

G10 Capital Limited ('The Firm')

Pillar 3 Disclosure

as at 1 August 2019

The Capital Requirements Directive ('the Directive') of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital investment firms must maintain. In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority ('FCA') in its regulations through the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

Frequency of Disclosure

It is the intention of the Company to update its Pillar 3 disclosure on an annual basis, unless circumstances warrant a more frequent update. Disclosures will be published as soon as practicable following any revisions. The Company makes its Pillar 3 disclosure via an affiliate's website (Lawson Conner Services Ltd, <http://www.lawsonconner.com>).

The FCA framework consists of three 'Pillars':

- Pillar 1 sets out the minimum capital requirements taking into account the firm's credit, market and operational risks;
- Pillar 2 is an assessment of whether additional capital is needed over and above that determined under Pillar 1; and
- Pillar 3 requires the Firm to publish its objectives and policies in relation to risk management, and information on its risk exposures and capital resources as well as disclosures with respect to FCA's relevant "Remuneration Code" applicable to the Firm.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosures. This document is designed to meet the Firm's Pillar 3 obligations.

Rules in BIPRU 11 allow the omission of disclosures where the Senior Management of the Firm believe that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information.

In addition, disclosures may be omitted where Senior Management believe that the information is regarded as proprietary or confidential. Proprietary information is that which, if it were shared, would undermine the Firm's competitive position. Information is considered to be confidential where there are obligations binding the Firm to confidentiality with customers, suppliers and counterparties.

The Firm has made no omissions on the grounds that information is immaterial, proprietary or confidential.

Scope and application of the requirements

The rules provide that disclosures are only required where the information would be considered material to a user relying on that information to make economic decisions. The Firm is a “BIPRU €50K Limited Licence Firm”, does not have permission to hold client money and safeguard and administer client assets or to deal on a proprietary basis. The Firm is an investment management firm as well as a corporate finance advisor and as such has no trading book exposures. As a consequence the main risks facing the Firm relate to its operations and its business environment. Whilst the Firm does have some exposure to credit and market risk, this is not considered to be material.

The Firm is not a financial holding company as defined by FCA consolidation rules and therefore is not required to prepare consolidated reporting for prudential purposes. We foresee no impediments to the prompt transfer of capital between group entities should the need arise and there are no differences in the basis of consolidation for accounting and prudential purposes.

Risk management

The Firm is governed by its Board of Directors (“**Directors**”) who determine its business strategy and risk appetite. They are also responsible for establishing and maintaining the Firm’s governance arrangements along with designing and implementing a risk management framework that recognises the risks that the business faces.

The Directors also determine how the risk our business faces may be mitigated and assess on an ongoing basis the arrangements to manage those risks. The Directors meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, business planning and risk management. The Directors manage the Firm’s risks through a framework of policy and procedures having regard to relevant laws, standards, principles and rules (including FCA principles and rules) with the aim of operating a defined and transparent risk management framework. These policies and procedures are updated as required.

The Directors have identified that “Appointed Representative” business, compliance, regulatory, infrastructure & systems, as well operational risks are the main areas of risk to which the Firm is exposed (please refer to Appendix). The Directors formally review their risks, controls and other risk mitigation arrangements annually and assess their effectiveness. Where the Directors identify material risks they consider the financial impact of these risks as part of the Firm’s business planning and capital management and assess whether the amount of regulatory capital is adequate.

Although the Firm believes that the risk management framework outlined herein is appropriate for the size and complexity of the Firm and that the Firm’s capital is adequate to meet the risks assessed, it can not guarantee that this will actually be the case in the event any particular risk arises. There will always be some unlikely risks with unusually high impact which may require additional capital should they arise.

The specific types of risks faced by the Firm are;

- Operational risk,
- Business risk (including Appointed Representative business),
- Credit risk, and
- Market risk.

Operational risk

This is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. The Firm seeks to minimize operational risk through a controls framework, particularly when engaging in new business ventures or trading new products. The Firm considers risks which may impact the Firm directly or indirectly.

Business risk

Business risk arises from external sources such as changes to the economic environment or one-off economic shocks, and also from internal sources such as poor decisions or suboptimal allocation of capital resulting in poor performance and damage to the Firm's reputation.

An extreme scenario has been modelled in order to assess the impact of adverse economic conditions on our financial position. This enables the Firm to monitor its business risk and to assist in its capital planning.

Credit risk

The Firm is not exposed to credit risk other than in respect of fees/commission receivable and cash held on deposit at large international credit and regulated institutions. Fees are drawn down monthly on activity in the month, received by the Firm in arrears. Consequently the Firm has a limited number of credit exposures in respect of which it uses the simplified standardised approach when calculating risk weighted exposures, in accordance with the provisions of BIPRU 3.5. Credit risk is not considered to be material for the purposes of this disclosure.

Market risk

The Firm is not exposed to market risk other than foreign exchange risk in respect of its accounts receivable and cash balances held in currencies other than the GBP. The Firm calculates its foreign exchange risk by reference to the provisions of BIPRU 7.5. Foreign exchange risk is not considered to be material for the purposes of this disclosure.

Regulatory capital

The Firm is a Limited Liability Company and its prudential category is as a €50K Limited Licence Firm subject to a Base Capital Requirement of €50K for its MiFID activities. As the Firm is also a Full Scope AIFM it is subject to the absolute minimum Initial Capital Requirement of €125K.

Under AIFMD rules the Firm is also required to comply with minimum capital requirements. Under the Directive the Firm which is an external manager of one or more AIFs is required to have initial

capital of (i) €125,000 plus (ii) 0.02% of the value of the portfolios under management in excess of €250 million, subject to a cap of €10 million.

Summary of capital requirement ('the higher of'):

- Base capital requirement of €125,000 + 0.02% of AIF AUM; or
- The sum of its market and credit risk requirements; or
- Its Fixed Overhead Requirement

The Firm is small with a simple operational infrastructure. Its market risk is limited to foreign exchange risk on its accounts receivable in foreign currency, and credit risk from management and performance fees receivable from the funds under its management.

The Firm follows the standardised approach to market risk and the simplified standard approach to credit risk. The Firm is subject to the Fixed Overhead Requirement ('FOR').

As at 31 March 2019, the Firm's regulatory capital resources of £519,062 are made up as follows:

Tier 1

Share Capital	484,090
Share Premium Account	0
Audited Reserves	34,972
Total regulatory capital	519,062

Regulatory Capital adequacy as at 1 April 2019 based on audited financials:

MiFID Business

Capital Resources Required	£196,250
Capital Resources	<u>£519,062</u>
Capital Surplus / (deficit)	<u>£322,812</u>

AIFMD Business

Total Own Funds Requirement	£480,830
Own Funds	£519,062
Capital Surplus/ (deficit)	<u>£38,232</u>

AIFMD Business Liquid Asset Requirement

Higher of FOR or FUM	£358,090
Professional negligence - Excess on PII	£15,000
Total Liquid Asset requirement	£373,090
Total Liquidity	£828,441
Liquid Surplus / (deficit)	<u>£455,351</u>

It is to be noted that as the Own Funds Requirement for AIFMD activities (Funds Under Management Requirement) is significantly greater than for its MiFID activities (aggregate of Pillar 1 & Pillar 2 requirements). The Firm is obliged to maintain capital in line with higher of the two requirements.

We have not identified credit risk exposure classes or the minimum capital requirements for market risk as we believe that they are immaterial in the context of our business.

Market and credit risks are considered to be immaterial.

We consider the capital in place to be sufficient and adequate to meet regulatory requirements and to support the business. We have not identified any areas which give rise to a requirement to hold additional risk based capital.

UK Financial Reporting Council's Stewardship Code for Firms managing investments

FCA COBS Rule 2.2.3R requires FCA authorised firms to disclose whether they conform to the requirements of the UK Financial Reporting Council's Stewardship Code (the 'Code'). Adherence to the Code is voluntary. The Firm's business strategy involves a wide variety of investment products and timeframes. Therefore, while the Firm supports the principles of the Code, it does not consider it appropriate to conform to the Code at this time. If the Firm investment strategy changes in such a manner that the provisions of the Code become relevant, the Firm will amend this disclosure accordingly.

Remuneration disclosure

The Firm is authorised and regulated by the Financial Conduct Authority as a MiFID IFPRU Firm with permissions as a "Small (Sub-Threshold) UK AIFM (Sub-Threshold) and is therefore subject to FCA Rules on remuneration. These are contained in the FCA's Remuneration Codes located in the SYSC Sourcebook of the FCA's Handbook.

IFPRU Firms are required make a remuneration disclosure in respect of the whole of their business, i.e. MiFID as well as AIFMD. The specific requirements of the remuneration disclosure are set out in the Firm's Annual Report.

The Remuneration Code (the "**Remuneration Code**") cover(s) an individual's total remuneration, fixed and variable. The Firm incentivises staff through a combination of the two.

Our policy is designed to ensure that we comply with the Remuneration Code and our compensation arrangements:

1. are consistent with and promotes sound and effective risk management;
2. do not encourage excessive risk taking;
3. include measures to avoid conflicts of interest;
4. are in line with the Firm's business strategy, objectives, values and long-term interests.

Proportionality

Enshrined in the European remuneration provisions is the principle of proportionality. The FCA has sought to apply proportionality in the first instance by instituting two tests. Firstly, a firm that is significant in terms of its size must disclose quantitative information at the level of senior personnel. Secondly, that a firm must make disclosure that is appropriate to its size, internal organisation and the nature, scope and complexity of its activities.

The Firm is not a 'significant' firm and so makes this disclosure in accordance with the second test.

Application of the requirements

The Firm is required to disclose certain information on at least an annual basis regarding its Remuneration policy and practices for those staff whose professional activities have a material impact on the risk profile of the firm. Its disclosure is made in accordance with its size, internal organisation and the nature, scope and complexity of its activities. The Firm's full Remuneration Policy is available at the request of investors.

Summary of information on the decision-making process used for determining the Firm's remuneration policy including use of external benchmarking consultants where relevant.

- The Firm's policy has been agreed by Board in line with the Remuneration principles laid down by the FCA.
- The Firm's policy will be reviewed as part of annual process and procedures, or following a significant change to the business requiring an update to its internal capital adequacy assessment.

The Firm may omit required disclosures where we believe that the information could be regarded as prejudicial to the UK or other national transposition of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data.

G10 Capital Limited

1 August 2019

Appendix: Key Risk Overview

G10's risk management policy and the risk map considers the following risks:

- **Appointed Representative Risk** – the risk the Firm is exposed to through its Appointed Representative network. The main risk is around conduct risk, especially marketing of financial promotions, arranging and advice activities. These activities have been identified in aggregate the most prominent risk for the Firm.
- **Business Risk** - The risk that the business strategy does not address all strategic risks, is not approved at the appropriate level and does not allow G10's plans to be carried out so that its objectives can be achieved.
- **Compliance & Regulatory Risk** - The risk that G10 suffers financial, reputational or litigation damage through failure to monitor, control and eliminate or substantially reduce regulatory compliance risk.
- **Infrastructure and Systems Risk** - The risk that IT systems fail to support the transactions G10 carries out on behalf of its clients. This also encompasses IT systems failing to provide required management and accounting information.
- **Market & Transaction Risk** - The risk that G10's revenue and/or operations might be damaged by adverse market conditions. G10 does not trade as principal, act as a market maker or hold proprietary positions. The Firm is therefore not subject to proprietary "Position Risk". The Firm is, however, subject to general market risk and the broad economic environment. The Firm does not have any currency exposure. The Firm believes that the market risk requirement shown in its Pillar 1 calculations is adequate.
- **Operational Risk**. The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. G10's general risk appetite is low.