

Capital Requirements Directive Thames River Multi-Capital LLP Pillar 3 Disclosures

Introduction

Thames River Multi-Capital LLP ("TRMC LLP") is authorised to conduct investment business under Part IV of the Financial Services and Markets Act 2000 ("FSMA"). Thames River Capital (UK) Limited ("TRCUK") is the corporate member of TRMC LLP. TRMC LLP is owned by its members. TRCUK is a wholly owned subsidiary of Thames River Capital Holdings Limited ("TRCH"), which is owned by Red River Capital Limited (formerly River and Mercantile Funds Limited) and Thames River management.

The 2006 Capital Requirements Directive ("the Directive") of the European Union created a revised regulatory capital framework across Europe based on the provisions of the Basel 2 Capital Accord.

This was implemented in the United Kingdom through changes to the Financial Services Authority ("FSA") Handbook of Rules and Guidance, and specifically through the creation of the General Prudential Sourcebook ("GENPRU") and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU").

The new 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, and the FSA, to take a view on whether additional capital should be held against capital risks not covered by Pillar 1; and

Pillar 3 requires us to publish certain details of our risks, capital and risk management process:

BIPRU 11.5 (technical criteria on disclosure: general requirements) and 11.6 (qualifying requirements for the use of particular instruments or methodologies) require that a Firm subject to the provisions of the Directive must disclose, as appropriate, the relevant information required under Pillar 3. This must be done in accordance with a formal disclosure policy which sets out our policies for assessing the appropriateness of our disclosures, including their verification and frequency.

TRMC LLP's Pillar 3 disclosures will be published annually. TRMC LLP has concluded that more frequent disclosure (under BIPRU 11.4.4) is unnecessary, because TRMC LLP's business model and the services that it offers are unlikely to change materially during any one year. This conclusion will be reassessed annually prior to the annual disclosure and consideration will be given to the need to disclose some or all of the disclosure requirements on a more frequent basis. The disclosures are as at the Accounting Reference Date ("ARD") ie 31 March 2009

The disclosures will only be externally audited if they are required to be under accounting requirements. The Pillar 3 disclosures have been prepared purely for explaining the basis on which TRMC LLP has prepared, calculated and disclosed certain capital requirements and information about management of certain risks and for no other purposes. They do not constitute any form of financial statement.

The rules provide that we may omit one or more of the required disclosures if we believe that the information is immaterial. Materiality is based on the criteria that the omission or misstatement of material information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions. Where we have considered a disclosure to be immaterial, we have stated this in the relevant section.

We are also permitted to omit one or more of the required disclosures where we believe that the information is regarded as proprietary or confidential. 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 and counterparties. Where we have omitted information for either of these two reasons we have stated this in the relevant section and the reasons for this. Where appropriate, we have published more general information on the subject matter of the required disclosure.

Capital Requirements Directive Pillar 3 Disclosure:

In this document we disclose information in accordance with the following BIPRU11.5 rules unless it has been determined as immaterial or of a proprietary or confidential nature:

BIPRU 11.5.1R Risk management objectives and policies;

BIPRU 11.5.2R The scope of application of directive requirements;

BIPRU 11.5.3R Capital Resources;

BIPRU 11.5.4R (subsections 1, 2, 4(a) (iv) and (vi) and 4(b)(ii)) compliance with the rules in BIPRU and on Pillar 2 requirements; and BIPRU 11.5.12R (subsections 1(d) and (f) and 2(b)) on market risk.

Scope and application of Directive requirement

The disclosures in this document are made in respect of TRMC LLP which is a regulated investment manager.

TRMC LLP is a limited liability partnership and owned by its members. TRCUK is the Corporate Member. The other members comprise senior management and key investment members.

TRCUK was founded in 1998 by a group of senior industry executives to capitalise on opportunities presented for managers and professional investors by moving away from the perceived constraints of large companies. Within the Thames River Group it was decided to create a new entity, TRMC LLP, which commenced operations on 16 May 2007 as adviser to a new range of multi-manager funds. TRCUK as corporate member to TRMC LLP provides the necessary support, administration and sales-marketing platform for the distribution of the funds.

TRMC LLP is incorporated in the UK and subject to authorisation and regulation by the Financial Services Authority as investment manager. The nature of activities performed by TRMC LLP leads to its categorisation as a BIPRU "limited licence" Firm. TRMC LLP is categorised as a "BIPRU 125K" Firm. All disclosures are on an unconsolidated basis.

Risk management objectives and policies

Organisational structure

An enterprise-wide Risk Management Framework has been implemented at TRMC LLP to manage risk across all levels including an entity, business, department, function, and activity level. The Management Committee of TRMC LLP, supplemented by the Compliance, Risk and Audit Committee are responsible for overseeing Management's design and operation of the risk framework.

Management's responsibilities include:

- The design and operation of the risk management framework;
- Establishing the risk appetite of the Firm;
- Promoting the desired risk culture, and sets risk in the context of business strategy.

The Chief Compliance and Risk Officer (who is also an Executive Director of the Corporate Member) works with all levels of management in establishing and maintaining effective risk management in their areas of responsibility. His responsibilities also include monitoring progress of the risk management framework and assisting all levels of management in reporting relevant risk up, down, and across the Firm. With respect to Compliance matters, the Chief Compliance and Risk Officer's responsibilities include:

- Providing advice on the regulatory implications of new regulations and changes to the business profile;
- Undertaking periodic compliance monitoring on the basis of a risk-based compliance monitoring programme;
- Making and effecting recommendations for improvements regarding the manner in which compliance is achieved;
- Preparing written quarterly reports on compliance matters for the Governing Body; and
- Ensuring that regulatory compliance risk is taken into account in the Firm's day-to-day operations. The Chief Compliance and Risk Officer is responsible for preparing a written report directly to the Governing Body on a quarterly basis or more frequently depending on changes in regulation, business, or risk matters. The report covers the adequacy and effectiveness of risk management and compliance measures and procedures put in place to minimise the risk of failure of the Firm, including those who are employed by the Firm, to comply with its regulatory requirements.

Reporting into the Chief Compliance and Risk Officer is the independent Compliance and Risk Team, which supports him in carrying out all the above mentioned duties.

A Compliance, Risk and Audit Committee has been appointed to assist in the management of risk in the business. The Committee is chaired by the non-executive director of the corporate member and includes the CEO, the Chief Operating Officer, the Chief Compliance and Risk Officer and the Commercial Director in respect of financial matters. It meets quarterly and has a standard list of agenda items. These include a review of the enterprise risk management framework, performance, market abuse issues, AML, operational errors and complaints.

The Internal Audit function provides an independent opinion on the effectiveness of risk management, systems, and controls. The Internal Auditor contributes to the ongoing effectiveness of the risk management framework, by his participation in separate evaluations. The Internal Auditor reports into the Chief Compliance and Risk Officer with a dotted line report into the Chief Executive, and is accountable to the Compliance, Risk and Audit Committee.

Risk Management Policy

Our risk management policy reflects the FSA requirement that we must manage a number of different categories of risk. These include credit, market, operational, business, insurance, liquidity and group risk. In respect of this disclosure it is the first four of these risks that are relevant.

Insurance, liquidity and group risk

In practice, TRMC LLP has insurance risk in respect of the creditworthiness of its D&O and E&O insurer. TRMC LLP has no group risk and no liquidity risk.

Credit risk

TRMC LLP does not provide credit facilities to clients; therefore, it is not exposed to credit risk.

Counterparty risk

For TRMC LLP clients, provisions for the non-payment of fees etc are governed by TRMC LLP's agreements with these clients, the terms of which are subject to confidentiality clauses. With regard to bank deposits, TRMC LLP only deposits money with approved banks on agreed terms.

At the date of disclosure TRMC LLP had approximately £379k outstanding from counterparties and £1m of cash held and accordingly maintained £47k of capital against counterparty risk.

Pillar 2 risk

TRMC LLP uses a scenario based business forecasting tool to internally assess its capital adequacy. Various scenarios are input into the tool and the results are used to identify future capital requirements.

During the ICAAP process we identified two key operational risks with potential Pillar II implications:

Dealing errors

As a fund management business that places investments on market in an agency capacity the risk of dealing errors has a potentially significant impact on the Firm. The risk is enhanced by some of the types of products traded (derivatives, FX), increasing numbers of investment mandates, potential market abuse issues and treating customer fairly. We believe there is a high probability of dealing errors with a low financial impact.

There are several controls in place to ensure the Firm is not exposed to financial liability due to these risks including:

- Daily review of investment restrictions
- Daily control checks between front and back office systems (pricing)
- Daily cash reconciliations
- Separation of trading and responsibility for matching trades
- Straight through processing where possible
- Ethical, compliant culture with experienced staff

We have made an additional capital provision of £150,000 under Pillar II which represents the insurance excess of TRMC LLP.

Fraud

As a financial services firm, money laundering obligations must be considered. The firm has the following controls in place to mitigate these risks

- Professional Indemnity insurance to £20m subject to an excess of £150,000;
- Separation of trading and matching of trades;
- Daily cash reconciliations; although no Firm holds client cash; weekly positions reconciliation
- Experienced staff;
- Independent monitoring via the Compliance & Risk

The controls to mitigate these risks mean there is a low probability of fraud or theft going unnoticed, we have made an additional capital provision of £150,000 under Pillar II which represents the insurance excess of TRMC LLP.

Capital Resources

Our capital resources comprise of core Tier 1 capital. The constituents of Tier 1 capital of the Firm at the ARC are:

	£000's
Members' capital	3,050
Interim net losses	(721)
Profit and loss account	(1,804)
	<u>525</u>

In accordance with GENPRU 2.1.45R (calculation of variable capital requirement for a BIPRU Firm), our capital requirement has been determined as being our fixed overhead requirement and not the sum of our credit risk capital requirement plus our market risk capital requirement.

Compliance with rules in BIPRU and Pillar 2 rule requirements

Our overall approach to assessing the adequacy of our internal capital is set out in our Internal Capital Adequacy Assessment Process (ICAAP).

The ICAAP process involves separate consideration of risks to our capital combined with stress testing using scenario analysis. The level of capital required to cover risks is a function of impact and probability. We assess impact by modelling the changes in our income and expenses caused by various potential risks over a 1 year time horizon. Probability is assessed subjectively.

In addition, we have reviewed the output of our Executive Risk Reviews which includes a quantification of the risks identified in the completion of our risk register. This identified a number of key business risks which we have classified against the risk categories contained in GENPRU 1.2.30R and reviewed the guidance in BIPRU 2.2.61-65.

Our Pillar 2 capital requirement, which is our own assessment of the minimum amount of capital that we believe is adequate against the risks identified, has been assessed as being more than our Pillar 1 capital requirement. Therefore, our Pillar 2 requirement is the minimum regulatory capital requirement that we hold.

Finance

TRMC LLP has adequate capital for its current size and the complexity of its business. The current total capital of £0.53 million is compared to the ICAAP capital requirements of £0.36 million.

The financial position of the Firm remains strong. It is the intention of the senior management not to materially alter the strategy of the Firm. Organic growth will come from launching new funds from existing teams within TRMC LLP. Thames River Capital is expected to be profitable.