

ENNISMORE FUND MANAGEMENT LIMITED

PILLAR 3 & REMUNERATION DISCLOSURE

PILLAR 3

Background

The 2006 Capital Requirements Directive (“the Directive”) of the European Union created a revised regulatory capital framework across Europe based on the provisions of the Basel 2 Capital Accord.

This was implemented in the United Kingdom through changes to the Financial Services Authority (“FSA”) Handbook of Rules and Guidance, and specifically through the creation of the General Prudential Sourcebook (“GENPRU”) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”).

The new framework consists of three “pillars”:

- Pillar 1 sets out the minimum capital requirements that we are required to meet for credit, market and operational risk;
- Pillar 2 requires us to take a view whether additional capital should be held against capital risks not adequately covered by the Pillar 1 requirements;
- Pillar 3 requires us to publish certain details of our risks, capital and risk management process.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This must be done in accordance with a formal disclosure policy. The disclosure of this document meets our obligation with respect to Pillar 3.

The rules provide that we may omit one or more of the required disclosures if we believe that the information is immaterial. Materiality is based on the criterion that the omission or misstatement of any information would be likely to change or influence the decision of the reader relying on that information. Where we have considered a disclosure to be immaterial we have stated this in the document.

In addition, we may also omit one or more of the required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties. Where we have omitted information for either of these two reasons we have stated this in the relevant section and the reasons for this.

Scope and application of the Directive requirements

The disclosures in this document are made in respect of Ennismore Fund Management Limited (the “Firm”) which is authorised and regulated by the FSA and has permission to provide discretionary investment management services to professional clients and eligible counterparties.

The Firm is categorised as a limited licence firm by the FSA for capital adequacy purposes. The Firm is not a member of a group and is not required to prepare consolidated reporting for prudential purposes.

Risk management

The Directors and senior management of the Firm determine its business strategy and risk appetite along with designing and implementing a risk management framework that recognises the risks that the business faces. They also determine how those risks may be mitigated and assess on an on-going basis the arrangements to manage those risks. The Directors consider on a regular basis the profitability of the Firm, its regulatory capital requirements and risk management. The Directors manage the Firm’s risks through a framework of policies and procedures having regard to relevant laws, standards, principles and rules (including FSA principles and rules) with the aim of operating a defined and transparent risk management framework. These policies and procedures are updated as required.

The Firm is small with an operational infrastructure appropriate to its size. Its market risk is limited to foreign exchange risk on its accounts receivable, Euro denominated bank deposits and investments in certain funds. Credit risk relates to management and performance fees due from the funds under the Firm’s management, other receivables, bank deposits and investments in certain funds. 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 and is not required to calculate an operational risk charge.

Capital

The Firm is a Limited Liability Company. Its capital based on its audited financial statements as at 30 November 2010 is summarised as follows:

	£'000
Issued share capital	33
Share premium	104
Other reserves	3,513
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	<u>3,650</u>

The main features of the Firm's capital resources for regulatory purposes are as follows:

Capital item	£'000
Tier 1 capital less innovative tier 1 capital	3,650
Total tier 2, innovative tier 1 and tier 3 capital	
Deductions from tier 1 and tier 2 capital	
Total capital resources, net of deductions	3,650

As discussed above the Firm is a limited licence firm and as such its Pillar 1 capital requirements are the greater of:

- its base capital requirement of €50,000; or
- the sum of its market and credit risk requirements;
- its Fixed Overhead Requirement

The Firm anticipates that its Fixed Overhead Requirement will normally exceed the sum of its market and credit risk components and consequently the Fixed Overhead Requirement will normally determine its Pillar 1 capital requirement. The Firm's Fixed Overhead requirement based on the year ended 30 November 2010 is £304,000.

In order to determine whether any additional capital is required under Pillar2, the Firm undertakes an Internal Capital Adequacy Assessment Process (ICAAP) which involves separate consideration of the risks to its core capital. Due to the Firm's low risk appetite and illiquid assets (principally deferred tax assets) on its balance sheet, the Firm considered it appropriate to hold additional capital of £1,866,000 as at 30 November 2010 to meet Pillar 2 requirements.

The Firm has not omitted any disclosure on grounds of confidentiality.

REMUNERATION DISCLOSURE

Governance

The FSA's Remuneration Code is intended to ensure that firms establish, implement and maintain remuneration policies, procedures and practices that are consistent with, and promote, sound and effective risk management. The FSA has amended the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU), and specifically BIPRU 11, to now include a requirement for disclosure of the Firm's approach to linking remuneration and risk.

The Firm has a Remuneration Policy which appropriately addresses potential conflicts of interest and is designed to ensure that the Firm's authorised persons are not rewarded for taking inappropriate levels of risk. Under the Remuneration Code the Firm is classified as a Tier Four firm, which allows it to disapply many of the technical requirements of the Code and proportionately apply the Code's rules and principles in establishing the Firm's policy. Proportionate to the small size of the Firm, the firm has decided that the Board of Directors will undertake the role that would otherwise be undertaken by a remuneration committee. The Board of Directors will be responsible for setting the firm's policy on remuneration and will review that policy at least on an annual basis to ensure that it remains consistent with the Remuneration Code and the Firm's objectives.

The Firm is satisfied that the policies in place are appropriate to its size, internal organisation and the nature, scope and complexity of its activities.

Code Staff

The Remuneration Code applies to "Code Staff". This includes senior management, risk takers, staff engaged in control functions and any employee receiving remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose activities have a material impact on the firm's risk profile. In respect of the year ended 30 November 2010 the Firm had identified 6 employees as code staff being the two executive directors ("Senior Management") and four other investment managers ("Other Code Staff").

Link between pay & performance

Remuneration at the Firm is made up of fixed ("salary") and variable ("bonus") components.

Variable remuneration for Fund Managers is directly related to the investment returns that they generate for investors in the funds managed by the firm and consists of two components: a cash bonus payable following the end of each performance period (calendar year) and a potential award receivable after a further three years. The amount of the potential award will be reduced, possibly to zero, ("clawback") if the individual fund manager generates negative investment returns for investors in any of those subsequent three years – the extent of clawback being directly related to the negative return attributable to the individual fund manager.

For Senior Management (other than Fund Managers) bonuses are determined having regard to both the performance of the individual and the profitability of the Firm with the intention of providing a competitive total compensation package having regard to the skills and responsibilities of the individuals concerned.

Quantitative remuneration disclosure – in respect of the financial year ended 30 November 2010

The Firm is required to disclose aggregate information on remuneration in respect of its Code Staff broken down by business area and by senior management and other Code Staff. The relatively small size and lack of complexity of the Firm's business is such that it only has one business area, fund management, and does not regard itself as operating or needing to operate, separate business areas and the following aggregate remuneration data should be read in that context.

Code Staff Category	Aggregate Remuneration
Senior Management	£122,808
Other Code Staff	£925,537

Note: Aggregate Remuneration includes the value of potential bonus awards subject to clawback at the time such potential amounts were first determined in respect of the performance period ending in the financial year.

Updated: 15 December 2011