THURLEIGH | Investment Managers

Capital Requirements Directive
Pillar 3 Disclosure
31st March 2011

1. Background

The European Union's Capital Requirements Directive came into effect on the 1st January 2007 and introduced a set of regulatory capital adequacy standards and an associated supervisory framework in the EU which is based on the Basel II rules.

The Directive is implemented by the Financial Services Authority ('FSA') in the UK.

The framework consists of three Pillars:

1) Pillar 1 sets out the minimum capital required by the firm;

2) Pillar 2 specifies the additional capital that is required to meet the risks that are not covered in Pillar 1 and is covered by a process known as the Internal Capital Adequacy Assessment Process ('ICAAP');

3) Pillar 3 requires the firm to disclose the details of the firm's risks, capital requirements and risk management process.

2. Scope of Disclosure

Thurleigh Investment Managers LLP is a UK based firm which provides a discretionary investment management service to high net worth individuals and charities. Thurleigh is subject to the BIPRU (Prudential Sourcebook for Banks, Building Societies and Investment Firms) requirements and is categorised as a BIPRU Limited €125K firm. As such, the firm is authorised to hold client money or securities, however, it is not authorised to deal on its own account and is subject to a minimum capital requirement of €125K.

3. Risk Management

The Partners are ultimately responsible for risk management, business planning and capital planning. The Partners meet every three months and make decisions based on formal reports by the Investment Committee, Operations Committee and Compliance Committee. Each of the three committees includes more than one Partner and has clearly defined functions and responsibilities.

Risks can be identified at the Committee level and at the Partnership level. Each risk is documented in the firm's Risk Map where the associated impact and probability is assessed and a process is established to mitigate the risk. It is the role of each Committee to ensure that the controls and processes are implemented during the daily operations of the firm. The Risk Map is updated by the Compliance Officer as frequently as is necessary to ensure that the firm's risk management processes are current.

4. Operational Risk

Operating risk is attributable to inadequate processes, failed internal processes and human error. As part of the risk management process, it is the role of the Operations Committee to identify risks of an operating nature and to set up processes to reduce the probability and impact of these risks to the firm. The firm has identified the following risks which would have the largest potential impact: trading errors; fraud and the failure to process client instructions.

5. Compliance Risk

Compliance risk relates to acting outside of the client's mandate and conducting inadequate due diligence. The Compliance Officer devotes significant time to reviewing and monitoring the firm's due diligence process for new clients as well as ensuring that there is a clear investment mandate. The Compliance Officer is supported by the Compliance Committee which meets every month.

6. Business Risk

The firm is required to ensure that there is sufficient capital in the event of a severe economic downturn or a significant loss due to the closure of a large account. Stress test models are used to assess the impact of these two events.

7. Regulatory Capital Requirement

The **Pillar 1** requirement is the higher of the firm's Fixed Overhead Requirement 'FOR' and the sum of the market risk and credit risk requirements. Therefore, the firm has used the 'FOR' as Pillar 1.

The **Pillar 2** requirement accounts for each of the risks documented in the ICAAP which are quantified by assessing their impact and probability.

The **Regulatory Capital** requirement (£525K) is equal to the sum of Pillar 1 (£173K) and Pillar 2 (£352K).

The **Solvency Ratio** is calculated to determine whether the firm maintains sufficient capital to cover the potential cost of all the risks defined in the ICAAP. This is calculated by dividing the firm's Tier 1 Capital (£690K) by the Regulatory Capital requirement (£525K). The Solvency Ratio of the firm is calculated to be 131% and the firm can conclude that it maintains sufficient capital.

Regulatory Capital as at 31st March 2011	Value
Tier 1 Capital	**£690,000**
Pillar 1 Requirement (Fixed Overhead Requirement)	£173,000
Pillar 2 Requirement	£352,000
Regulatory Capital Requirement	**£525,000**
Solvency Ratio	**131%**

8. Disclosure Policy

The ICAAP is revised by the Compliance Officer at the beginning of each financial year or as and when circumstances change.