Finisterre Capital LLP Pillar 3 Disclosure and Policy

30 September 2011

Introduction

Regulatory Context
The Pillar 3 disclosure of Finisterre Capital LLP ("the Firm") is set out below as required by the FSA'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 ("ARD") 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 Group.

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 and therefore credit risk is low. The Firm holds all cash and performance fee balances with banks assigned high credit ratings.

Market Risk exposure has been assessed by the Firm and is limited to the Firm's exposure to any cash amounts held by the Firm in a foreign currency.

Background to the Firm

Background
The Firm is incorporated in the UK and is authorised and regulated by the FSA as an Investment Management Firm. The Firm's activities give it the BIPRU categorisation of a "Limited Licence" and a "BIPRU €50K" firm.

The following entities are covered by the ICAAP:

- Finisterre Capital LLP

The Firm is a Solo regulated entity.

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 R

Disclosure: Risk Management Objectives and Policies

Risk Management Objective
Our 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 Directors of the Firm is the Governing Body of the Firm ('the Board') and is composed of:

- Rafael Biosse Duplan; and
- Frode Foss-Skiftesvik (together the "Ordinary Directors")[1]; and
- James McCaughan:
- Ellen Shumway and
- Nora Everett (appointed by Principal Global Investors, LLC which owns 51% of the Firm)

The Board is responsible for the entire 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, at least annually, conduct a review of the effectiveness of the Firm's system of internal controls. The review will cover all material controls, including financial, operational and compliance controls and risk management systems.

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.

[1] The Finisterre Ordinary Directors, together with Paul Crean, Yan Swiderski and Xavier Corin-Mick are "Senior Management"

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.

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 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.

Risk Register

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

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 11.5.4 R

Disclosure: Compliance with BIPRU 3, BIPRU 4, BIPRU 6, BIPRU 7, BIPRU 10 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 Calculation				
		GBP		
Credit Risk Capital Requirement	**Rule**			
Credit Risk Capital Component	BIPRU 3.2	£ 175,995.21		
Counterparty Risk Capital Component (likely to apply only to Firms dealing as Prin	BIPRU 13 & 14	£ -		
Concentration Risk Capital Component (likely to apply only to Trading Book)	BIPRU 10	£ -		
Total		**£ 175,995.21**		
		Exposures		**Risk Weighted Exposure Amounts**
	Rule			
UK Government Bodies (e.g. HM Revenue & Customs)	BIPRU 3.4.2	£ 260,566.23	0%	£ -
National Currency (held in hard currency, such as Petty Cash)	BIPRU 3.4.5	£ 41.31	0%	£ -
Banks etc. Long Term (deposits held on 3 or >3 month term)	BIPRU 3.4.36	£ 188,007.40	50%	£ 94,003.70
Banks etc. Short Term (current accounts or deposits <3 months)	BIPRU 3.4.39	£ 1,337,614.83	20%	£ 267,522.97
Investment Management Fee Debtor/Owing by Corporate (funds held by Corporate	BIPRU 3.4.53	£ 801,171.42	75%	£ 600,878.57
Investment Management Fee Debtor/Owing by Corporate (funds held by Corporate	BIPRU 3.4.53	£ 692,616.59	75%	£ 519,462.44
Past Due Item (where only part of a sum owing remains outstanding)	BIPRU 3.4.96	£ -	100%	£ -
Collective Investment Undertakings (BIPRU 3.4.118, 123 or 124)	BIPRU 3.5.5	£ -	100%	£ -
Pre-Payments (Westminster Council - Rates)	BIPRU 3.4.128	£ 41,918.82	100%	£ 41,918.82
Pre-Payments (Bloomberg)	BIPRU 3.4.128	£ 73,867.46	100%	£ 73,867.46
Pre-Payments (Debtwire)	BIPRU 3.4.128	£ 21,375.00	100%	£ 21,375.00
Pre-Payments (EM Research)	BIPRU 3.4.128	£ 20,000.00	100%	£ 20,000.00
Pre-Payments (Formicary)	BIPRU 3.4.128	£ 29,531.25	100%	£ 29,531.25
Pre-Payments (Other cumulative)	BIPRU 3.4.128	£ 84,076.89	100%	£ 84,076.89
Fee Accruals (where Investment Management Fees or Performance Fees Accrued	BIPRU 3.4.128		100%	£ -
Fixed Assets (Tangible Fixed Assets only)	BIPRU 3.4.127	£ 447,302.97	100%	£ 447,302.97
Total		**£ 3,998,090.17**		**£ 2,199,940.06**
Credit Risk Capital Component				
8% of Risk Weighted Exposure Amounts				**£ 175,995.21**

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).

BIPRU 10

The Firm is no longer be subject to this Rule with effect from 31 December 2010.

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. The 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

Market Risk Calculation				
	Rule			
Interest Rate Positional Risk Requirement (IRPRR") (Trading Book)	BIPRU 7.2	£ -	8%	£ -
Equity Positional Risk Requirement ("EPRR") (Trading Book)	BIPRU 7.3	£ -	8%	£ -
Commodity Positional Risk Requirement ("CPRR") (Trading Book and Non-Trading	BIPRU 7.4	£ -	8%	£ -
Foreign Currency Positional Risk Requirement ("FCPRR") (Trading Book and Non	BIPRU 7.5	£ 1,313,415.20	8%	£ 105,073.22
Option Positional Risk Requirement ("OPPRR") (Trading Book)	BIPRU 7.6	£ -	8%	£ -
Collective Investment Undertaking Positional Risk Requirement ("CIUPRR") (Tradin	BIPRU 7.7	£ -	32%	£ -
Total		**£ 1,313,415.20**		**£ 105,073.22**
Market Risk Capital Requirement				**£ 105,073.22**

BIPRU 11.5.2 R

Disclosure: Scope of application of directive requirements

The Firm is subject to the disclosures under the *Banking Consolidation Directive* however, it is not a member of a UK Consolidation Group and consequently, does not report on a consolidated basis for accounting and prudential purposes.

BIPRU 11.5.3 R

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.

Tier 1 Capital	£650,000
Deductions	£0
Tier 2 Capital	£277,115
Deductions	£0
Stage N Capital Resources	£927,115
Tier 3 Capital	£0
Deductions	£0
Total Capital	£927,115

BIPRU 11.5.5 R

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 R

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 R

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

BIPRU 11.5.9 R

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 R

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 R

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 R

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 R

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 the 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	£649,596

BIPRU 11.5.15 R

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 R

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 R Disclosures: Securitisation
This disclosure is not required as the Firm does not Securitise its assets.
BIPRU 11.5.18 R Disclosure: Remuneration
The Firm is a Remuneration Code Proportionality Tier 4 Firm and has applied the rules appropriate to its Proportionality Tier. The Governing Body is responsible for the Firms remuneration policy. All variable remuneration is adjusted in line with capital and liquidity requirements. The Board has determined the Code Staff as at 1 January 2011, all of whom are Senior Management (SIF) and all are employed in the Firm's business of Investment Management. The total remuneration paid to the Code Staff relating to the Performance Period 1 January 2010 to 31 December 2010, was £4,766,243.86