

LUDGATE INVESTMENTS LIMITED

PILLAR 3 DISCLOSURE STATEMENT

1. Introduction

The Firm is required by the Financial Services Authority ("FSA") to disclose information relating to the capital it holds and each material category of risk it faces in order to assist users of its accounts and to encourage market discipline. These disclosures aim to provide information on the risk exposures faced by the Firm and the risk assessment process it has in place in order to monitor these. Known as "Pillar 3" disclosures, they are required to be made under Chapter 11 of the FSA's Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") and are seen as complementary to the Firm's minimum capital requirement calculation ("Pillar 1") and the internal review of its capital adequacy ("Pillar 2").

This disclosure covers Ludgate Investments Limited only and the Firm does not report on a consolidated basis for prudential purposes. The Firm makes Pillar 3 disclosures annually and these are made as at the accounting reference date. 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. The Firm reserves the right, under BIPRU 11.3.3 R, to omit one or more items of information if those items are not regarded as material, or if those items are regarded as proprietary or confidential, having regard to the relevant sections of BIPRU.

2. Risk management

The Firm is engaged in providing investment advice only and as such the risk management procedures are not complex. Board meetings are held quarterly and these include detailed appraisals of all aspects of the business. The financial performance of the Firm and the adequacy of its regulatory capital are closely monitored by the Board. In addition, an annual review of the systems and controls in place at the Firm is conducted in order to ensure that all risks are identified, monitored and controlled.

Appropriate action is taken where risks are identified which fall outside 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.

Specific risks applicable to the Firm come under the headings of business, operational, credit and market risks. Until early 2011 the Firm used to provide corporate finance advisory services and invested its own capital in corporate finance opportunities. The corporate finance advisory services have ceased and most of the Firm's investments in advised companies were sold in 2010. The remaining investments are deducted in full when calculating the Firm's regulatory capital and, as such, these holdings do not present a material risk.

2.1 Business risk

The Firm's revenue is reliant on the performance of the existing funds which it advises. As such the risk posed to the Firm relates to a decline in the value of the portfolios in respect of which it provides investment advice. However, the Firm considers that any business risk is mitigated by the medium term contract that it has in place with its principal investment advisory client and the significant cash balances that are maintained.

2.2 Operational risk

The Firm's exposure to operational risk is limited given the nature of its activities as an adviser and the fact that it does not undertake any dealing or managing activities. The Firm has operational procedures and controls in place in order to mitigate any risks identified and seeks to ensure that all personnel are aware of their responsibilities in this respect.

An appropriate insurance policy is in place to mitigate the risk of a claim for professional negligence being brought against the Firm.

2.3 Credit risk

The Firm is exposed to credit risk in respect of investment advisory fees invoiced and cash held on deposit.

The number of credit exposures relating to the Firm's clients is limited. Invoices for management fees are issued quarterly and are settled promptly once issued. The Firm considers that there is little risk of default by its clients. The bank account is held with a large international credit institution. An analysis of the credit risk exposure is given below:

Credit risk exposure	Exposure £'000	Risk weighting	Risk weighted exposure at 8% (£'000)
Cash in the bank	984	20%	16
Trade debtors	275	100%	22
Other debtors	216	100%	19
Total			57

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 in respect of its debtors. This amounts to 8% of the total debtor balance. All bank balances are subject to a risk weighted exposure of 1.6% accordance with BIPRU 3.4 of the FSA Handbook.

2.4 Market risk

As at 31 December 2010 the Firm was exposed to market risk in respect of a debtor balance which was not denominated in sterling. An 8% requirement was applied to this balance. However the Firm received payment in cash and in full in January 2011.

3. Capital adequacy

3.1 Capital resources

As at 31 December 2010 the Firm held regulatory capital resources of £1,172,000. This comprises solely core Tier 1 capital (share capital and retained audited reserves) of £3,326,000 less a prudent deduction of the entire investment portfolio (including AIM Listed investments as well as unquoted companies) of £1,921,000 and a further £233,000 for other illiquid assets.

3.2 Capital requirement

As at 31 December 2010, the Firm's Pillar 1 capital requirement was £524,000. This 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 at all times 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 discretionary bonuses paid to staff and allowable commission and fees. The Firm monitors its expenditure monthly 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 within the year. This is monitored by senior management on a monthly basis.

4. Remuneration Code disclosure

The Firm is a Remuneration Code Proportionality Tier 4 Firm and has applied the rules appropriate to its Proportionality Tier. The Board of Directors is responsible for the Firm's remuneration policy. All variable remuneration is adjusted in line with capital and liquidity requirements.

Remuneration Code staff remuneration by business area (BIPRU 11.5.18(6))

The Firm currently operates in one business area "Advisory and asset management". For the period from 1 January 2010 to 31 December 2010 the total remuneration for that business area amounted to £612,500.

Aggregate quantitative remuneration by senior management and other Remuneration Code staff (BIPRU 11.5.18(7))

Type of Remuneration Code staff	Total Remuneration
Senior management (SIF)	£412,500
Other Remuneration Code staff	£200,000
Totals	£612,500