's Risk Management Processes and their Effectiveness

The Firm has governance and internal control arrangements in place to manage risks across the business. The Firm's risk management framework is central to the Firm's ICARA process. The risk management framework is split between (1) portfolio and trading risk; and (2) enterprise risk and is summarised as follows:

### Portfolio and trading risk

#### Macro trading

The CIO has overall responsibility for how portfolio trading risk is deployed, however, this is overseen by the Macro Risk Committee of the Firm which is responsible for the risk management and portfolio management oversight of the Firm's macro strategy. The committee meets weekly and is chaired by the Chief Risk Officer. The committee comprises the Chief Risk Officer and the Head of Middle Office. The Chief Risk Officer draws upon the resources of each of the business groups within the Firm in implementing the decisions of the Macro Risk Committee. On a day-to-day basis, trader risk is supervised and monitored by the CRO.

The Firm has a number of core controls in place relating to its provision of investment management services. In particular:

- PMs are assigned a particular level of capital to manage in respect of each client.
- Restrictions are imposed which are designed to mitigate risks at client level.
- Each PM is subject to the FCA's Conduct Rules and is ultimately responsible for his trading.

## Systematic trading

The Firm's Systematic Risk Committee (the "SRC") is responsible for the risk management and portfolio management oversight of the Firm's trading strategy. The committee usually meets weekly and is chaired by the CRO. The CRO draws upon the resources of each of the business groups within the Firm in implementing the decisions of the SRC, with particular support from the Execution Team.

The SRC reviews key risk measures such as performance, VAR, Stress tests, largest positions, largest relative positions, points of illiquidity etc. On a day-to-day basis, strategy risk is supervised and monitored by the CRO.

The Firm operates a series of automated measures to assist the risk management team in monitoring and managing portfolio risk. These include:

- Flags – risk parameters, which, if crossed, lead to enhanced monitoring of the relevant positions; and
- Limits – these are hard limits. If a position crosses a limit, it would, absent exceptional circumstances, be required to be brought below the relevant limit immediately.

## Enterprise Risk

The Firm has in place arrangements in relation to all aspects of its business. These arrangements are grouped into five broad areas:

- Organisation and Management – the Firm maintains a clear organisational structure which is organised to maximise independence of function and to reduce internal conflicts. Where conflicts exist, these are documented and recognised in a conflicts log and mitigated.
- People and Responsibilities – individuals have clearly defined roles and responsibilities.
- Business Processes – business risk is managed through the appointment of skilled senior personnel together with a combination of formal and informal checks and balances combined with management oversight arrangements. The Firm maintains a close working relationship with its clients, prime brokers and administrators and certain other key advisers (in particular its auditors, tax advisors and lawyers).
- Management Information and Reporting – The Firm has adopted risk management and management information systems in place that are designed to ensure that senior management have the required information that they need for reporting.
- Compliance Arrangements – The Firm has sought to embed a culture of compliance, there are detailed compliance manuals and policies covering compliance on an individual and firm wide basis. There is a risk-based monitoring plan in place which is an on-going process to monitor compliance with existing procedures and to ensure regulatory changes are addressed as they arise. The CRO is responsible for the Firm's overall risk management framework and processes. Compliance requirements are the responsibility of the CCO. Finance requirements are the responsibility of the Head of Finance.
- A critical component of trading is the management and control of risk. The Firm utilises widely used risk management techniques for aggregating risk within a trading strategy and across a range of trading strategies.
- The Firm's risks and internal controls are assessed on an on-going basis. The following criteria are considered when implementing internal controls: (a) the controls should provide effective and efficient processes to manage risk; (b) the controls should ensure compliance with applicable laws and regulations; and (c) the controls should promote segregation of duties and clearly assign accountability.

- The Governing Body is responsible for supervising those who have been assigned responsibility to implement the Firm's internal controls and risk management procedures and conducts an annual review of the effectiveness of the Firm's risk management processes.

### 3. Governance arrangements disclosure

#### MIFIDPRU REQUIREMENT:

*Under MIFIDPRU 8.3, the Firm is required to disclose the following information regarding internal governance arrangements:*

- (1) an overview of how the Firm complies with the requirement in SYSC 4.3A.1R to ensure the management body defines, 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;*
- (2) the number of directorships (executive and non-executive) held by each member of the management body;*
- (3) where relevant, whether the FCA has granted a modification or waiver of SYSC 4.3A.6R(1)(a) or (b) in order to allow a member of the management body to hold additional directorships;*
- (4) a summary of the policy promoting diversity on the management body, including explanations of:*
  - (a) the objectives of the policy and any target(s) set out in the policy;*
  - (b) the extent to which the objectives and any target(s) have been achieved; and*
  - (c) where the objectives or target(s) have not been achieved:*
    - i) the reasons for the shortfall;*
    - ii) the Firm's proposed actions to address the shortfall; and*
    - iii) the proposed timeline for taking those actions;*
- (5) whether the Firm has a risk committee; and*
- (6) whether the Firm:*
  - (a) is required by MIFIDPRU 7.3.1 to establish a risk committee; or*
  - (b) would have been required under MIFIDPRU 7.3.1 to establish a risk committee, but that obligation has been removed as a result of a waiver or modification granted by the FCA.*



### 3.1 Governance Framework

The Firm is part of an Investment Firm Group along with DG Partners LLP. The Firm is managed by the governing body of the Firm ('the Board'). The members of the Board possess a wide range of skill sets represented among its membership, with an appropriate emphasis on each of compliance, risk and technology alongside the Firm's general investment management objectives. The Board meets regularly and is composed of:

Name	Title
David Gorton	Chief Investment Officer
Umar Aziz	Chief Operating Officer, General Counsel and Chief Compliance Officer
Maxwell Corden	Chief Risk Officer
Matthew Turnbull	Chief Technology Officer

The role of the Board is to provide oversight and take responsibility for the strategic leadership of the Firm within a framework of good corporate governance and prudent and effective controls which enable risk to be assessed and managed, including appropriate segregation of duties of the Senior Management Functions in accordance with the Senior Management and Certification Regime ('SM&CR') and management of conflicts of interest which are kept under review by the Board. The Board sets the structure in place for the Firm to meet its objectives and reviews management performance. The Board sets and oversees the Firm's values and standards and ensures that its obligations to its members, its clients and others are understood.

The Board members are all Senior Managers and are therefore accountable for their activities. In addition, all staff are reviewed annually in respect of competence and fitness and propriety. This review process feeds into staff remuneration which in turn is governed by the Firm's remuneration policy.

The Board of Directors of the Firm has the daily management and oversight responsibility for the business supported by other key members of the senior management team within the Firm. The Firm seeks regulatory approval prior to appointments to the Board under the SM&CR. All Board members are registered and listed on the FCA Register. Responsibilities are allocated to Senior Managers under the SM&CR regime, and these are reviewed annually to ensure consistency with the business of the Firm.

Name of Committee	Principal Role/Function of Committee	Members
Remuneration Sub-Committee	Responsible for all elements of staff remuneration	COO and CIO
Systematic Risk Committee	Responsible for the risk management and portfolio management oversight of the Firm's systematic strategy.	CIO, CRO and Head of Research
Macro Risk Committee	Responsible for the risk management and portfolio management oversight of the Firm's systematic strategy.	CRO and Head of Operations
Algorithmic Trading Committee	Responsible for oversight of implementation and changes to investment decision algorithms, order execution algorithms and algorithmic trading systems.	CTO, CRO, COO/CCO/GC and Head of Research
Macro Investment Committee	Responsible for all elements of new investments	CIO, Deputy CIO, Portfolio Managers, Execution Traders
Data Protection Committee	Responsible for all elements of data protection	COO and CTO
New Product Approval Committee	Responsible for approval of new instruments and systematic trading strategies.	CRO; Head of Operations; CTO; CCO; Head of Research (for systematic trading only); and Head of Execution (for systematic trading only)

The Firm is not required to appoint a separate Audit Committee or Nomination Committee in view of the size and complexity of the Firm's business. Although the Firm is not required to appoint a Remuneration Committee, it has elected to do so for good governance.

## 3.2 Directorships

The following information relates to the appointments of BH-DG' Board members held in both executive and/or non-executive functions, including any directorships or equivalent roles held at external, commercial organisations as at 31 December 2023.

Role/ SMF Function	Name & number of Directorships (or equivalent)
Chief Investment Officer: Chief Executive (SMF 1) Partner (SMF 27) Client dealing function	David Gorton  Directorships (or equivalent): 5 active commercial directorships or equivalent
Chief Operating Officer, General Counsel, Chief Compliance Officer: Compliance Oversight (SMF 16) Money Laundering Reporting Officer (SMF 17) Partner (SMF 27)	Umar Aziz  Directorships or equivalent: 1 active commercial directorship or equivalent
Chief Risk Officer: Partner (SMF 27) Material risk taker Client dealing function	Maxwell Corden  Directorships or equivalent: 1 active commercial directorship or equivalent
Chief Technology Officer: Partner (SMF 27)	Matthew Turnbull  Directorships or equivalent: 1 active commercial directorship or equivalent

The Firm considers that the members of the Board meet the requirements of SYSC 4.3A.3.

## 3.3 Diversity

The Firm values the innovation and creativity that diversity of thought brings to the organisation and understands that diversity, equality and inclusion play a critical role in establishing strong governance and maintaining a healthy culture from the top as part of delivering higher standards of conduct and success of the Firm. The Firm is committed to building a workforce that reflects all aspects of diversity and intersectionality to bring a range of perspectives, ideas and insights to everything the Firm does. In particular, the Firm subscribes to the cognitive diversity hypothesis, which proposes that multiple perspectives stemming from the cultural differences between group members results in creative problem solving and innovation. This in turn helps to architect a collaborative environment that is innovative and focused.

BH-DG approaches diversity in the broadest sense, embracing diversity at all levels, including the Board and senior management. BH-DG has been building on its diversity, equity and inclusion strategy to increase gender balance. Approximately a third of the Firm's workforce is female and the Firm has female staff operating at various levels of seniority, including at partner level.

BH-DG is committed to eliminating discrimination and promoting equality and diversity in our policies, practices and procedures. We intend to treat everyone equally and with the same courtesy and respect

regardless of their race, racial group, colour, nationality, ethnic or national origin, sex, marital status, gender reassignment, pregnancy, maternity, sexual orientation, civil partnership, religion or belief, age or disability.

This expectation applies equally to the way in which staff treat visitors, clients, customers and suppliers. All members of staff have a duty to act in accordance with our policies on diversity and inclusion and treat colleagues with dignity at all times, and not to discriminate against or harass other members of staff, regardless of their status.

In addition to the Firm's specific Equality and Diversity Policy, diversity and inclusion are also addressed through a number of other policies including an Anti-Harassment and Bullying policy (which aims to prevent harassment and bullying and facilitates redress mechanisms); a Dependent Leave policy (which grants all employees the right to reasonable time off to help people who depend on them for assistance in an emergency); Maternity and Paternity policies; a Parental Leave policy; a Flexible Working policy (which assists us with facilitating return to work of personnel who have, for example, childcare commitments that might otherwise exclude them from the workforce); and a Childcare Salary Sacrifice Scheme. BH-DG also employs staff who work part-time.

BH-DG has undertaken certain outward looking measures: by way of example –

- the Firm has partnered with a school in one of the most deprived parts of London to provide internships to their students allowing them to gain access to knowledge regarding roles in financial services, science and technology, accounting, law and marketing from our staff; and
- the Firm's Responsible Supplier Code of Conduct requires our suppliers to, inter alia, demonstrate a commitment to equality of opportunity for individuals and groups enabling them to work in an environment free from discrimination, sexual harassment and oppression; and never abuse or intimidate, directly or indirectly, any member of staff.

In addition, all staff have access to the Firm's policies on Equality and Diversity which are made available through the Firm's intranet site.

Diversity and inclusion is something which we seek to embed in all staff behavior by setting the right "tone from the top" and maintaining a diverse workforce. In addition, we have appointed an external diversity and inclusion training provider to provide annual training to staff and we are a signatory to the Race at Work Charter.

## 4. Remuneration Disclosure

### MIFIDPRU REQUIREMENT:

*Under MIFIDPRU 8.6.2R, a firm is required to disclose a summary of:*

- (1) its approach to remuneration for all of its employees;*
- (2) the objectives of its financial incentives;*
- (3) the decision-making procedures and governance surrounding the development of the remuneration policies and practices the firm is required to adopt in accordance with the MIFIDPRU Remuneration Code, to include, where applicable:*
  - (a) the composition of and mandate given to the remuneration committee; and*
  - (b) details of any external consultants used in the development of the remuneration policies and practices.*

*Under MIFIDPRU 8.6.5R, a firm must also disclose the key characteristics of its remuneration policies and practices in sufficient detail to provide the reader with:*

- (1) an understanding of the risk profile of the Firm and/or the assets it manages; and*
- (2) an overview of the incentives created by the remuneration policies and practices.*

*For purposes of MIFIDPRU 8.6.5R, a firm must disclose at least the following information:*

- (1) the different components of remuneration, together with the categorisation of those remuneration components as fixed or variable; and*
- (2) a summary of the financial and non-financial performance criteria used across the Firm, broken down into the criteria for the assessment of the performance of:*
  - (a) the firm;*
  - (b) business units; and*
  - (c) individuals.*

*MIFIDPRU 8.6.6(3) requires Non-SNIs to disclose:*

- (a) the framework and criteria used for ex-ante and ex-post risk adjustment of remuneration, including a summary of:*
  - i) current and future risks identified by the Firm;*
  - ii) how the Firm takes into account current and future risks when adjusting remuneration; and*
  - iii) how malus (where relevant) and clawback are applied.*
- (b) the policies and criteria applied for the award of guaranteed variable remuneration; and*
- (c) the policies and criteria applied for the award of severance pay.*

## 4.1 Remuneration Policy

The Firm is a non-SNI Firm for the purposes of the MIFIDPRU Remuneration Code. Based on its size and an assessment of the criteria in SYSC 19G.1.1 of the MIFIDPRU Remuneration Code, the Firm is not subject to certain rules relating to the pay-out of MRT variable remuneration (payment in instruments, retention, mandatory deferral and discretionary pension benefits). BH-DG is therefore subject to the “basic” MIFIDPRU Remuneration Code requirements in respect of all MIFIDPRU staff and the “standard”, but not the “extended”, requirements in respect of its MIFIDPRU MRTs.

BH-DG’ remuneration policy and practices are gender neutral and do not discriminate between employees on the basis of gender or other characteristics.

## 4.2 Performance period

The Firm’s performance period for the purposes of this disclosure is 1 January 2023 to 31 December 2023.

## 4.3 Approach to remuneration for employees

The Firm acknowledges that remuneration policies and practices (collectively referred to as “Remuneration Practices”) must be appropriate and proportionate to the nature, scale and complexity of the risks inherent in the business model and the activities of the Firm. The Firm acknowledges the following requirements:

- (A) its Remuneration Practices must be consistent with, and promote sound and effective, risk management;
- (B) its Remuneration Practices must be in line with the business strategy, objectives and long-term interests of the firm; and
- (C) variable remuneration must not affect the firm’s ability to ensure a sound capital base.

The input of the Firm’s risk management, legal and compliance and finance functions as well as relevant business units has, where appropriate, been sought in developing the Remuneration Policy and the Firm’s Remuneration Practices.

The Firm ensures that its Remuneration Policy:

- (A) contains measures to avoid conflicts of interest;
- (B) encourages responsible business conduct; and
- (C) promotes risk awareness and prudent risk tasking.

The Firm ensures that staff engaged in control functions:

- (A) are independent from the business units they oversee;
- (B) have appropriate authority; and
- (C) are remunerated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

The Firm distinguishes between criteria for setting fixed and variable remuneration. The Firm ensures that the fixed and variable components of total remuneration are appropriately balanced and the fixed component represents a sufficiently high proportion of the total remuneration to enable the operation of

a fully flexible policy on variable remuneration, including the possibility of paying no variable remuneration component.

The Firm has set an appropriate ratio between the variable and fixed components of total remuneration for each of its MRTs.

## 4.4 Financial incentives and objectives

The objectives of the Firm's remuneration practices are as follows:

- The Firm undertakes to reward all employees fairly, regardless of job function, race, religion, colour, national origin, sex, sexual orientation, marital status, pregnancy, disability or age;
- It is the policy of the Firm to operate competitive remuneration policies to attract, retain and motivate an appropriate workforce for the Firm;
- The Firm is also committed to ensuring that its remuneration practices encourage high standards of personal and professional conduct, support sound risk management and do not encourage risk taking that exceeds the level of tolerated risk of the Firm, and are aligned with the Firm's regulatory requirements;
- Rewards for all staff will be aligned to financial and non-financial performance criteria and risk profile, and in all cases will be in line with the business strategy, objectives, values, culture and long-term interests of the Firm;
- The Firm will not allow any unfair or unjust practices that impact on pay;
- The Firm undertakes that it will not award remuneration using vehicles or methods the aim of which is to attempt to avoid application of the relevant FCA's Remuneration Code;
- Staff are provided with a range of benefits and incentives as well as policies designed to create an inclusive and supportive workplace culture. Incentives include but are not limited to bonuses, profit shares, professional development opportunities, private health care, car leasing schemes, pension, cycle to work, death in service benefits, interest free loans, IT equipment, lunch allowances, paid sabbaticals, dependent leave, flexible working, hybrid working, maternity, paternity and adoption leave and parental leave; and
- BH-DG' financial incentives are designed to raise employee satisfaction, recognise individual performance; attract and retain talent; encourage collaborative teamwork; and motivate staff to achieve Firm-wide objectives.

## 4.5 Governance

Whilst not required to do so as a non-SNI firm, in conformance with good practice the Board has appointed a "Remuneration Committee", comprising the CIO (David Gorton) and the COO, which meets at least annually and more frequently if required. The Remuneration Committee is responsible for determining all remuneration awards at the Firm and, generally, for overseeing the implementation of the Firm's remuneration policies and practices. The remuneration of the senior officers in the Firm's risk management and compliance functions is directly overseen by the Remuneration Committee.

## 4.6 Components of remuneration

The Firm makes a clear distinction between fixed and variable remuneration. Categorisation of remuneration components as fixed or variable is set forth below.

Fixed	Variable
Salary	Discretionary bonus type payments
Pension contributions	Guaranteed variable remuneration, retention awards, severance pay and buy-outs
Current benefits offered to employees as follows: <ul style="list-style-type: none"> <li>• Private medical insurance cover and related benefits;</li> <li>• death in service/life assurance cover;</li> <li>• business travel insurance cover (where applicable); and</li> <li>• subsidized food service.</li> </ul>	

Fixed remuneration primarily reflects a staff member's professional experience and organisational responsibility as set out in the staff member's job description and terms of employment; and is permanent, pre-determined, nondiscretionary, non-revocable and not dependent on performance.

Variable remuneration is based on performance and reflects the long-term performance of the staff member. In exceptional cases, variable remuneration may be based on other conditions. The Firm ensures that the fixed and variable components of an individual's total remuneration are appropriately balanced and the fixed component represents a sufficiently high proportion of the total remuneration to enable the operation of a fully flexible policy on variable remuneration, including the possibility of paying no variable remuneration component.

When assessing individual performance to determine the amount of variable remuneration to be paid to an individual, the Firm takes into account financial as well as non-financial criteria. Non-financial criteria:

- may override financial criteria, where appropriate;
- include consideration of an individual's overall contribution to the Firm's success;
- include consideration of an individual's overall conduct and how far the individual adheres to effective risk management and complies with relevant regulatory requirements; and
- include consideration of an individual's contribution to the Firm's culture as represented by BH-DG' key cultural values: "Integrity, Excellence and Investor Focus".

## 4.7 Financial and non-financial performance criteria

The Firm must take into account both financial and non-financial criteria when assessing the individual performance of its staff. This aims not only to discourage inappropriate behaviour but also to incentivise and reward behaviour that promotes positive non-financial outcomes for the Firm.

The Firm currently sets the variable remuneration of its staff in a manner which takes into account the performance of both staff (individually) and the Firm as a whole, based on profits generated during the relevant performance year. Individual performance is based on a range of criteria on which each member of staff, when considering their job description and agreed targets are assessed. Although, there is no specific weighting for the application of financial and non-financial criteria individual performance is based upon several factors which includes:

- (A) contribution to investment performance or contribution to growth in assets;
- (B) market benchmarking, team heads and/or the Remuneration Committee will benchmark compensation packages against similar roles at comparable institutions. On an annual basis, and more frequently if required, remuneration levels are surveyed to ensure that compensation packages reflect current compensation trends in the industry and are adapted as required;



- (C) contribution to Firm culture, values and ESG measures and other initiatives; and
- (D) adherence to the Firm's compliance policies and risk limits. Violations of policies / risk limits is taken into account when determining variable remuneration and can have a negative impact on the amount of variable remuneration received.

Specifically, with reference to MRTs the Firm ensures that MRT performance-related variable remuneration is based on a combination of the assessment of the performance of:

- (A) the individual;
- (B) the business unit concerned;
- (C) the overall results of the Firm; and
- (D) the assessment of MRT performance is part of a multi-year framework that ensures the assessment of performance is based on longer-term performance and the payment of performance-based remuneration is spread over a period that takes account of the business cycle of the Firm and its business risks.

The timing of payment, and form of delivery, of any variable remuneration is at the absolute discretion of the Remuneration Committee. However, in order to be eligible to receive a discretionary bonus the following conditions must be met on the date for payment:

- (A) the employee or member must still be employed by the Firm; and
- (B) the employee or members must not be under notice of termination of employment or membership.

The Remuneration Committee may impose other conditions from time to time as it sees fit, in its discretion.

## 4.8 Risk adjustment

Determination of the bonus pool includes adjustments for all types of current and future risks and the cost of the capital and liquidity required. The allocation of variable remuneration components within the Firm takes into account all types of current and future risks.

For the purposes set forth above, the Firm:

- (A) determines at what level the adjustments should be applied (such as business unit, trading desk and/or individual level, as appropriate), which risks are relevant, and which risk adjustment techniques and measures are most appropriate; and
- (B) in considering all types of current and future risks, includes both financial risks and non-financial risks.

Total variable remuneration is generally considerably contracted, including through clawback arrangements, where the financial performance of the Firm is subdued or negative.

## 4.9 Non-standard Forms of Variable Remuneration

All guaranteed variable remuneration, retention awards, severance pay and buy-out awards payable by the Firm are subject to clawback. The Firm will ensure that each decision to award guaranteed variable



remuneration, retention awards, severance pay and buy-out awards is appropriate, taking all relevant circumstances into account. The Remuneration Committee may from time to time attach additional restrictions or terms to the payment of bonuses over and above those set forth in this policy, in its absolute discretion.

#### **Guaranteed Variable Remuneration**

The Firm will not award, pay or provide guaranteed variable remuneration (a sign-on bonus, “golden handshake” or lost opportunity award) to an MRT unless it occurs in the context of hiring a new MRT; it is limited to the first year of service; and the Firm has a strong capital base.

#### **Retention Awards**

The Firm will only grant retention awards to its MRTs after a defined event; or at a specified point in time. The Firm notes that retention bonuses can be used under restructurings, in wind-down or in the context of specific projects within the Firm.

#### **Severance Pay**

Severance pay (other than for contractually mandated notice periods) will only be made at the Firm’s absolute discretion. The Firm follows all local statutory severance requirements. Severance payments made will not be disproportionate but will appropriately compensate the employee in cases of early termination of the contract. Severance payments do not reward failure and will not be awarded where there is a failure in risk management or conduct.

#### **Buy-out Award**

Any remuneration packages relating to compensation for, or buy out from, an MRT’s contract in previous employment will: align with the long term interests of the Firm; and contain provisions on deferral, vesting and ex post risk adjustment that are no shorter than any corresponding periods that applied to variable remuneration under the previous contract of employment, and which remained outstanding.

### **4.10 Use of external consultants**

The Remuneration Practices of the Firm have been developed with guidance from external counsel (Simmons & Simmons LLP), where appropriate. In addition, the Firm may seek input and advice from other law firms and compliance consultants.

## 5. Material Risk Taker Disclosures

### MIFIDPRU REQUIREMENT:

Under MIFIDPRU 8.6.8(3), the Firm must disclose the total number of MRTs identified by the Firm under SYSC 19G.5.

For purposes of MIFIDPRU 8.6.8(4), the Firm must also disclose the following information, split into categories for senior management, other material risk takers ('MRTs'), and other staff:

- (a) the total amount of remuneration awarded;
- (b) the fixed remuneration awarded; and
- (c) the variable remuneration awarded.

In addition, MIFIDPRU 8.6.8(5) requires a firm to also disclose the following information, split into categories for senior management and other MRTs:

- (a) the total amount of guaranteed variable remuneration awards made during the financial year and the number of MRTs receiving those awards;
- (b) the total amount of the severance payments awarded during the financial year and the number of MRTs receiving those payments; and
- (c) the amount of the highest severance payment awarded to an individual MRT.

The Firm has awarded the below amounts of remuneration to its senior management, MRTs and other staff members:

Table 8.6.8(4)

Staff category	Remuneration type	Amount (GBP thousands)
Senior management	Fixed remuneration	1,116
	Variable remuneration	1,678
	<b>Total amount</b>	<b>2,795</b>
Other MRTs	Fixed remuneration	278
	Variable remuneration	120
	<b>Total amount</b>	<b>398</b>
Other staff	Fixed remuneration	1,367
	Variable remuneration	457
	<b>Total amount</b>	<b>1,824</b>

Table 8.6.8(5)

Staff category	Remuneration type	Amount (GBP thousands)	Total recipients
Senior management	Guaranteed variable remuneration	0	N/A
	Severance payments	0	N/A
	Highest severance awarded to an individual member of senior management		
Other MRTs	Guaranteed variable remuneration	0	N/A
	Severance payments		
	Highest severance awarded to an individual MRT		

The Firm has identified MRTs in accordance with SYSC 19G.5 and the qualitative criteria set out in SYSC 19G.5.3R, 19G.5.4RG and SYSC 19G.5.5G. In preparing this disclosure document the Firm also draws upon the Remuneration Policy which requires the Firm to identify its MRTs on an annual basis. Accordingly, during 2023, 10 (ten) members of the Firm were identified as MRTs.

## 6. Own Funds Disclosure

### MIFIDPRU REQUIREMENT:

*Under MIFIDPRU 8.4, the Firm is required to disclose the following information regarding its own funds:*

- (a) a reconciliation of common equity tier (CET) 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 the above information with the capital on 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.*

*The Firm must provide details of its own funds by using the template provided in MIFIDPRU 8 Annex 1R.*

## 6.1 Composition of Regulatory Own Funds

The Firm's own funds consist of CET1 capital only. As at the Firm's financial year end on 31 December 2023, the Firm complied with all capital requirements.

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	<b>OWN FUNDS</b>	3,550	
2	<b>TIER 1 CAPITAL</b>	3,550	
3	<b>COMMON EQUITY TIER 1 CAPITAL</b>	3,550	
4	Fully paid-up capital instruments		
5	Share premium		
6	Retained earnings		
7	Accumulated other comprehensive income		
8	Other reserves		
9	Adjustments to CET1 due to prudential filters		
10	Other funds		
11	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	0	
19	CET1: Other capital elements, deductions and adjustments		
20	<b>ADDITIONAL TIER 1 CAPITAL</b>	-	
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		

## 6.2 Reconciliation of regulatory own funds to balance sheet in the audited financial statements

The table below describes the reconciliation with own funds in the balance sheet as at 31 December 2023, where assets and liabilities have been identified by their respective classes. The information in the table below reflects the balance sheet in the audited financial statements.

<b>Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements</b>				
		<b>a</b>	<b>b</b>	<b>c</b>
		<b>Balance sheet as in published/audited financial statements</b>	<b>Under regulatory scope of consolidation</b>	<b>Cross-reference to template OF1</b>
		<b>As at period end (GBP thousands)</b>	<b>As at period end</b>	
<b>Assets – Breakdown by asset classes according to the balance sheet in the audited financial statements</b>				
Fixed assets		351		
Current assets		8,014		
3				
4				
5				
xxx	<b>Total Assets</b>	8,365		
<b>Liabilities – Breakdown by liability classes according to the balance sheet in the audited financial statements</b>				
Current liabilities		2,047		
3				
4				
xxx	<b>Total Liabilities</b>	2,047		
<b>Shareholders' Equity</b>				
Loans and other debts due to members within one year		1,083		
Members' capital classified as equity		3,550		
Members' other interests - other reserves		1,685		
xxx	<b>Total Shareholders' Equity</b>	6,318		

## 7. Own funds requirements disclosure

### MIFIDPRU REQUIREMENT:

Under MIFIDPRU 8.5, the Firm is required to disclose the following information regarding its own funds requirements:

- (a) its K-factor requirement
- (b) its fixed overheads requirement; and
- (c) its approach to assessing the adequacy of its own funds in accordance with the overall financial adequacy rule in MIFIDPRU 7.4.7R.

The overall financial adequacy rule requires that MiFID Investment firms hold own funds and liquid assets which are adequate (both from the point of amount and quality) to ensure that:

- (a) the Firm can remain financially viable throughout the economic cycle and be able to address any material potential harm; and
- (b) the Firm's business can be wound down in an orderly manner with minimal impact on consumers and other market participants.

### 7.1 Own funds requirement

The Firm is required to disclose the K-factor requirement ('KFR') and the fixed overheads requirement ('FOR') amounts in relation to its compliance with the own funds requirements set out in MIFIDPRU 4.3, based on the audited financial statements for the year ended 31 December 2023.

Item		Total amount (GBP thousands)
K-factor	Sum of K-AUM, K-CMH and K-ASA	217
	Sum of K-COH and K-DTF	18
	SUM of K-NPR, K-CMG and K-CON	-
	<b>Total KFR</b>	235
FOR		1,196

### 7.2 Compliance with Overall Financial Adequacy Rule

In line with the provisions relating to the Overall Financial Adequacy Rule ('OFAR') set out in MIFIDPRU 7.4.7R, BH-DG is also required to disclose its approach to assessing the adequacy of the Firm's financial resources through the internal assessment of its capital and liquidity adequacy.

#### **Minimum requirement**

A MIFIDPRU investment firm must at all times maintain own funds that are at least equal to its own funds requirement. As a non-SNI firm, BH-DG has to comply with the provisions of the OFAR contained within MIFIDPRU 4.3.2R by holding the highest of:

1. Its permanent minimum capital requirement ("PMR") (per MIFIDPRU 4.4)
2. It's FOR (per MIFIDPRU 4.5); or
3. Its KFR (per MIFIDPRU 4.6)

BH-DG complies with its PMR of £75,000, being a fixed requirement based on the permissions the Firm has to undertake its regulated activities. The FOR, which is an amount equal to one quarter of BH-DG'

expenditure from the preceding year after the distribution of its profits and deduction of certain non-fixed expenditure items, is calculated from BH-DG' audited annual financial statements.

The IFPR KFR methodology for calculating own funds requirements, as outlined in MIFIDPRU and implemented on 1 January 2022, provides for a suite of K-Factors to be applied as relevant, based on a firm's permissions. The relevant K-Factors for BH-DG activities are K-COH, K-DTF and K-AUM. Their combination is referred to as the Firm's KFR.

BH-DG does not expect the other K-Factors to be relevant to its calculations given the Firm's current permissions and activities.

### **ICARA process**

Within the annual ICARA process, the Firm is required to identify and assess the following:

- any material/key risks that arise from its activities;
- any material harms that may be caused to the clients, the market or the Firm itself as a result of its activities; and
- whether, at all times, the Firm has sufficient own funds and liquid resources to meet the Overall Financial OFAR.

The process of embedding the ICARA process within the Firm has been completed and the adequacy of the ICARA process will be reviewed on an annual basis thereafter, or more frequently, should there be any material change to the business risk profile or business model.

The ICARA process encompasses various aspects of internal governance with a particular focus on:

- identification, monitoring and mitigation of harms;
- business model planning and forecasting;
- recovery and wind-down planning;
- assessing the adequacy of financial resources; and
- assessing the overall effectiveness of the risk management of the Firm.

As part of the ICARA process, the Firm establishes its own funds threshold requirement and its liquid assets threshold requirement to comply with the OFAR and to ensure the Firm can remain viable, addressing any potential harm from ongoing activities, and can wind-down in an orderly way. For harms not adequately mitigated through existing systems and controls, the Firm assesses whether additional own funds and/or liquid assets are required.

The recovery action planning contains appropriate recovery actions to restore own funds and/or liquid resources to avoid breaching threshold requirements and early-warning-indicators ('EWIs') to assist the Firm when approaching trigger levels and set out credible actions to help reverse or repair any adverse trends.

The wind-down planning includes triggers (own funds and liquid assets) and timelines. The Firm considers different scenarios that could cause a need to wind-down the business. These underlying drivers could result in the need for different resources (financial and non-financial) during the wind-down period. The Firm sets resources aside so that sufficient own funds and liquid assets are available at all times to enable an orderly wind-down.

## **7.3 Risk management**

As mentioned above, the Firm has developed a comprehensive Risk Register within the framework of the Firm's ICARA which is approved by the Firm's Board. The Risk Register has been established based upon the Firm's business plan, each risk within the Risk Register cross-references to possible ICARA



harms (client, market, firm) and each risk is assessed to determine its materiality to the Firm. The Risk Register also includes a description of the controls put in place to mitigate each risk.

The Board defines the Firm's risk appetite, which reflects BH-DG's appetite and/or tolerance in relation to all identified material risks and is therefore, aligned to the Risk Register. The Firm's overall risk appetite must be such that its own fund and liquidity requirements as captured in the ICARA process are maintained within its risk bearing capacity or capital resources. All material risks identified in the Risk Register are assessed to determine appropriate own funds and liquidity reserves. Regular stress testing and scenario analysis is undertaken to ensure these reserves are sufficient to meet current and future obligations under a variety of stressed conditions.

## 7.4 Own funds adequacy

BH-DG assesses the adequacy of its own funds on a regular basis against a variety of own funds requirement assessments. In maintaining the Firm's own funds requirements within the risk appetite, Early Warning Indicators have been established. These are agreed as part of the annual own funds planning process and reviewed annually.

Levels of own funds usage against limit are monitored monthly.

## 7.5 Liquid assets adequacy

The Firm's liquidity position at any given time is essentially a function of the fees received under its investment management and advisory agreements and the expenditure commitments of the Firm.

The Firm determines its liquid assets threshold requirement as part of the ICARA process. This is the sum of: (1) the Firm's basic liquid assets requirement calculated in accordance with MIFIDPRU 6; and (2) the higher of (a) the Firm's estimate of the amount of liquid assets that it requires to fund its ongoing operations (including in stressed conditions); and (b) the Firm's estimate of the additional amount of liquid assets (over and above its basic liquid assets requirement) that it would require to ensure an orderly wind-down of its business. Liquidity risks are identified through ongoing liquidity management and monitoring, which contribute to the development of the Firm's liquidity risk management framework and formulating stress testing scenario design and key assumptions.

The Firm's monitoring and reporting of its liquidity position is undertaken through established reporting against the key liquidity metrics. Any triggers or breaches would be escalated by the Head of Finance to the COO.

## 8. Disclaimer

*This document is prepared and communicated by BH-DG Systematic Trading LLP (“BH-DG”). BH-DG is authorised and regulated by the United Kingdom Financial Conduct Authority). BH-DG is registered as a Commodity Trading Advisor with the Commodity Futures Trading Commission and is a member of the National Futures Association.*

*This document has been prepared by BH-DG for the purpose of explaining BH-DG’s governance arrangements, own funds, own funds requirements and remuneration policy and practices in accordance with the Investment Firms Prudential Regime.*

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