

COLCHESTER GLOBAL INVESTORS LIMITED
CAPITAL AND RISK POLICY DISCLOSURE
As at April 30, 2011

Introduction

The EU's Capital Requirements Directive ("CRD") has been implemented in the UK through the rules established by the Financial Services Authority (FSA) in its Handbook of Rules and Guidance for regulated firms. The CRD created a revised regulatory capital framework consisting of three "pillars":

- Pillar 1: sets out the minimum capital requirements for credit, market and operational risk;
- Pillar 2: requires regulated firms, 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 regulated firms to publish certain information on their risk management objectives and policies and on their capital resources.

The disclosures in this document are made in respect of Colchester Global Investors Limited ("Colchester") in compliance with the CRD Pillar 3 requirements set out in BIPRU 11 of the FSA Handbook and in accordance with Colchester's disclosure policy. The information contained here is current as at April 30, 2011 unless otherwise indicated and has been prepared on an unconsolidated basis. This disclosure has been subject to internal review but has not been audited by external auditors.

Note on Disclosure

The BIPRU 11 rules provide that one or more of the required disclosures may be omitted if the information is believed to be 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. The BIPRU 11 rules also permit one or more of the required disclosures to be omitted where the information is regarded as proprietary or confidential. Proprietary information is that which if it were shared would undermine a firm's competitive position. Information is considered to be confidential where there are obligations binding a firm to confidentiality with customers or counterparties. Where a disclosure is considered to be immaterial or has been omitted, on the grounds that the information is either proprietary or confidential in nature, this has been stated in the relevant section below.

The Firm

Colchester is an independently-owned firm providing discretionary investment management services to institutional clients on a separate account basis or through commingled funds established and operated by Colchester. The business is managed by a small team of investment professionals, four of whom are executive directors. The Board is joined in its quarterly meetings by two non-executive directors.

Risk management

The FSA requires that a regulated firm manage a number of different categories of risk including credit, market, business, operational and liquidity risk.

- a) Credit risk: this refers to the potential risk that arises from clients or counterparties failing to meet their obligations as they fall due. Colchester has adopted a standardised approach to credit risk. The firm's credit risk is limited to unpaid sales ledger invoices plus fee accruals and prepayments. Provision for the non-payment of fees is governed by the agreements in place with clients, the terms of which are subject to confidentiality clauses. Credit risk arising in relation to prepayments is not considered material for the purposes of this disclosure.

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- b) Market risk: this refers to the risk that the value of, or income arising from, assets and liabilities varies as a result of changes in interest rates, exchange rates or other market prices. Colchester has no trading book, does not invest in commodities and its market risk under Pillar 1 is therefore limited to that arising from foreign exchange fluctuations due to some assets and liabilities being denominated in currencies other than sterling. Assets denominated in currencies other than sterling include Colchester's investments in the shares or units of the commingled funds it operates. Colchester does not actively seek foreign exchange exposures.
- c) Business risk: this refers to the risk that a firm may not be able to carry out its business plan or desired strategy and could, as a result, incur higher than expected costs or suffer losses. The principal business risks facing Colchester are
- i. Legal and regulatory risks: Colchester is subject to direct regulation in the United Kingdom and in the United States of America in its provision of investment management services, as well as being exempt from regulation in a number of other jurisdictions. The regulatory standards applicable to the business are subject to continuous revision arising from legislative changes including those arising from the introduction of new and amended European Directives. Compliance imposes costs and failure to comply with applicable regulation could materially affect Colchester's ability to operate.
 - ii. Performance risks: Colchester's attractiveness to new clients is largely dependent on an established performance track record. A significant or prolonged downturn in relative performance could materially affect Colchester's ability to attract new business or to retain existing clients.
 - iii. Key man risk: Colchester's investment management process relies on the involvement of a small number of key investment professionals. The loss of more than one of these individuals could materially impact Colchester's ability to continue to meet client expectations.
- d) Operational risk: this refers to the risk of loss, or breach of contractual requirements, resulting from inadequate or failed internal processes, people or systems; human error; or, other external factors. This includes the risk of loss or breach arising from the inadequate supervision of third party service providers. Financial and/or reputational damage to the firm may arise through an operational failure or error. Compensating control and review procedures have been implemented where material risks of such losses exist and Colchester has in place professional indemnity insurance of an amount customary in the industry taking into account the size and nature of the business, its customers and assets under management. Colchester is not required to calculate an operational risk capital requirement.
- e) Liquidity risk: this refers to the risk that a firm may have insufficient liquid resources to cover cash flow imbalances or fluctuations in funding and be unable to meet its obligations as they fall due. Colchester maintains assets in liquid form in such proportion and composition as will at all times enable it to meet its liabilities as they arise and in practice the business has little liquidity risk.

Colchester's risk management framework focuses principally on the business and operational risks described above. The firm's risk management process consists of a cycle of risk identification and assessment, control evaluation and action planning, action completion, measurement and reporting, monitoring and assurance and board level review. The process runs typically on an annual cycle but is embedded in existing governance structures with the close involvement of senior management and does not operate in isolation. Reporting to the Board on risk management issues is the responsibility of the firm's Compliance Group which meets on a quarterly basis and comprises members of the

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firm's senior management involved in investment management, operations and marketing & client services as well as each member of the compliance staff.

Capital Resources

Colchester's capital resources are set out below. There are no deductions from capital and Colchester does not hold any Tier 3 Capital. In accordance with GENPRU2.1.45R (calculation of variable capital requirement for a BIPRU firm), Colchester's capital requirement has been determined as being its fixed overhead requirement and not the sum of its credit risk capital requirements and its market risk capital requirement.

		<u>£'000</u>
Tier 1	Ordinary share capital	1,280
	Profit & loss account and other reserves	5,131
		<hr/>
		6,411
Tier 2	Revaluation reserves	107
Total Capital Resources		<hr/> <hr/>
		6,518

Compliance with rules in BIPRU and Pillar 2

The Board has prepared an assessment of capital adequacy (Internal Capital Adequacy Assessment Process document or "ICAAP") in accordance with CRD Pillar 2 requirements set out in BIPRU 2.2 of the FSA Handbook and taking into account the principal risks and uncertainties set out above. The ICAAP process involves separate consideration of risks to firm capital combined with stress testing using scenario analysis. Impact is assessed by modelling changes in income, expenditure and capital caused by the crystallisation of a number of identified potential risk events over a four year time period, including appropriate consideration of interest rate risk.

Colchester's Pillar 2 capital requirement, which is based on the firm's assessment of the minimum amount of capital that is believed to be adequate against the risks identified, has been assessed as being less than the firm's Pillar 1 capital requirement. Therefore, the Pillar 1 requirement is the minimum regulatory capital requirement that Colchester holds.

Credit and Market risk

Disclosures in relation to these are considered immaterial under BIPRU 11.3.5R (Exemption from disclosure; Materiality) as the firm's capital requirement under GENPRU 2.1.45R (Calculation of the variable capital requirement for a BIPRU firm) is Colchester's fixed overhead requirement rather than the sum of its credit risk capital requirement and its market risk capital requirement.

Non-trading book exposures in equities

Disclosures in relation to these are considered immaterial under BIPRU 11.3.5R (Exemption from disclosure; Materiality) as any investment in equities is made for strategic purposes only and is limited to investment in wholly-owned subsidiaries and holdings in commingled funds established and operated by Colchester or its subsidiaries. Full disclosure of the extent of these investments and of the accounting techniques and valuation methodologies employed are disclosed in Colchester's audited annual report and accounts.

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Remuneration Policy Disclosures

Colchester is a limited licence firm and for the purposes of the FSA's "General Guidance on Proportionality: The Remuneration Code (SYSC 19A) & Pillar 3 Disclosures on Remuneration (BIPRU 11)" is considered to be a Tier Four firm. The following disclosures are required from Tier Four firms under the FSA's Handbook for banks, building societies and investment firms (BIPRU) 11.5.18. Details of the FSA's Remuneration Code can be found at www.fsa.gov.uk.

a) Link between pay and performance

The firm's articles of association define the total remuneration pool (i.e. the sum of all salaries, pensions, benefits, discretionary bonuses and related employment taxes payable to all group employees) as 60% of PBRT¹ for each financial year. A variation to PBRT policy requires the prior consent of 75% of each class of shareholders. The use of a PBRT model ensures that the aggregate spend on variable remuneration directly reflects the group's performance.

Fixed remuneration is comprised principally of salaries but also includes appropriate employee benefits which are provided to all employees. All Code Staff receive a salary that reflects their talent, skills, competencies and contribution relative to the market for their roles. Colchester believes that salaries are sufficient to cover employees' key financial needs.

b) Decision-making process for determining the remuneration policy

Responsibility for the determination of variable remuneration payable to staff rests with the Board which has established broad parameters which seek to reward individuals in each operating company on a consistent basis year on year having regard to individual performance, length of service and total remuneration. Variable remuneration payments are made by Colchester and its operating subsidiaries only in the form of cash bonuses.

c) Code Staff Criteria

Code Staff are those in positions of senior management and additionally risk-takers and other staff in controlled functions.

d) Quantitative Remuneration Disclosures

As disclosed in the financial statements aggregate staff costs across the group for the year to April 30, 2011 totalled £14.1mn. Of this £9mn was payable to those members of staff involved directly in the investment process (investment research, investment management and implementation). As at April 30, 2011 Colchester had identified 13 Code Staff of which 7 were senior management. Aggregate remuneration for Code Staff (including directors' fees, base salaries and bonus awards for the 2010/11 financial year end) was £11.6mn of which £1.8mn related to fixed remuneration.

¹ means in any financial year of the company, as shown in the audited annual financial statements, the total pre-tax income of the company (excluding any interest income and dividend income, foreign exchange gain or loss, income, gains or losses from gilt or other fixed income investments or other capital gains and losses derived from capital of the company howsoever employed) before deducting any remuneration payable but after deducting all other overheads and operating expenses