Coriolis Capital Limited

Pillar 3 Summary Disclosures

31 December 2017

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1. Overview

Background

The 2006 Capital Requirements Directive (Basel II) created a revised regulatory framework for financial services businesses across the European Union. The new framework consists of three pillars:

- *Pillar 1* specifies the minimum capital levels that a business must meet in order to cover the risks associated with its business;

- *Pillar 2* sets out the supervisory review process that must be used to determine whether additional capital should be maintained in order to cover any risks not included in Pillar 1; and

- *Pillar 3* determines the disclosures that must be made in relation to capital, risk exposures and risk assessments.

This Directive has been implemented in the United Kingdom through changes to its Handbook of Rules and Guidance, and more specifically through the creation of the General Prudential Sourcebook ("GENPRU") and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU").

BIPRU 11.5 and 11.6 require that a firm which is subject to the provisions of the Directive must disclose, as appropriate, the relevant information required under Pillar 3. The rules provide that one or more of the disclosures may be omitted if it is believed that the information is immaterial (where materiality is based on the criteria that the omission of material information would be likely to change or influence the assessment of the user relying on the information for the purposes of making economic decisions). Where a disclosure is deemed to be immaterial, this is stated within the document.

One or more of the required disclosures may also be omitted if it is believed that the information is proprietary or confidential in nature. Information may be deemed to be proprietary where, if it were shared, it would undermine a competitive position. Information may be deemed to be confidential where obligations exist that bind a firm to confidentiality with customers and/or counterparties. Where a disclosure is deemed to be confidential, this is stated within the document and more general information is supplied in its place.

Disclosures

The disclosures in this report have been prepared by Coriolis Capital Limited (the "Firm"). Disclosures are made in accordance with the following rules, unless it has been determined that the disclosures are immaterial or proprietary in nature:

- BIPRU 11.5.1R — risk management objectives and policies
- BIPRU 11.5.2R — the scope of application of directive requirements
- BIPRU 11.5.3R — capital resources
- BIPRU 11.5.4R — compliance with the rules in BIPRU and on Pillar 2 requirements
- BIPRU 11.5.12R — market risk
- BIPRU 11.5.18R — remuneration

Frequency
This report is made on an annual basis and will be published within four months of and as at the Accounting Reference Date (31 December each year). The Firm will aim to produce this report at the same time as the Annual Report and Accounts.

Media & Location
This report will be published on the Coriolis Capital Limited website.

Verification
Disclosures will only be externally verified if they are deemed to be equivalent to those made under accounting requirements.

2. Risk management objectives & policies

The Board is committed to the ongoing sustainability of the business and the Firm has established comprehensive procedures to ensure that the risks faced by the Firm are managed appropriately.

Introduction

Risk is inherent in the Firm's business and activities. Our ability to identify, assess, monitor and manage each risk is a crucial factor in our financial soundness, performance and reputation. The principal risks the Firm faces are operational risk, business risk, credit risk and market risk.

The Firm's approach to risk management is described below. The first section covers the Firm's risk governance structure and the second section explains the way that the risks are categorised, the types of risks faced and the risk management objectives and policies in place for each.

Risk Governance

The responsibility for the Firm's overall risk governance approach lies with the Board of Directors. The Board is responsible for determining risk strategy, setting the Firm's risk appetite and ensuring that risk is monitored and controlled effectively. It is also responsible for establishing a clearly defined corporate structure, with each member of that structure possessing distinct roles and responsibilities.

Within this structure are various committees that have formal responsibility for defined aspects of risk management:

Audit Committee
Credit Committee
Compliance Committee
Remuneration Committee

With the exception of the Remuneration Committee, all of the above committees have representation and/or support from the Firm's Compliance Officer. The role of Compliance is to:

- Provide a focal point to co-ordinate communications and consultations with regulatory bodies and authorities.
- Achieve high standards of compliance advice and risk-based compliance, according to agreed standards and plans set with the assistance of external compliance consultants.
- Undertake risk-based compliance monitoring techniques to monitor the Firm's performance against the relevant rules and guidance and the Firm's internal policies.
- Provide timely and objective reports of findings, agreeing appropriate corrective actions and monitoring implementation.
- Oversee the compliance performance of the Firm, keeping the Board informed of the state of compliance standards measured against requirements and recommending changes in systems as necessary.

Risk Categorisation
The firm categorises risk under the following headings:

Operational Risk
Operational Risk is defined as the potential risk of financial loss or impairment to reputation resulting from inadequate or failed internal processes and systems, from the actions of people or external events.

Major potential sources of operational risk include: outsourcing of operations, dependence on key IT suppliers, IT security, internal and external fraud, regulatory non-compliance, process errors and external threats such as fire, flood or terrorism resulting in the loss of the office.

The Firm manages these risks through appropriate controls and loss mitigation actions, including insurance. These actions include a balance of policies, appropriate procedures and internal controls to ensure compliance with applicable laws and regulations.

In order to assist the Firm in relation to risk mitigation, it utilises the services of specialist service providers in the areas of compliance, finance, IT and business continuity to provide a robust support network. As part of its Disaster Recovery Plan, the Firm has established a separate site which is intended to act as a short term temporary office in the event that the London office becomes unavailable. The system at the disaster recovery location is tested on a regular basis to ensure that the data feeds are up to date and that all applications are working as required.

Business Risk
Business Risk is defined as the potential risk of financial loss or impairment to reputation arising from loss of significant investors/funds, poor investment decisions, poor investment performance, significant changes in business operations or deterioration in external market conditions.

The risks posed to the Firm through the loss of key investors/funds are mitigated through keeping in close contact with all clients in a structured and organised manner, aiming to provide a high quality and efficient service at all times. Detailed and accurate marketing files are also maintained relating to each investor and potential investor in order to support this structured approach. Whilst it is impossible to eradicate all potential risks surrounding the potential loss of an investor, the Firm aims to minimise this as much as possible.

Investment decisions are made according to investment guidelines put in place for each fund advised by the Firm. The investment team has many years of experience in the areas in which the Firm specialises and all trades are documented with an Investment Memo and appropriate tickets which are reviewed by the Compliance Officer to check compliance with the individual strategies. This structured approach serves to minimise as far as possible the risk of poor investment decisions being made, all other things being equal.

The situation in the market cannot be controlled by the Firm, but it can take actions to mitigate the impact of a poor or volatile situation. It manages its finances in order to provide a 'cushion' such that the Firm is living within its means by not relying on its performance fee income to fund day to day expenses. The Firm also possesses a significant amount of capital and audited reserves. In addition, the strategies that the Firm's funds follow are less impacted by volatile financial markets, since the funds invest in instruments largely uncorrelated with financial indices.

Credit Risk

Credit risk is the risk of loss arising from a customer or counterparty failing to meet their financial obligations to the Firm as they fall due.

Since the Firm does not trade for its own account or as principal, its major credit risks arise from the funds it advises failing to pay advisory and performance fees as they fall due, and from concentration risk arising due to lack of diversification of income derived from these funds. The Firm does not employ complicated techniques for managing its income, therefore reducing the risk inherent in employing foreign exchange forwards or investing in the assets of other companies.

The Firm has always been aware that by relying on a relatively small number of funds and underlying investors for its income, it is at risk if one of these funds fails to be able to meets its liabilities as they fall due. Since the Firm was established, it has been the policy of the management to slowly expand both the number of strategies and underlying investors, in an attempt to mitigate this risk. This is intended to put the Firm on a more stable footing should the opportunity to earn income from one source fail totally or slowly decay – the likelihood of all strategies failing at the same time becoming less as the number of total strategies increase. This approach also applies with regards to the expansion of the actual investor base.

Market Risk

Market Risk is defined as the potential adverse change in the Firm's income or net worth arising from (for example) a deterioration in market conditions (including a lack of capacity to invest and liquidity constraints from the market), an adverse change in exchange rates or a major catastrophic event.

Whilst the Firm cannot control these external events, it can act to mitigate the impact of them. For example, the experiences following Hurricane Katrina in 2005 signalled the implementation of further risk management processes employed by the investment team when making investment decisions, in order to limit potential losses to the funds (and therefore the Firm's income). The team constantly monitors risk and exposure, to proactively manage market risk. Expanding into new (but related) investment strategies is intended to reduce the impact of a lack of capacity in one or more markets and the practice of immediately converting all foreign currency income into GBP reduces the potential for adverse exchange rates impacting the Firm's income streams.

3. Capital adequacy

The value of the Firm's share capital and audited reserves as at 31st December 2017 is £2.03 million. The Firm's capital resources consist of Tier 1 capital only and therefore there are no other items or deductions.

Pillar 1

In order to protect the financial stability of the Firm, internal capital is held to provide a cushion to deal with unexpected losses.

In accordance with GENPRU 2.1.45R, the Firm's capital requirement has been determined as being the Fixed Overhead Requirement and not the sum of the Credit Risk Capital Requirement and the Market Risk Capital Requirements. The Firm's Pillar 1 Capital Requirement, based on 2017 expenses has been calculated as being £469,856 for 2018.

Pillar 2

In addition to capital adequacy reported to the Financial Conduct Authority, the Firm reviews its capital internally on a monthly basis through the production of management accounts. The Firm also produces an ICAAP (Internal Capital Adequacy Assessment Process) document in order to comprehensively assess the Firm's capital adequacy. The ICAAP process involves separate consideration of risks to the Firm's capital, combined with stress testing. The Firm has assessed its exposure by modelling changes in income and expenses caused by various potential risks over a 3 year time period and set aside an additional £110,000 of capital to meet these requirements for 2018.

Immaterial Information

Since the Firm's capital requirement is its Fixed Overheads Requirement, information relating to any capital required to meet Credit Risk and Market Risk are deemed to be immaterial and will not be disclosed.

4. Remuneration

The Firm is required to disclose certain information regarding its Remuneration Policy, under the terms of BIPRU 11 in the FCA Handbook, which governs the general disclosure requirements pertaining to the implementation of the 2006 Capital Requirements Directive into UK law.

With regards to the Remuneration Code, the Firm is classified as a low-risk 'Proportionality level 3' firm by the FCA, having regard to the principle of proportionality that is encapsulated in the European regulation from which the Remuneration Code derives. This means that the Firm is able to disapply many of the technical requirements of the Code. Nonetheless, the Firm is satisfied that the policies it has in place are appropriate to its size, nature, internal organisation and complexity, as required by the Code.

The Firm has a Compensation Committee which meets annually in order to determine the size and nature of the discretionary bonus pool, within the parameters of the Firm's constitutional documents. This Committee consists of members of the Board of Directors and the Committee determines the overall size of the bonus pool by reference to net profits, whilst also having regard to prudent business practices and the long-term interests of the Firm. Bonus payments made to employees are awarded based on a number of quantitative and qualitative assessments, taking into account financial and non-financial criteria as appropriate.

Due to its small number of employees (7 full-time staff plus 2 Non-Executive Directors), the Firm does not consider that it has discreet business areas as anticipated in the BIPRU disclosure requirements relating to remuneration. In any case, providing this information by reference to 'business area' (essentially on an individual employee basis) would result in disclosing a level of detail that would have implications with respect to the UK Data Protection Act 1998. BIPRU 11.5.20R states that the remuneration disclosure requirements must be complied with by each Firm '…without prejudice to the UK or other national transposition of Directive 95/46/EC…'. The Data Protection Act 1998 is the implementing law in the UK in relation to this Directive. Aggregate remuneration information is provided in the Firm's audited financial statements in the normal manner.