HIGHCLERE
INTERNATIONAL INVESTORS

Pillar 3 Disclosure Statement

Introduction

Highclere International Investors LLP ("Highclere") is a Limited Liability Partnership authorised by the Financial Conduct Authority ("FCA"). Highclere is categorised by the FCA as a BIPRU €50k limited licence firm and as such, is subject to the requirements of the FCA's Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU).
The Pillar 3 disclosure is made in accordance with requirements of BIPRU. The capital adequacy framework set out in BIPRU is based on the 2006 EU Capital Requirement Directive's three pillars:

- **Pillar 1** specifies the minimum capital that Highclere is required to hold based on credit, market and operational risk.
- **Pillar 2** sets out the supervisory review process to be used by Highclere to take a view on whether the firm should hold additional capital to cover the pillar 1 risks or to cover other risks not covered under Pillar 1;
- **Pillar 3** requires firms to publish risk and capital information.

The FCA regulations for the disclosures required under Pillar 3 allow the business to exclude disclosures where the information is regarded as immaterial, proprietary or confidential. Disclosures have been made in this document in compliance with BIPRU 11 unless that disclosure has been regarded as immaterial, proprietary or confidential. Additional information is available from Highclere's Chief Compliance Officer, Fergus Gilmour (fgilmour@highclereinvestors.com).

Publication

Disclosure will be made as soon as reasonably possible after the audited annual accounts have been approved. Publication will be via the website www.highclereinvestors.com.

Business structure

Highclere's audited financial statements are prepared in accordance with UK GAAP. Highclere has one wholly owned subsidiary – Highclere International Investors, Inc. ("HII Inc."). HII Inc. is fully consolidated with Highclere as part of the Highclere Group for audit and regulatory capital purposes. There is no current or foreseen impediment to transfers of intra-group capital between Highclere and HII Inc.

Capital Management Process

Capital Adequacy is the degree to which capital resources on the firm's balance sheet are sufficient to cover the capital requirements for the day to day operations and for the future, having regard to the inherent risks within the business. The capital management process is an integral part of the monthly management accounts review by the Chief Operating Officer. He reports to the Executive Group at quarterly meetings. Capital adequacy is an item on the agenda at each meeting.

ICAAP
The Internal Capital Adequacy Assessment Process (ICAAP) sets out the risk profile of the firm, the assessment of the material risks and the controls in place to mitigate them. The purpose of the ICAAP is to ensure that sufficient capital is maintained to withstand any resulting residual risk and thereby satisfy the Pillar 2 requirement.

Risk Management
The Executive Group is ultimately responsible for the risk environment. Highclere's Chief Operating Officer acts as risk manager and monitors and manages the day to day risk exposures of the business with input from the Executive Group. The Executive Group also takes assurance from services provided by the Firm's auditors, legal advisors and compliance consultants.

Highclere has considered all risks including those categories suggested by the FCA:

- **Operational risk:** Operational risk refers to the risk of a direct or indirect loss resulting from inadequate or failed internal processes, systems or from external events. Highclere mitigates this risk by (i) detailed resource and training planning, (ii) maintaining key operating procedures, (iii) maintaining duplicate records and performing reconciliations with the prime records held by the Administrator, and (iv) keeping Highclere's business, structure and operational requirements relatively simple.

- **Business risk*:*** Business risk arises from changes in the core structure of the business that would prevent Highclere from carrying out its business plan and desired strategy. Highclere is a small, closely held organisation, where senior management also own a significant stake in the business. All material structural changes to Highclere's business are subject to discussion by the partners at the Executive Group. The Executive Group considers business risk factors in planning and decision-making.

- **Credit risk*:*** As an asset management company, Highclere is subject to credit risk on receivables from third parties. Investment management fees for Highclere's US commingled funds are paid within six business days of each month by standing order out of the fund.

  Highclere's accumulated cash reserves are placed on deposit each month. The eligible banks are each approved by the Executive Group. Highclere does not utilise any risk mitigation techniques (e.g., credit default swaps) to minimise our financial exposure to bank deposits.

- **Market risk:** As an asset management company, Highclere's portfolios are subject to market risk as a result of sudden and volatile changes in market or economic conditions. It is these conditions that provide the investment opportunities for Highclere.

- **Liquidity risk:** Highclere's core regulatory capital, surplus capital and free cash flow is primarily invested in cash deposits. Cash deposits are not subject to market risk. Further, Highclere's Executive Group does not invest capital that is (i) needed to meet core regulatory requirements, or (ii) needed to fund the operations of the business. Other than in a wind down scenario, there are no material threats to Highclere's liquidity position.

Capital Resource Requirements
Pillar 1:
Is the minimum capital requirement that a firm must hold determined by its size and nature. Under AIFMD and FCA measures, Highclere has surplus capital. For Highclere this is calculated as the greater of:

- A Base Capital Requirement (€125k plus 0.02% of AUM in excess of €250m)
- The sum of the Credit Risk Capital Requirement and Market Risk Capital Requirement; or
- The Fixed Overhead Requirement ("FOR")

Pillar 2:
This requires firms to assess the adequacy of its internal capital to support current and future activities and to determine whether Pillar 1 capital alone is sufficient. This review is carried out through the ICAAP.

Remuneration
Highclere has classified all employees and partners as "Code Staff". The aggregate level of remuneration earned by Code Staff is disclosed in the annual audited financial statements.

Highclere falls within "Tier 4" firm under the FCA guide on proportionality and where relevant, has disapplied various provisions of the FCA Remuneration Code.

Capital Resources and Capital Adequacy
Highclere maintains sufficient capital to meet all regulatory requirements as set out in Pillar 1.
No Pillar 2 adjustments have been made under the ICAAP.
Data as at 31st May, 2018.

AIFMD vs BIPRU		**at 31/05/18**			
			AIFMD		FCA (BIPRU)
	Capital Required		£000's		£000's
	Fixed Overhead Requirement (FOR)		1,221		1,221
	A Measure Based on % AUM*		449		
	Total Core Capital Required		**1,670**		**1,221**
	** Professional Negligence Capital Requirement*				
	Capital Available within HII				
	Partnership Capital		2,196		2,196
	Adjustment for Material Holdings		-10		-10
	Capital Required		**2,186**		**2,186**
	Deficit / Surplus [two versions]		**516**		**965**