

PILLAR 3, STEWARDSHIP CODE AND REMUNERATION DISCLOSURE

Limerston Capital LLP (the “Firm”) is authorised and regulated by the Financial Conduct Authority (“FCA”). The Firm is a Private Equity firm is a small authorised Alternative Investment Fund Manager (“AIFM”) with additional MiFID permissions. The Firm reports on a solo basis.

The Capital Requirements Directive (‘CRD’) and Alternative Investment Fund Management Directive (‘AIFMD’) of the European Union establish a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain.

In the United Kingdom, the CRD and AIFMD have been implemented by the FCA in its regulations through the General Prudential Sourcebook (‘GENPRU’), the Prudential Sourcebook for Banks, Building Societies and Investment Firms (‘BIPRU’) and the Interim Prudential Sourcebook for Investment Business (‘IPRU (INV)’).

The CRD consists of three ‘Pillars’:

- Pillar 1 sets out the minimum capital amount that meets the firm’s credit, market and operational risk capital requirement;
- Pillar 2 requires the firm to assess whether its capital reserves, processes, strategies and systems are adequate to meet pillar 1 requirements and further determine whether it should apply additional capital, processes, strategies or systems to cover any other risks that it may be exposed to; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position to encourage market discipline.

The AIFMD adds further capital requirements based on the Alternative Investment Fund (‘AIF’) assets under management and professional liability risks.

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

The Pillar 3 disclosure document has been prepared by the Firm in accordance with the requirements of BIPRU 11 and is verified by the Designated Members of the Firm. Unless otherwise stated, all figures are as at the 31 December 2017 financial year-end.

Pillar 3 disclosures will be issued on an annual basis after the year end and published after the audited annual accounts are finalized.

We are permitted to omit required disclosures if we 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 for the purpose of making economic decisions about the firm.

In addition, we may omit 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.

We may have therefore omitted certain data on the grounds of materiality.

Scope and application of the requirements

The Firm is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements.

Although part of a group, the Firm is managed on a “stand-alone” for liquidity purposes and we do not foresee any impediments to the prompt transfer of capital between group entities should the

need arise. There are no differences in the basis of consolidation for accounting and prudential purposes.

Risk management

The Firm has established a risk management process in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. The risk management process is overseen by the Designated Members, who take overall responsibility for this process and the fundamental risk appetite of the firm. The Compliance officer has responsibility for the implementation and enforcement of the Firm's risk principles.

Designated Members meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, business planning and risk management. Designated Members engage in the Firm's risks through a framework of policy and procedures having regard to the relevant laws, standards, principles and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required.

The Designated Members have identified that business, operational, market and credit are the main areas of risk to which the Firm is exposed. Annually the Senior Management team formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness.

A formal update on operational matters is provided to the Designated Members on a regular basis. Management accounts demonstrating continued adequacy of the firm's regulatory capital are reviewed on a regular basis.

Appropriate action is taken where risks are identified which fall outside of the Firm's tolerance levels or where the need for remedial action is required in respect of identified weaknesses in the firm's mitigating controls.

Business Risks

Specific key risks applicable to the Firm come under the headings of business, operational, liquidity and market risks.

Business risk

The Firm's revenue is reliant on the existing funds under management and its ability to launch new funds. As such, the risk posed to the firm relates to underperformance resulting in a decline in revenue and adverse market conditions hindering the launch of new funds. This risk is mitigated by e.g.

- the existing limited partners, which are institutional and supportive of the Firm's approach;
- a scalable business model that permits a quick and effective reaction. Most individuals supporting the Firm are Members of the Partnership;
- The Limited Partnership Agreement provides visibility regarding short term revenues.

Operational risk The Firm places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities in this respect.

The Firm has identified the valuation process as being the most pertinent operational risk to manage. For the funds managed by the Firm, valuation is performed by the Firm, approved by the Funds

Investor Committee (ensuring Limited Partner representation and approval) with independent audits performed annually by external auditors. For more complex investments, the Firm may use a third party valuer to assist. Appropriate policies are in place to mitigate against these risks, by e.g.

- The Firm implemented policies and procedures and conducts ongoing monitoring to identify potential failures, which are reported to the Designated Members;
- Material decisions regarding valuation are discussed with and approved by the Funds’ Investor Committee, representing the Limited Partners;
- The valuation is discussed with and approved by the Funds’ auditors.

Market risk

Market Risk is the risk that arises from political, macroeconomic and other events which may impact the Funds’ performance and the Firm’s income.

The Firm is subject to market risk in relation to a long-term macro-economic downturn at a global, national or regional level. The potential reduction in funds under management or the additional difficulty in raising new funds would directly have an impact on the Firm’s income. The Firm manages only longer term private equity funds’, and if these were still impacted, the Firm has a scalable business model, allowing it to be able to react quickly and effectively.

The Designated Members have concluded that the above market risks do not give rise to a Pillar 2 capital requirement other than the 8% risk exposure arising at Pillar 1 level – which will inherently be lower than the FOR. Hence no incremental capital required to be held at Pillar 2 level.

The Firm is not exposed to foreign exchange risk in respect of accounts receivable. All cash balances are currently held in GBP. Hedging strategies may be used from time to time to mitigate against potential foreign exchange or interest rate losses and these are monitored by the Chief Operating Officer. Losses arising on foreign exchange movements are monitored on a regular basis and reported to the Designated Members via the monthly management accounts.

The Firm calculates its foreign exchange risk by reference to the rules in BIPRU 7.5.1 of the FCA Handbook and applies an 8% risk factor to its foreign exchange exposure.

Market risk summary

Market risk exposure	Risk weighting	Risk weighted exposure
Foreign currency assets and liabilities	8%	£0

Professional liability risk

The Firm has a legal responsibility for risks in relation to investors, products & business practices including, but not limited to; loss of documents evidencing title of assets of the AIF; misrepresentations and misleading statements made to the AIF or its investors; acts, errors or omissions; failure by the senior management to establish, implement and maintain appropriate procedures to prevent dishonest, fraudulent or malicious acts; improper valuation of assets and calculation of unit/share prices; and risks in relation to business disruption, system failures, process management. The Firm is aware of, and monitors, a wide range of risks within its business operations and towards its investors. The Firm has in place appropriate internal operational risk policies and

procedures to monitor and detect these risks. These procedures and risks are documented, demonstrating how the Firm aims to mitigate these risks. This is reviewed annually.

The firm has in place appropriate coverage of professional indemnity insurance to mitigate these risks.

Liquidity risk

The Firm is required to maintain sufficient liquidity to ensure that there is no significant risk that its liabilities cannot be met as they fall due or to ensure that it can secure additional financial resources in the event of a stress scenario.

The Firm retains an amount equivalent to three months' expenditure in its bank accounts at all times, which it considers suitable for providing sufficient liquidity to meet the working capital requirements under normal business conditions. The firm has always had sufficient liquidity within the business to meet its obligations and there are no perceived threats to this given the cash deposits it holds. Additionally, it has historically been the case that all management fee debtors are settled promptly, thus ensuring further liquidity resources are available to the firm on a timely basis. The cash position of the firm is monitored by the Designated members on a daily basis.

The Firm maintains a Liquidity risk policy which formalises this approach, that consists on preparation of budgets covering the medium term and monitoring of current cash levels and of short term cash requirements.

The Firm's liquidity risk is reduced by the following factors:

- Its business model is scalable;
- Fee income is received in advance;
- Bonuses are made at the discretion of Management and are not contractual.

Regulatory capital

The Firm is a Limited Liability Partnership and its capital arrangements are established in its Limited Partnership Agreement. Its capital is summarised as follows:

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

	2017/12/31
	£000
Tier 1 capital*	600
Tier 2 capital	
Tier 3 capital**	
Deductions from Tiers 1 and 2	
Total capital resources	600
*No hybrid tier one capital is held	

Our Firm is small with a simple operational infrastructure. Its market risk is limited to long-term macro-economic downturn at a global, national or regional level, 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 FOR and is not required to calculate an operational risk capital charge though it considers this as part of its process to identify the level of risk based capital required.

As discussed above the Firm is a BIPRU firm and as such its capital requirements are the higher of:

- €50,000; and
- The sum of the market & credit risk requirements; or
- The fixed overheads requirement ('FOR') which is essentially 25% of the firm's operating expenses less certain variable costs.

The FOR is calculated, in accordance with FCA rules, based on the firm's previous years audited expenditure. The firm has adopted the [simplified] standardised approach to credit and market risk and the above figures have been produced on that basis. The firm is not subject to an operational risk requirement.

It is the Firm's experience that the FOR establishes its capital requirements.

Capital requirement

The Firm's Pillar 1 capital requirement has been determined by reference to the Firm's Fixed Overheads Requirement ('FOR') and calculated in accordance with Article 95 and the EBA regulatory technical standards as referenced in IPRU(INV) 11.3.3A. The requirement is based on the FOR since this exceeds the total of the credit and market risk capital requirements it faces and also exceeds its base capital requirement of €50,000.

The FOR is based on annual expenses net of variable costs deducted, which include office rental charges, insurances, office expenses, consultancy fees, regulatory fees, among others. The Firm monitors its expenditure on a monthly basis and takes into account any material fluctuations in order to determine whether the FOR remains appropriate to the size and nature of the business or whether any adjustment needs to be made intra-year.

This is monitored by the Financial Controller and reported to Designated Members on a monthly basis.

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') or a "comply or explain" basis. The Firm is an AIFM focused on making majority and control private equity investments in the UK and the EEA. While the Firm supports the principles of the Code, it does not consider it

appropriate to conform to the Code at this time, especially as some principles do not apply to the activities of the Firm.

Remuneration disclosure

The Firm is authorised and regulated by the Financial Conduct Authority as a BIPRU Firm so, it is 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 and disclosure requirements within BIPRU 11.

The Remuneration Code ('the RemCode') cover(s) an individual's total remuneration, fixed and variable. The Firm incentivises staff through a combination of the two. Employees are remunerated at competitive market rates for the roles they perform, with any variable remuneration based on the performance of the individual and the performance of the Firm.

Our policy is designed to ensure that we comply with the RemCode and align our compensation arrangements with our Limited Partners' interests. Our compensation arrangements:

1. are consistent with and promotes sound and effective risk management;
2. do not encourage risk-taking which is inconsistent with the risk profiles or instruments of incorporation of the AIFs they manage;
3. include measures to avoid conflicts of interest which are detailed on the Firm's Compliance Manual;
4. are in line with the Firm's business strategy, objectives, values and long-term interests.

The Firm considers partners of the Firm to be 'Code Staff' as defined by the FCA, being those who have a material impact on the risk profile of the Firm or funds managed by the Firm. This generally includes senior management, risk takers, those holding control functions and any employee whose total remuneration takes them into the same remuneration bracket as senior management.

Application of the requirements

We are required to disclose certain information on at least an annual basis regarding our Remuneration policy and practices for those Code staff whose professional activities have a material impact on the risk profile of the firm. Our disclosure is made in accordance with our size, internal organisation and the nature, scope and complexity of our activities. The Firm's full Remuneration Policy has been shared with the Limited Partners in our AIFs:

Summary of the decision making process for the determination of the remuneration policy:

- The Firm's policy has been agreed by the Designated Members in line with the Remuneration principles laid down by the FCA.
- Due to the size, nature and complexity of the Firm, we are not required to appoint an independent remuneration committee.
- The Firm's policy is reviewed as part of annual process and procedures, and may be reviewed following a significant change to the business requiring an update to its internal capital adequacy assessment.

- The Firm's ability to pay bonus is based on the performance of Firm overall and total AUM. Members of the Firm are also entitled to receive carried interest based on the performance of the AIF's which are calculated by third party administrators.

Summary of how the firm links between pay and performance (SEE REM CODE).

- Individuals are rewarded based on their contribution to the overall performance of the business.
 - a. Origination and execution of new platform transactions
 - b. Performance of portfolio companies
 - c. Contribution to the development of the Firm
- Other factors such as performance, reliability and effectiveness of controls are taken into account when assessing the performance of the staff.

Aggregate quantitative information on remuneration, for staff whose actions have a material impact on the risk profile of the firm/of those staff of the Firm who are fully or partly involve in the activities of the AIF.

Code Staff	Aggregate compensation expense in 2017
Designated Members :	£600,000

Partnership profits allocated to Members of the Firm are normally disclosed in aggregate in the report and accounts.

We 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.

We have made no omissions on the grounds of data protection.

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 referred to in BIPRU 11.5.18R at the level of senior personnel. Secondly, that a firm must make disclosure that is appropriate to the size, internal organisation and the nature, scope and complexity of their activities.

The firm is not 'significant' and so makes this disclosure in accordance with the second test (BIPRU 11.5.20R(2)).