

Hinde Capital Ltd's Pillar 3 disclosure requirements

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 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.
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position to encourage market discipline.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet our 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 senior management. Unless otherwise stated, all figures are as at the April financial year-end.

Pillar 3 disclosures will be issued on an annual basis after the year end and published as soon as practical when 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 are able to omit certain data on the grounds of materiality.

Where we have chosen to omit information because it is proprietary or confidential we have explained the omission and provided our reason.

Scope and application of the requirements

Hinde Capital Ltd ("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.

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The Firm is not a member of a group and so is not required to prepare consolidated reporting for 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 Senior Management team 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 the Firm's risk principles.

Senior Management also determines how the risk our business faces may be mitigated and assesses on an ongoing basis the arrangements to manage those risks. Senior Management meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, business planning and risk management. Senior Management engage in the Firm's risks through a framework of policy and procedures having regard to the relevant laws, standards, principles and rules (including FSA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required.

The Senior Management team have identified that business, operational, market and credit risks 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. Where the Senior Management team identify material risks they consider the financial impact of these risks as part of our business planning and capital management and conclude whether the amount of regulatory capital is adequate.

A formal update on operational matters is provided to the Senior Management team on a regular basis. Management accounts demonstrate 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 risk tolerance levels or where the need for remedial action is required in respect of identified weaknesses in the firm's mitigating controls.

Risks

Specific risks applicable to the firm come under the headings of business, operational, credit and market risks.

Business risk

The firm's revenue is reliant on the performance of the existing funds under management. As such, the risk posed to the firm relates to underperformance resulting in a decline in revenue and ultimately the risk of redemptions from the funds managed by the firm. This risk is mitigated by e.g.

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- significant levels of capital held by the firm which will continue to cover all the expenses of the business.
- Ability to immediately drop overheads which are already kept low

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 a number of key operational risks to manage. These relate to e.g. systems failure, failure of a third party provider, key man, potential for serious regulatory breaches and market abuse. Appropriate policies are in place to mitigate against these risks.

Credit risk

The firm is exposed to credit risk in respect of its debtors, investment management fees billed and cash held on deposit.

The number of credit exposures relating to the firm's investment management clients is limited. Management fees are drawn monthly from the funds managed and performance fees are drawn annually where applicable. The firm considers that there is little risk of default by its clients. All bank accounts are held with large international credit institutions.

However, since the debtors investment management fees due are primarily inter-group this is not considered a significant risk. The firm considers that there is little risk of default by its sole client and all bank accounts are held with large international credit institutions.

Given the nature of the firm's exposures, no specific policy for hedging and mitigating credit risk is in place. The firm uses the simplified standardised approach detailed in BIPRU 3.5.5 of the FSA Handbook when calculating risk weighted exposures of 1.6% and 8% in respect of its assets.

Credit risk summary

Credit risk exposure	Risk weighting	Risk weighted exposure (£000)
Cash in the bank	1.6% or 8% subject to institution and FSA rules	3
Inter-company	8%	1
Trade Debtor	8%	15
Prepayments and Accruals	8%	
Other debtors (<1 year)	8%	4
Other debtors (>1 year)	8%	-
Other assets	8%	4

Market risk

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The firm takes no market risk other than foreign exchange risk in respect of its accounts receivable and cash balances held in currencies other than GBP.

Since the firm takes no trading book positions on its balance sheet and is not directly responsible for advising or managing assets, it has only indirect market risk exposure via the wider group. The firm's foreign exchange risk therefore would only arise in respect of its accounts receivable and cash balances held in currencies other than GBP.

Hedging strategies may be used from time to time to mitigate against potential foreign exchange losses and these are monitored by the Financial Controller/ Chief Operating Officer. Losses arising on foreign exchange movements are monitored on a regular basis and reported to senior management via the monthly management accounts.

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

Market risk summary

Market risk exposure	Risk weighting	Risk weighted exposure (£000)
Foreign currency assets and liabilities	8%	£3

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 that financial resources can only be secured at excessive cost.

The Firm retains an amount 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 Chief Executive on a regular basis.

The Firm maintains a Liquidity risk policy which formalises this approach.

Regulatory capital

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

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

	£000
Tier 1 capital*	194

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Tier 2 capital	0
Tier 3 capital	0
Deductions from Tiers 1 and 2	0
Total capital resources	194
*No hybrid tier one capital is held	

Our Firm is small with a simple operational infrastructure. Its market risk is limited to foreign exchange risk on its accounts receivable in foreign currency, 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 Fixed Overhead Requirement 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 limited licence firm and as such its capital requirements are the greater of:

- Its base capital requirement of €50,000; or
- The sum of its market and credit risk requirements; or
- Its Fixed Overhead Requirement.

We have not identified credit risk exposure classes or the minimum capital requirements for market risk as we believe that they are immaterial.

It is the Firm's experience that the Fixed Overhead Requirement 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 the FSA's General Prudential Sourcebook ("GENPRU") at GENPRU 2.1.53. 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 [state as appropriate e.g. discretionary bonuses paid to staff, allowable commission and fees and specify any "other variable expenditure" which has been deducted]. 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 Senior Management and reported to senior management on a monthly basis.

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UK Financial Reporting Council's Stewardship Code

FSA COBS Rule 2.2.3R requires FSA authorised firms to disclose whether they conform to the requirements of the UK Financial Reporting Council's Stewardship Code (the "Code"). Adherence to the Code is voluntary. The Firm pursues an active long/short trading strategy concentrated on Gold and mining equities which involves a wide variety of investment products and timeframes. Therefore, while the Firm supports the principles of the Code, it does not consider it appropriate to conform to the Code at this time.

If the Firm investment strategy changes in such a manner that the provisions of the Code become relevant, the Firm will amend this disclosure accordingly.

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Remuneration code disclosure

Hinde Capital Ltd ("the **Firm**") is authorised and regulated by the Financial Services Authority as a Limited Licence Firm and so, it is subject to FSA Rules on remuneration. These are contained in the FSA's Remuneration Code located in the SYSC Sourcebook of the FSA's Handbook. The Remuneration Code ("the RemCode") covers an individual's total remuneration, fixed and variable. The Firm incentivises staff through a combination of the two.

The Firm's business is to provide investment management services to the fund managed by the Firm (the "**Fund**").

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 FSA have sought to apply proportionality in the first instance by categorising firms into 4 tiers. The Firm falls within the FSA's fourth proportionality tier and as such this disclosure is made in line with the requirements for a Tier 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 information on the decision-making process used for determining the firm's remuneration policy including use of external benchmarking consultants where relevant.
 - The Firm's policy has been agreed by the Senior Management in line with the RemCode principles laid down by the FSA.
 - 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 based on the performance of firm overall and derived after the fund's managed returns have been calculated by client appointed third party administrators.
 - There is limited involvement of the firm in deriving asset prices.
2. Summary of how the firm links between pay and performance (SEE REM CODE).

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- Individuals are rewarded based on their contribution to the overall strategy of the business.
 - a. Investment Generation
 - b. Investment Trading
 - c. Sales & Marketing
 - d. Operations

 - Other factors such as performance, reliability, effectiveness of controls, business development and contribution to the business are taken into account when assessing the performance of the senior staff responsible for the infrastructure of the firm.
3. In accordance with CRD III and CEBS guidance the Firm takes a proportionate approach to its Remuneration Code disclosures in line with the nature, scale and complexity of the Firm and as such has chosen not to disclose exact remuneration figures in regards to the remuneration of the two Code Staff identified by the Firm's Policy. The Firm confirms that no Code Staff received more than £500,000 total remuneration during the period and that all discretionary remuneration is directly related to the performance of our managed entities and as such staff interests are innately aligned with the interest of the Firm and its Clients vis-à-vis remuneration and performance.

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.