

Solaise

Solaise Capital Management LLP (“Solaise”)

CAPITAL REQUIREMENTS DIRECTIVE PILLAR 3 DISCLOSURE

July 2018

Pillar 3 Risk Disclosure

Overview

The European Capital Requirements Directive (“CRD”) and the Alternative Investment Fund Managers Directive (“AIFMD”) (“together, the Directives”) establish a revised regulatory capital framework across Europe governing the amount and nature of capital which credit institutions and investment firms must maintain. In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority (“FCA”) in its Handbook of rules and guidance, including in particular in the General Prudential Sourcebook (“GENPRU”), the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”) and the Investment Funds Sourcebook (“FUND”).

The FCA’s CRD framework consists of three ‘Pillars’:

Pillar 1

This sets out the minimum capital amount required to meet the firm’s credit, market and operational risk.

Pillar 2

Requires the firm to assess whether its capital is adequate to meet its risks that are not covered by Pillar 1, and is subject to review by the FCA.

Pillar 3

Requires public disclosure of qualitative and quantitative information about the underlying risk management controls and capital position of a firm.

The AIFMD adds further capital requirements which relate to the assets under management and professional liability risks of the Alternative Investment Funds (“AIFs”) operated by a manager.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet Solaise Capital Management LLP (“Solaise”)’s Pillar 3 obligations by setting out the company’s risk management objectives and policies.

We are permitted to omit required disclosures if we believe that the information is immaterial such that its omission or misstatement would not be likely to change or influence the assessment or decision of a reader relying on that information for the purpose of making economic decisions.

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 with the public, 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 not omitted any disclosures on grounds that information is regarded as proprietary or confidential.

Frequency and location of disclosure

Future disclosures will be issued on an annual basis at a minimum and will be made available on Solaise’s website. The disclosures are as at the accounting reference date, which for the purpose of this disclosure is 30 April 2018.

Scope and application of the requirements

Solaise is authorised and regulated for investment management activities in the UK, by the FCA and is classed as a Collective Portfolio Management Investment Firm (“CPMI”). Solaise is subject to

minimum regulatory capital requirements and is categorised as a *CPMI that is an external AIFM* by the FCA for capital purposes. It has no trading book exposures.

Risk management

Solaise's Executive Management Committee determines the business strategy and risk appetite of the company, together with the design and implementation of a defined and transparent risk management framework, having regard to relevant laws and regulatory rules.

Senior management meet on a regular basis to discuss all key business issues, including current projections for profitability, cash flow, regulatory capital management, and business planning and risk management. As new risks arise or as new business activities are entered into, the risk management framework is updated accordingly.

The Internal Capital Adequacy Assessment Process ("ICAAP") is an integral part of Solaise's risk management framework and is reviewed and updated no less frequently than annually. The ICAAP sets out the sources of risk to the firm and then rates the potential impact of each risk to the firm's business, offsetting this against the systems and controls which have been put in place to mitigate those risks.

Reasonable steps are taken by Solaise to reduce the probability of any risk crystallising. Furthermore, additional capital resources proportionate to the potential likelihood of occurrence and impact are maintained for risks where the probability is not fully mitigated and which Solaise does not wish to bear.

The Executive Management Committee have identified that the main risks to which the Company is exposed are as follows:

1. Market and securitisation risk

- Solaise only acts as agent when executing transactions on behalf of clients
- Solaise does not act on a principal basis and therefore has no market exposure
- securitisation risk does not exist as Solaise does not securitise any of the assets belonging to the manager.

Risk assessment: Solaise does not incur market or securitisation risk.

2. Credit and concentration risk

- Solaise does not make loans to any of its counterparties
- Solaise does not trade as principal and therefore cannot incur counterparty risk as it relates to security transactions
- the single largest credit and concentration exposure relates to the bank account and deposits held with Barclays Bank plc. Under Pillar 1 the exposures to Barclay Bank are risk weighted at 8% of its risk weighted exposure amount (i.e. 8% of 20% of the balance)
- exposures to counterparties occur in relation to the fees receivable from clients. Such exposures are settled within 30 days of their occurrence and such exposures under Pillar 1 are risk-weighted at 8% of their face value for the calculation of credit risk. Such exposures can fall within the definition of a large exposure when they exceed 25% (20% if due from a connected party) of Tier 1 capital however this is infrequent and is considered under Pillar 1 credit risk when it occurs

Risk assessment: Given that Solaise's cash is held with a major UK clearer and is readily accessible, the current risk weighting under Pillar 1 is adequate. Given the relatively small size and the 30 day settlement of counterparty exposures, the current risk weighting of 8% under Pillar 1 is adequate. This is an overall low risk.

3. Liquidity, interest rate and foreign exchange rate risk.

- Solaise's bank account is maintained at Barclays and all cash is held in accounts with instant access. A rise or fall in interest rates will have a minimal impact on Solaise as it neither borrows in order to cover the costs of its operation nor is it dependent on interest income as a source of funding
- There are both sterling and US dollar accounts but the large majority of cash is always held in sterling
- Fees are calculated and received in US dollars and Solaise's expenditure base is incurred in GBP. Thus Solaise does incur foreign exchange exposures however it manages them either via conversion back to the base currency of the LLP (GBP) or through hedges

Risk assessment: Solaise maintains its capital in highly liquid accounts and as a result of this liquidity risks are minimal. Interest rate risk is also minimal and foreign exchange risk is managed by converting foreign currency earnings into GBP. This is an overall low risk.

4. Remuneration risk

In line with the FCA's issued General Guidance on the AIFM Remuneration Code, the Executive Management Committee have assessed the proportionality criteria and have determined that many of the more onerous provisions of the AIFM Remuneration Code may be disapplied.

The LLP has defined "Code Staff" to be the current 4 individual members of the firm.

Risk assessment: The people within the LLP covered by the Remuneration Code are all members and their remuneration is tied solely to the performance of the Firm as a whole. This is an overall low risk.

5. Other key business risks

Solaise has identified a number of additional risks that fall into two broad categories: operational risk and business risk. Operational Risk is carefully managed by senior management and through the Operational Risk Committee. Where operational risks are identified, resources, controls and procedures are put in place to mitigate them. Business Risks stem from the fact that Solaise operates in a competitive industry and may fail to generate sufficient revenue to maintain a sustainable business. This risk is primarily mitigated by a strong focus on the research and implementation of Solaise's trading system by highly experienced individuals. Solaise nonetheless also models various scenarios to ensure the business has sufficient resources to continue trading for an appropriate length of time in the event of a failure to generate forecast revenue.

Risk assessment: Solaise carefully manages its business and operational risks. This is an overall low risk.

Regulatory capital calculation and position

Solaise is a limited liability partnership and its capital arrangements are established in its partnership deed.

As above, Solaise is an external AIFM and a CPMI and as such its capital requirements are the greater of:

- Funds Under Management Requirement, which is the Base Capital Requirement of €125k + 0.021% of AIF AUM in excess of €250m (but subject to a maximum of €10m)
- The sum of its market and credit risk requirements; or
- Variable Capital Requirement, which is the Fixed Overhead Requirement and Professional Negligence Capital Requirement.

Solaise's Funds under Management Requirement at 30 June 2018 amounted to EUR 125,000.

Solaise's market risk consists primarily of its foreign exchange risk on its accounts receivable in foreign currency, and credit risk from (i) management and performance fees receivable from the funds under its management, and (ii) cash deposits.

It is Solaise's experience that market and credit risks sum to less than the Fixed Overheads Requirement. Accordingly, Solaise considers its market risk capital requirement and its credit risk capital requirement to be immaterial for purposes of this Pillar 3 disclosure.

In addition, the Firm has established that the amount of capital required as a result of its latest ICAAP review is £450,000, based on a Fixed Overhead requirement of £426,846 and a Professional Negligence Requirement of £19,608. The Firm maintains sufficient capital accordingly.

At end April 2018 Solaise had total capital of £861,624.