

Eclectica Asset Management LLP

31 May 2011

Pillar III Risk Assessment

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 credit institutions and investment firms must maintain. In the United Kingdom, the Directive has been implemented by the Financial Services Authority ('FSA') in its regulations through the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

The FSA framework consists of three 'Pillars':

- Pillar 1 sets out the minimum capital amount that meets the firm's credit, market and operational risk;
- Pillar 2 requires the firm to assess whether its Pillar 1 capital is adequate to meet its risks and is subject to annual review by the FSA; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position.

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

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.

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 have made no omissions on the grounds that information is immaterial, proprietary or confidential.

Scope and application of the requirements

Eclectica Asset Management LLP ("the Firm") is authorised and regulated by the Financial Services Authority and as such is subject to minimum regulatory capital requirements. The Firm is categorised as a limited licence firm by the FSA for capital purposes. It is an investment management firm and as such has no trading book exposures.

The Firm is a member of an EEA group and so is required to prepare consolidated reporting for prudential purposes.

Risk Management Objectives

The Firm is governed by its partners 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 partners also determine how the risk the business faces may be mitigated and assess on an ongoing basis the arrangements to manage those risks. They meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, and business planning and risk management. They manage the Firm's risks having regard to relevant laws, standards, principles and rules (including principles and rules of the FSA) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required.

The partners have identified that business and operational are the main areas of risk to which the Firm is exposed whilst the Firm also has minimal exposure to credit risk and market risk. Annually the partners formally review the risks, controls and other risk mitigation arrangements and assess their effectiveness. Where the partners identify material risks they consider the financial impact of these risks as part of business planning and capital management and conclude whether the amount of regulatory capital is adequate.

The firm has a low risk appetite in respect of all risks and this is reflected in its governance and controls. There is an experienced management team of proven ability to ensure that the business remains tightly controlled within the standards that the firm aspires to.

Capital Resources

The Firm's capital structure is summarised as follows:

The main features of its capital resources, for regulatory purposes, are that it has £545,000 of tier one capital. Its minimum required capital is the higher of €50,000 (the minimum capital requirement for a limited licence firm), the sum of its market and credit risk requirements or its Fixed Overhead Requirement which is £251,000. It is the Firm's experience that the Fixed Overhead Requirement establishes its capital requirements and hence market and credit risks are considered not to be material. Its cushion of excess capital over the FOR is therefore £294,000.