

Guinness Asset Management Limited

Capital Requirements Directive

Pillar 3 Disclosures

A. Pillar 3 Disclosure– as at 30 April 2010

Guinness Asset Management Limited (“GAM”) is authorised and regulated by the Financial Services Authority (“FSA”). This document is our Pillar 3 disclosure document which is required by the FSA.

1. Overview

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 II 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 requires 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. 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.

2. Frequency and location of disclosure

It is the intention of GAM to update its Pillar 3 disclosures on an annual basis, unless circumstances warrant update on a more frequent basis. The disclosures will be updated shortly after completion of the annual audit.

The disclosures will be published on the firm’s website www.guinnessfunds.com.

3. Scope and application

GAM is a BIPRU €50k limited licence UCITS investment firm.

GAM is not a member of a group and so is not required to prepare consolidated disclosures.

4. Risk management objectives and policies

GAM's appetite for risk is regarded as low.

The directors (and shareholder) intend the story of the firm to be one of sustainable long-term growth and the avoidance of unnecessary risk, including specifically:

- No proprietary trading
- No custody of client assets or client money
- Rigorous approach to portfolio management
- Business development to be organic and reflect the firm's core skills

Key to this is the Individual Capital Adequacy Assessment Process (ICAAP) which is reviewed and documented at least annually. The document is reviewed and assessed by the board of directors with input from relevant personnel as required. The review encompasses:

- Assessment of current risks
- Assessment of risks associated with known developments anticipated in the business
- Review of "worst case scenario" to ensure ongoing appropriateness

In the light of this review the current and projected capital levels are reassessed and if appropriate the ICAAP capital requirement adjusted. The conclusions of our ICAAP are that our capital is sufficient to meet our business needs.

The main risks relevant to GAM are:

Key personnel

As a small investment management firm, GAM is heavily dependent on key personnel.

Departure could adversely affect the management of assets and could cause clients to review the mandate. Currently identified as key personnel in this respect are

- Tim Guinness
- Edmund Harriss

Tim Guinness is the owner of the firm; Edmund Harriss has an ownership stake in the sister company, GAAM. Risk of voluntary departure is therefore viewed as slight.

The firm has also deliberately developed a wider set of investment managers through recruitment and training of suitable personnel. Consequently the firm currently has an additional six investment personnel who are FSA approved to undertake controlled function 30 and hence can manage funds.

Business risk

This relates to the loss of significant funds could be due to adverse market conditions, underlying client redemptions or removal of mandates. The firm is aware that it is currently dependent on a few key clients and therefore it is actively seeking to broaden its client base and to establish funds which are under its own control. To this end it has launched a hedge fund (June 2006) and a Dublin umbrella fund (December 2007).

Operational risk

This relates to issues arising from the operations of the firm, such as administrative errors. The firm addresses these areas by:

- Having robust procedures
- Ensuring staff have appropriate skills and training
- Outsourcing key areas to reputable specialists

Market risk

GAM does not have a trading book, and therefore our market risk is limited to our exposure to foreign exchange fluctuations, due to some assets and liabilities being denominated in currencies other than sterling, and fluctuations in the value of GAM's seed capital investments.

Credit risk

Credit risk is the risk of financial loss arising from a client or other counterparty failing to meet its obligations to repay outstanding amounts as they fall due. GAM does not have any exposure to settlement activities and therefore has no credit risk in this area. Key elements of GAM's balance sheet are:

- Seed capital investments in GAM's funds
- Debtors arising in the normal course of business
- Cash

Cash is held at UK banks.

5. Capital resources

GAM's capital resources at 30 April 2010 comprise the following:

	£000
Tier 1 capital resources	
Permanent share capital	143
Profit & loss account	987
Total tier 1 capital before deductions	1,130
Deductions from tier 1 capital	0
Total tier 1 capital after deductions	1,130
Tier 2 capital	0
Total tier 1 and tier 2 capital after deductions	1,130
Deductions from total capital	0
Total capital after deductions	1,130

6. Capital resources requirement

GAM's capital resources requirement at 30 April 2010 is as follows (£000):

	pillar 1	pillar 2	total
12. market risk	47	124	171
13. credit risk	58		58
14. operational risk			0
15. liquidity risk		62	62
16. securitisation risk			0
17. insurance risk			0
18. pension obligation risk			0
19. concentration risk			0
20. residual risk			0
21. business risk		91	91
22. interest rate risk			0
23. other			0
	<u>106</u>	<u>276</u>	<u>382</u>

The firm has a significant surplus of capital over both Pillar 1 and Pillar 2 requirements.

6.1 Credit risk requirement

This has been calculated using the standardised approach to the assessment of credit risk. The requirement is calculated as 8% of the carrying value adjusted, as required, for the appropriate risk weighting.

Relevant assets on GAM's balance sheet as at 30 April 2010 are:

	£000
Tangible fixed assets	9
Seed capital investments	429
Other current assets	55
Debtors	127
Cash	<u>537</u>
Total	<u>1,157</u>

6.2 Market risk requirement

GAM does not have a trading book and therefore does not have a market risk requirement relating to this. GAM does have some assets denominated in currencies other than sterling, and accordingly has calculated a foreign currency risk requirement as 8% of these assets. Additionally under Pillar 2 GAM has determined an additional requirement of 100% of any shortfall between balance sheet value and market value for seed capital investments

Relevant assets on GAM's balance sheet as at 30 April 2010 are:

	£000
Seed capital investments	429
Trade debtors	68
Cash	<u>95</u>
	<u>592</u>

6.3 Liquidity risk requirement

GAM maintains sufficient cash resources to meet its obligations at all times and all cash deposits are repayable on demand. Under Pillar 2, GAM has identified any illiquid assets on the balance sheet and determined a capital resources requirement such that Pillar 1 and Pillar 2 requirements combined amount to 100% of the balance sheet value of such assets. Relevant assets on GAM's balance sheet as at 30 April 2010 are:

	£000
Tangible fixed assets	9
Other assets	<u>58</u>
	<u><u>67</u></u>

6.4 Business risk requirement

Under Pillar 2 GAM establishes a business risk requirement based on projections of the impact of a variety of business environments on the firms' profitability and resources. The amount is equivalent to three months' running costs.

B. Remuneration Code Disclosure as at 31.12.2011

1. Introduction

The FSA issued the Remuneration Code on 17 December 2010(as amended) (the 'Code') and forms part of the FSA Handbook of Rules and Guidance. The Code applies to all banks, building societies and MiFID investment firms. The Code is applied in a proportional manner and requires disclosure of information, on an at least annual basis, regarding the GAM Remuneration Policy and the firm's remuneration practices for those employees whose professional activities have a material impact on the risk profile of the firm, identified as 'Code Staff'.

As a BIPRU Limited Licence firm that generates income from investment management and advisory services, without putting its balance sheet at risk, GAM is in Proportionality TIER FOUR of the Remuneration Code. The disclosure requirements for Tier 4 firms are significantly reduced when compared to the requirements for firms in Tiers 1,2 and 3, which are deemed to provide a higher risk to the FSA's objectives in relation to remuneration.

The Remuneration Policy ('the Policy') of GAM is designed to comply with the Code and is aligned with the long-term nature of our business and fiduciary focus and is considered to be appropriate to the size, internal organisation and nature, scope and complexity of GAM's activities . The Policy is consistent with and promotes sound and effective risk management, contains measures to avoid conflicts of interest and does not encourage excessive or undue risk taking.

2. Decision making process

Under the proportionality provisions available in the Code and with regard to the legal structure, size, internal organisation and nature and scope and complexity of activities GAM is not required to have a formal remuneration committee. The Policy is determined by the Board of GAM ('the Board') and reviewed as part of annual process and procedures to ensure that it remains consistent with the Code principles and GAM's objectives.

The measurement of performance used to calculate the bonus pool includes an adjustment for current and future risks and takes into account the cost of capital and the liquidity required. If sufficient profits are available a percentage of profits is distributed to employees and allocated having assessed each individual's contribution during the financial year.

For all employees, including Code Staff, bonuses are discretionary and are paid annually. The purpose of the bonuses is to reflect the performance of individuals in their roles during the previous financial year and additionally to incentivise all employees to commit to GAM in the longer term.

GAM has also established a Deferred Share Purchase Plan that is designed to align the interests of key employees with the long term interest of the firm.

3. Link between pay and performance

Employees are rewarded based on their contribution to the overall strategy and performance of the business.

The remuneration structure is made up of fixed basic pay, variable bonus and long term share incentive scheme. The quantitative components are based on an assessment of the profitability of the firm and an individual's performance in view of their skills and experience, responsibilities undertaken and long-term investment results. Performance assessment will not relate solely to financial criteria but will also include compliance with regulatory obligations and adherence to effective risk management.

The measurement of financial performance will be based principally on profits and not on revenue or turnover. There is no vesting or deferred portion to the variable bonus as the calculation to establish the bonus pool is based on historic, realised profits and applies a formula which protects the long term interests of the firm and the shareholders.

The Board retains the discretion to vary the profit sharing arrangements as appropriate and in doing so will factor in any risk adjustments it may deem appropriate.

4. Aggregate quantitative remuneration data

GAM is required to disclose aggregate information on remuneration in respect of its Code Staff, broken down both by business area and by senior management and other Code Staff.

The relatively small size of GAM and lack of complexity is such that GAM has only one business area, namely investment management and advisory business, so the disclosure is not broken down further pursuant to PS 10/20.

GAM has identified four employees as being in a senior management position, performing a Significant Influence Function (as categorised by FSA under Controlled Functions) and as such defined as Code Staff.

Disclosure of the aggregate remuneration for Code Staff permits firms to take account of the provisions of the Data Protection Directive (Directive 95/46/EC) regarding the protection of individuals in relation to the processing of personal data. Due to the low number of staff assessed as Code Staff for the firm who receive remuneration for their activities, the directors of GAM have relied upon BIPRU 11.5.20R(2) and determined that the aggregate quantitative disclosure for Code Staff is inappropriate.