London Management Group LLP

UK Stewardship Code Disclosure
And
Pillar 3 Disclosure and Policy (as of September 2013)

UK Stewardship Code

Under Rule 2.2.3R of the FCA's Conduct of Business Sourcebook, London Management Group LLP (the "Firm") is required to include on this website a disclosure about the nature of its commitment to the UK Financial Reporting Council's Stewardship Code (the "Code") or, where it does not commit to the Code, its alternative investment strategy. The Code is a voluntary code and sets out a number of principles relating to engagement by investors with UK equity issuers. Investors that commit to the Code can either comply with it in full or choose not to comply with aspects of the Code, in which case they are required to explain their non-compliance.

The Firm pursues various equity investment strategies that involve it investing in global equities, including UK equities. The Code is therefore relevant to some aspects of the Firm's investment activities. While the Firm generally supports the objectives that underlie the Code, the Firm has chosen not to commit to the Code. The Firm takes a global approach to engagement with issuers and their management in all of the jurisdictions in which it invests and, consequently, does not consider it appropriate to commit to any particular voluntary code of practice relating to corporate governance in any specific jurisdiction.

Pillar 3:

Disclosure Policy

The Pillar 3 disclosure of London Management Group LLP (“the Firm”) is set out below as required by the FCA’s “Prudential Sourcebook for Bank, 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. Future disclosures will be made on an annual basis as soon as practicable after the publication of the Annual Financial Statements and 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, services or pricing of such 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.

I. Overview

The 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 express a view on whether additional capital needs to be held for risks not covered by Pillar 1
- Pillar 3 requires us to publish certain details of our risks, capital and risk management processes.

Under Pillar 2 (the FCA's capital requirements) the Firm has undertaken an assessment of the adequacy of capital based on all risks to which the Firm is exposed. A number of key operations are outsourced by LMG to third party providers thereby reducing LMG's exposure to operational risk. The Firm has an operational risk framework (described below) in place to mitigate this risk and the Firm's main exposure to credit risk is the risk that management fees or external funds' retrocessions cannot be collected and therefore credit risk is low. The Firm holds all cash with banks assigned high credit ratings.

This information is disclosed in accordance with BIPRU 11.5 rules in order to meet our Pillar 3 obligations. We are permitted to omit disclosures if we believe that the information is immaterial so that it would be unlikely to affect the decision of a reader relying on that information. In addition, we may omit required disclosures if we consider that the information is proprietary or confidential. In this case it would be withheld in accordance to BIPRU 11.4.2 R and BIPRU 11.4.2 R and therefore as permitted by BIPRU 11.4.2(1) the firm's Pillar 3 disclosure contains only qualitative information on the firm's capital resources.

II. Background to the Firm

The Firm is incorporated in the UK and is authorised and regulated by the FCA as an Investment Management Firm. Its activities give it the BIPRU categorisation of a "Limited Licence" and a "BIPRU €50K" firm. It acts as an investment manager/advisor and does not hold client money. LMG is not a member of a group and so is not required to prepare consolidated disclosures.

III. Risk Management Objectives and Policies

<u>Risk management Objective</u>
LMG's appetite for risk is regarded as low. The Partners envisages the future trend of the firm to be one of sustainable long-term growth with the avoidance of unnecessary risk, including specifically:

- No custody of client assets or client money
- Rigorous procedures employed in portfolio management
- Diversification of the products proposed to investors
- Business development to be organic and reflect the firm's core skills

<u>Governance and Risk Framework</u>
As a small investment management firm, LMG is heavily dependent on key personnel. Following the departure at the end of October 2012 of one Partner, Laurent Zmiro, a new partner, Avril Pomper was appointed to replace him in September 2013. Both the existing Partner Michel Glas and the new Partner share the daily management and oversight responsibility. Michel Glas is responsible

for the entire process of risk management as well as forming his opinion on the effectiveness of the process. In addition, he 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 to ensure that such risks are actively managed.

Business Risk

The firm operates in a very competitive industry and like any business is exposed to risk resulting from adverse market conditions which could lead to reduction in assets under management and decrease in management fees and fund retrocessions (due to underlying client redemptions or removal of mandates). Over the past year the firm has continued to broaden its client base and develop its business with outside managers in order to maintain and increase the stream of steady income into the business.

Operational Risk

This refers to potential causes of loss arising from deficiencies in internal controls, human errors, physical systems failures and other business execution risks as well as external events. The firm addresses these areas by:

- Having robust procedures in place
- Ensuring staff have appropriate skills and training
- Outsourcing key areas to reputable specialists

The Firm is structured as an independent financial boutique specialising in providing asset management services to high net worth individuals and the risks inherent to these activities cover a whole range of exposures, such as risk of a trading error, risk of breach of investment guidelines, risk related to investment suitability, risk of a regulatory breach, risk of failure in an operational process and risk of a systems failure. LMG places a high degree of focus on operational controls to manage and mitigate these risks; it is a constantly evolving process and undergoes constant review.

Another of LMG's services is to provide investment advice to professional clients such as family offices, asset management companies and private banks. This will generally consist in identifying managers dedicated to specific investment strategies and introducing them to such professional clients. As a result the risk management activities are focused on understanding, monitoring and mitigating business and operational risks to the extent feasible in order to maintain a low risk profile in these areas. The need for due diligence is amplified in the hedge fund context because investing in this area carries specific risks for investors. A process of due diligence into the fund's activity is conducted to ensure that the fund is in compliance with its prospectus and has the right structure and controls (separate custody, independent pricing…) in order to provide a "road-map" when deciding how likely a specific fund is to meet its investment horizon, risk tolerance and investment strategy. LMG realises that any weaknesses in the operational and supervisory practices of fund managers could result in financial and litigation risks if these result in claims that any parties had failed in their due diligence or provided inaccurate or misleading information.

In addition to operational controls, one of the other key methods of managing operational risk is the maintenance of insurance policies such as the Directors' and Officers' Liability Insurance.

Market Risk

LMG does not have a trading book and therefore market risk is limited to the Firm's exposure to foreign exchange fluctuations, due to some assets and liabilities being denominated in currencies other than sterling. Most of the firm's foreign currency holdings are converted into GBP on a regular basis.

Liquidity Risk
LMG maintains sufficient cash resources to meet its obligations at all times and excess cash is held in an interest bearing account at institutions with an investment grade rating, repayable on demand.

Credit Risk
The Firm is primarily exposed to Credit Risk from the risk of non-collection of fees. It holds all cash with Banks assigned high credit ratings. Consequently risk or past due or impaired exposures is minimal.

IV. BIPRU 11.5.3 Disclosure - Capital Resources

As a limited licence firm, the capital resources requirement is calculated as the total of Pillar 1 and Pillar 2 Capital. LMG's capital resources at 30 April 2013 reflect the audited accounts as at that date. The Capital Resources Requirement normally consists of the firm's Fixed overheads Requirement ("FOR"), which is based on annual expenses net of variable costs, although market and credit risks are reviewed monthly. As a limited licence BIPRU €50k form, in order to calculate LMG's capital risk requirement (CRR) under the capital requirement directive (CRD), LMG needs to apply the higher of the base capital resource requirement (BCRR) (€50k) or the fixed overheads requirement (FOR) or the sum of the firm's Credit Risk and Market Risk. As of April 30, 2013, LMG's FOR, as calculated in accordance with the FSA's GENPRU 2.1.53, stood higher than the BCRR of €50k. 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.

V. BIPRU 11.5.4 Disclosure – Compliance with BIPRU 3, BIPRU 4, BIPRU 6, BIPRU 7, BIPRU 10 and the overall Pillar 2 Rule

BIPRU 3
Credit risk is the risk of financial loss arising from a client or other counterparty failing to meet its obligations to repay outstanding amounts as they fall due. LMG does not have any exposure to settlement activities and therefore has no credit risk in this area. Key elements of LMG's balance sheet are:

- Receivables from third parties
- Exposure to banks where the firm maintains deposits

Positions are monitored monthly and reported to the management.

BIPRU 4
LMG does not adopt the Internal Ratings based approach and hence this is not applicable.

BIPRU 6
LMG, being a Limited Licence Firm is not subject to the Pillar I Operational Risk Requirement and, therefore, this is not applicable

BIPRU 7
LMG has Non-Trading Book potential exposure only (BIPRU 7.4, 7.5)

Overall Pillar 2 Rule
LMG has adopted a "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 document is presented to the Partners of the Firm for formal review and approval. The data and assumptions used in the assessment of risk and capital adequacy are continually assessed

and updated. This includes stress testing and scenario analysis of operational and business risks as well as assessment of costs to wind down the business. The analysis concluded that the Firm has adequate capital to withstand unexpected losses arising from these risks. Should new risks materialise or be identified by the Company, then these risks will be incorporated into the overall review process.

Remuneration Code Disclosure:

LMG is authorised and regulated by the Financial Conduct Authority as a Limited Licence Firm and so, it is subject to FCA Rules on remuneration. These are contained in the FCA's Remuneration Code located in the SYSC Sourcebook of the FCA's Handbook. The Remuneration Code ("the RemCode") covers an individual's total remuneration, fixed and variable (only Code Staff are covered by Rem Code (SYSC 19A.3.3)). The Firm incentivises staff through a combination of the two.

The Firm's business is to provide investment management services to its clients.

Our policy is designed to ensure that we comply with the RemCode and our compensation arrangements:

1. are consistent with and promotes sound and effective risk management;
2. do not encourage excessive risk taking;
3. include measures to avoid conflicts of interest; and
4. are in line with the Firm's business strategy, objectives, values and long-term interests.

Proportionality

Enshrined in the European remuneration provisions is the principle of proportionality. The FCA has sought to apply proportionality in the first instance by categorising firms into 4 tiers. The Firm falls within the FCA's fourth proportionality tier and as such this disclosure is made in line with the requirements for a Tier 3/4 Firm.

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 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.

1. Summary of the decision-making process:
   - The Firm's policy has been agreed by the Senior Management in line with the RemCode 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 will be reviewed as part of annual process and procedures, or following a significant change to the business requiring an update to its internal capital adequacy assessment.
   - The Firm's ability to pay bonus is dependent on the performance of Firm overall and is based on the firm's actual results for the year in question adjusted for any need to retain resources to meet regulatory capital requirements or for business development.

2. Summary of how the firm links between pay and performance:
   - Individuals are rewarded based on their contribution to the overall strategy and achievement of the business taking into account factors including, where appropriate:

a. Investment Generation
b. Investment Trading
c. Sales & Marketing
d. Operations

3. Quantitative Remuneration Data

   Disclosure of the aggregate remuneration for staff permits firm to take account of the provisions of the Data Protection Directive (Directive 95/46/EC) regarding the protection of individuals in relation to the processing of personal data. Due to the low number of staff assessed as Code Staff for the Firm who receive Remuneration for their activities, the Partners have relied upon BIPRU 11.5.20(2) and determined that aggregate quantitative disclosure for Code Staff is not appropriate.

Dated: September 2013

Reviewed by:

Michel Glas
Partner