PILLAR 3 DISCLOSURE AND POLICY - 31 DECEMBER 2017

Introduction

Regulatory Context
The Pillar 3 disclosure of Finisterre Capital LLP ("the Firm") is set out below as required by the FCA's Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") specifically BIPRU 11.3.3 R. This follows the introduction of the Capital Requirements Directive ("CRD") which represents the European Union's application of the Basel Capital Accord. The regulatory aim of the disclosures is to improve market discipline.

Frequency
The Firm will be making Pillar 3 disclosures annually. The disclosures will be as at the Accounting Reference Date or any significant changes during the year.

Media and Location
The disclosure will be published on our website.

Verification
The information contained in this document has not been audited by the Firm's external auditors and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Firm.

Materiality
The Firm regards information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If the Firm deems a certain disclosure to be immaterial, it may be omitted from this statement.

Confidentiality
The Firm regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm's investments therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

Summary

The CRD requirements have three pillars. Pillar 1 deals with minimum capital requirements; Pillar 2 deals with Internal Capital Adequacy Assessment Process ("ICAAP") undertaken by a firm and the Supervisory Review and Evaluation Process through which the firm and regulator satisfy themselves on the adequacy of capital held by the Firm in relation to the risks it faces and; Pillar 3 which deals with public disclosure of risk management policies, capital resources and capital requirements. The regulatory aim of the disclosure is to improve market discipline.

The Firm is an Investment Management Firm. It acts solely as agent, so the main protection to our customers is provided through client money arrangements. The Firm's greatest risks have been identified as business and operational risk. The Firm is required to disclose its risk management objectives and policies for each separate category of risk which include the strategies and processes to manage those risks; the structure and organisation of the relevant risk management function or other appropriate arrangement; the scope and nature of risk reporting and measurement systems; and the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

The Firm has assessed business and operational risks in its ICAAP and set out appropriate actions to manage them.

A number of key operations are outsourced by our clients to third party providers such as administrators reducing our exposure to operational risk. The Firm has an operational risk framework (described below) in place to mitigate operational risk. The Firm's main exposure to credit risk is the risk that management and performance fees cannot be collected. The Firm holds all cash with banks assigned high credit ratings, and management fee and performance fee balances due are collected monthly and are held by the Firm's clients with banks assigned high credit ratings, and therefore credit risk is low.

Market Risk exposure has been assessed by the Firm and is limited to the Firm's exposure to any cash amounts held by or receivable to the Firm in a foreign currency. The firm hedges this Market Risk through forward currency contracts.

Background to the Firm

Background
The Firm is incorporated in the UK and is authorised and regulated by the FCA as an Investment Management Firm. The Firm's activities give it the categorisation of a AIFM - CPMI and BIPRU Investment Firm. The Firm is forms part of a UK Consolidation Group under the parent Principal Global Financial Services (Europe) II Ltd ("Europe II").

Finisterre Capital LLP is the only entity covered by the Firm's ICAAP. A consolidated ICAAP and associated disclosures is prepared by Europe II.

The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under (GENPRU 2 Annex 4)

BIPRU 11.5.1 **Disclosure:** Risk Management Objectives and Policies

Risk Management Objective
The Firm's general risk management objective is to develop systems and controls to mitigate risk to a level that does not require the allocation of Pillar 2 capital.

Governance Framework
The board of the Firm is the Governing Body of the Firm ("the Board") and is composed of:
- Rafael Biosse Duplan and Ursula Newman (together the "Ordinary Directors")[1]; and
- Pat Halter, Ellen Shumway and Nora Everett (appointed by Europe II which in aggregate owns 88% of the Firm)

The Board is responsible for the process of risk management, as well as forming its own opinion on the effectiveness of the process. In addition, the Board decides the Firm's risk appetite or tolerance for risk and ensures that the Firm has implemented an effective, ongoing process to identify risks, to measure its potential impact and then to ensure that such risks are actively managed. Senior Management is accountable to the Board for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Firm.

The Risk Management Framework

Statement of Responsibilities
The Firm has adopted the following Statement of Responsibilities:

Board
The Board of the Firm is responsible for the total process of risk management, as well as forming its own opinion on the effectiveness of the process. The Board, in liaison with Senior Management, sets the risk strategy policies.

The Board decides the Firm's appetite or tolerance for risk – those risks it will accept and those it will not take in the pursuit of its goals and objectives. In addition, the Board ensures that the Firm has implemented an effective, on-going process to identify risk, to measure its potential impact against a broad set of assumptions, and then to ensure that such risks are actively managed.

The Board will conduct a review of the effectiveness of the Firm's system of internal controls in accordance with the Firm's compliance manual.

Senior Management
Senior Management is accountable to the Board for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the company.

Senior Management is responsible for effectively communicating the Firm's approach and commitment to establishing and maintaining an effective risk management framework and approach.

Senior Management is also responsible for ensuring that employees are adequately equipped with the right tools and knowledge to enable employees to fulfil their obligations to the risk management process.

[1] The active individual partners in the Firm are "Senior Management". At 31 December 2017, David Burnside was on the board of the firm. He resigned from the board in June 2018 and Ursula Newman was appointed in August 2018.

Risk Identification

The Firm has conducted a comprehensive risk identification exercise across all business lines to ensure that all significant risks have been identified.

Risk Register

The Firm has developed a comprehensive risk register containing all relevant details for each risk that has been identified.

Risk Documentation

Material risks identified in the risk register are those deemed through the risk scoring methodology to represent A or B at their gross (un-mitigated) level. These material risks have been subsequently re-scored taking into account the Firm's risk mitigation techniques resulting in a net score.

Scenario Analyses and Stress Tests

The Firm identifies the most material risks to its business and subjects them to scenario analyses and stress tests in order to assist in its risk management and capital planning.

Event Data Collection

The Firm has implemented an event data collection procedure to ensure that all events, be they actual losses or near misses, are captured.

Risk Reporting

Reports are provided to the Board.

BIPRU 11.5.3

Disclosure: Capital Resources

The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under (GENPRU 2 Annex 4). Tier 1 Capital comprises of Eligible LLP Members' Capital and Audited Reserves, Tier 2 comprises Long Term Subordinated Debt.

	Firm
Tier 1 Capital	£3,145,499
Deductions	£0
Tier 2 Capital	£393,569
Deductions	£0
Stage N Capital Resources	£3,539,068
Tier 3 Capital	£0
Deductions	£0
Total Capital	£3,539,068

BIPRU 11.5.4

Disclosure: Compliance with BIPRU 3, BIPRU 4, BIPRU 6, BIPRU 7 and the Overall Pillar 2 Rule

BIPRU 3

For its Pillar 1 regulatory capital calculation of Credit Risk, under the credit risk capital component the Firm has adopted the Standardised approach (BIPRU 3.4) and the Simplified method of calculating risk weights (BIPRU 3.5).

Credit Risk Calculation

Credit Risk Capital Requirement	**Rule**	**Capital Component (£)**
Credit risk capital component	BIPRU 3.2	775,222
Counterparty risk capital component	BIPRU 13 & 14	-
Concentration risk capital component	BIPRU 10	-
Total		**775,222**

	Rule	Exposures (£)	Risk Weight	Risk Weighted Exposure Amounts (£)
UK Government Bodies	BIPRU 3.4.2	125,458	0%	-
National currency held in hand	BIPRU 3.4.5	489	0%	-
Banks etc. short term (<3 months)	BIPRU 3.4.39	13,593,590	20%	2,718,720
Exposure to corporates and debtors	BIPRU 3.4.52	3,812,182	100%	3,812,182
Investment management fees receivable	BIPRU 3.4.52	2,320,011	100%	2,320,011
Fixed Assets	BIPRU 3.4.127	839,366	100%	839,366
Total		**20,691,096**		**9,690,277**
Credit Risk Capital Component	8% of risk weighted exposure amounts			**£775,222**

BIPRU 4

The Firm does not adopt the Internal Ratings Based approach and hence this is not applicable.

BIPRU 6

The Firm, being a Limited Licence Firm is not subject to the Pillar 1 Operational Risk Requirement and, therefore, this is not applicable.

BIPRU 7

The Firm has Non-Trading Book potential exposure only (BIPRU 7.4, 7.5).

Overall Pillar 2 Rule

The Firm has adopted the structured approach to the calculation of its ICAAP Capital Resources Requirement as outlined in the Committee of European Banking Supervisors Paper, 25 January 2006.

The ICAAP assessment is reviewed by the Board and amended where necessary, on a yearly basis or when a material change to the business occurs. Senior Management presents the ICAAP document to the Board of the Firm which reviews and endorses the risk management objective each quarter or when a material change to the business occurs at the same time as reviewing and signing off the ICAAP document.

BIPRU 11.5.8

Disclosure: Credit Risk and Dilution Risk

The Firm is primarily exposed to Credit Risk from the risk of non-collection of advisory and sub-advisory fees. It holds all cash with banks assigned high credit ratings. Consequently risk of past due or impaired exposures is minimal. A financial asset is past due when a counterparty has failed to make a payment when contractually due. Impairment is defined as a reduction in the recoverable amount of a fixed asset or goodwill below its carrying amount.

BIPRU 11.5.12

Disclosure: Market Risk

The Firm has Non Trading Book potential exposure only (BIPRU 7.4 & 7.5).

Market Risk Calculation	Rule	Position (£)	Risk Weight	
Interest rate positional risk requirement	BIPRU 7.2	-	8%	-
Equity positional risk requirement	BIPRU 7.3	-	8%	-
Commodity positional risk requirement	BIPRU 7.4	-	8%	-
Foreign currency positional risk requirement	BIPRU 7.5	10,616,212	8%	849,297
Option positional risk requirement	BIPRU 7.6	-	8%	-
Collective investment undertaking positional risk requirement	BIPRU 7.7	-	32%	-
Total		**10,616,212**		**849,297**
Market Risk Capital Requirement				**£849,297**

BIPRU 11.5.2

Disclosure: Scope of application of directive requirements

The Firm is subject to the disclosures under the *Banking Consolidation Directive* and is a member of a UK Consolidation Group and consequently, reports on both a solo and a consolidated basis for accounting and prudential purposes.

BIPRU 11.5.5

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by BIPRU 11.5.4R (3).

BIPRU 11.5.6

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by BIPRU 11.5.4R (3) .

BIPRU 11.5.7

This disclosure is not required as the Firm does not have a Trading Book.

BIPRU 11.5.9

This disclosure is not required as the Firm does not make Value Adjustments and Provisions for Impaired exposures that need to be disclosed under BIPRU 11.5.8R (9).

BIPRU 11.5.10

Disclosure: Firms calculating Risk Weighted Exposure Amounts in accordance with the Standardised Approach

This disclosure is not required as the Firm uses the Simplified method of calculating Risk Weights (BIPRU 3.5).

BIPRU 11.5.11

Disclosure: Firms calculating Risk Weighted Exposure amounts using the IRB Approach

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit and therefore is not affected by BIPRU 11.5.4R (3).

BIPRU 11.5.13

Disclosure: Use of VaR model for calculation of Market Risk Capital Requirement

This disclosure is not required as the Firm does not use a VaR model for calculation of Market Risk Capital Requirement.

BIPRU 11.5.14

Disclosure: Operational Risk

The Firm's Fixed Overhead Requirement ("FOR") is disclosed as a proxy for the Pillar 1 Operational Risk Capital calculation. The Firm's Pillar 1 Capital Resources Requirement is its Variable Capital Requirement (being the higher of its FOR and Sum of Credit Risk and Market Risk) which is higher that the Firm's Base Capital Requirement (the sterling equivalent of €50,000).

Fixed Overhead Requirement	GENPRU 2.1.53	£2,243,854

BIPRU 11.5.15

Disclosure: Non-Trading Book Exposures in Equities

This disclosure is not required as the Firm does not have a Non-Trading Book Exposure to Equities.

BIPRU 11.5.16 **Disclosures:** Exposures to Interest Rate Risk in the Non-Trading Book
Although the Firm has substantial cash balances on its Balance Sheet, there is currently no significant exposure to Interest Rate fluctuations.

BIPRU 11.5.17 **Disclosures:** Securitisation
This disclosure is not required as the Firm does not Securitise its assets.

BIPRU 11.5.18 **Disclosures:** Remuneration
The Firm has adopted a remuneration policy that complies with the requirements the FCA's Senior Management Arrangements, Systems and Controls Sourcebook (“SYSC”) – and most notably the chapter SYSC 19B that sets out the Remuneration Code rules and guidance for AIFM firms. Interpretation and application of the Remuneration Code is further guided by publications and guidance from the FCA. As a BIPRU firm, the Firm falls within proportionality level 3 under the FCA’s Remuneration Code regime. The Firm has concluded that, on the basis of its size and the nature, scale and complexity of its legal structure and business, it does not need to appoint a remuneration committee. Instead, the Board of the Firm sets and oversees compliance with the Firm's remuneration policy, including reviewing the terms of the policy on at least an annual basis. Remuneration is made up of fixed and variable components. Fixed remuneration is set in line with the market at a level to retain, and when necessary attract, skilled staff. The Firm currently sets the variable remuneration of its staff in a manner which takes into account individual performance, performance of the individual's business unit and the overall results of the Firm. A proportion of bonuses for employees are deferred. The Firm only has one business area, which is its investment management business 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. The aggregate remuneration awarded to the Firm's Code Staff in respect of the financial year ending on 31 December 2017 was £957,119.