Pillar 3 Disclosure

Introduction

The Capital Requirements Directive ("the Directive") of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain. In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority ('FCA') in its regulations through the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

The FCA framework consists of three "Pillars":

- Pillar 1 sets out the minimum capital amount that meets the firm's credit, market and operational risk;
- Pillar 2 requires the firm to assess whether its Pillar 1 capital is adequate to meet its risks and is subject to annual review by the FCA; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet our Pillar 3 obligations. We are permitted to omit required disclosures if we believe that the information is immaterial. Information is material if its omission would be likely to change or influence the decision of a reader relying on that information.

In addition, we may omit required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, 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, suppliers and counterparties.

We have made no omissions on the grounds that it is immaterial, proprietary or confidential.

Firm Overview

Meliora Capital LLP is authorised and regulated by the Financial Conduct Authority (FCA) as a MiFID Investment Manager and is categorised by the FCA for prudential regulatory purposes as a BIPRU firm.

The capital of the firm is in the form of Eligible LLP Capital. The amounts disclosed as members' capital in these disclosures meet the criteria for eligibility of members' capital under the FCA GENPRU 2.2.94 rule.

The Firm is not a member of a group and so is not required to prepare consolidated reporting for prudential purposes.

Risk Management

The Firm's risk management policy reflects the FCA requirement that the Firm must manage a number of different categories of risk. These include: liquidity, credit, market, interest rate, business and operational risks.

All activities of the firm are under the control of three partners.

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

Business risk

The firm's revenue is reliant on the performance and retention of the existing funds under management and its ability to raise new investments and maintain management fee levels. The firm has sought to mitigate this risk by modelling expected revenue scenarios and engaging with members concerning the potential provision of additional permanent capital, in addition to developing additional business lines and actively seeking further investment into existing fund products and services.

Operational risk

The firm places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and uses outsource providers where appropriate.

Credit risk

The firm is exposed to credit risk in respect of investment management fees billed and cash held on deposit.

The number of credit exposures relating to the firm's investment management clients is limited. Management fees are typically accrued monthly and payable monthly from various accounts managed and performance fees are typically accrued quarterly or annually, depending on the agreement with the client.

The firm considers that there is little risk of default by its clients. All bank accounts are held with large international credit institutions. 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 FCA Handbook when calculating risk weighted exposures in respect of its debtors.

The total *credit risk component to capital requirement* of the firm is 989£.

Remuneration risk

The Firm has adopted a remuneration policy and procedures that comply with the requirements of chapter 19C of the FCA's Senior Management Arrangements, Systems and Controls Sourcebook (SYSC), and in accordance with ESMA's Guidelines on sound remuneration policies. The Firm has considered all the proportionality elements in line with the FCA Guidance and has deemed it appropriate to not apply the Pay Out Rules.

Furthermore, the Firm has concluded, on the basis of its size and the nature, scale and complexity of its legal structure and business that it does not need to appoint a remuneration committee. Instead, the Partners sets, and oversees compliance with, the Firm's remuneration policy including reviewing the terms of the policy at least annually.

Market risk

The firm takes no market risk other than foreign exchange risk in respect of its accounts receivable in currencies other than GBP. Currently, the Firm holds accounts in: GBP, USD, CHF and EUR.

The total *market risk component to capital requirement* of the firm is 8£.

Capital Resources and Requirement

The Firm is required to maintain 'own funds' which equal or exceed the higher of: (a) the Base Capital requirement of €50,000; or (b) the sum of its market and credit risk requirements; and (c) the Fixed overhead Requirement (i.e. 25% of the firm's fixed annual costs).

Overview of capital Requirement for Meliora Capital LLP

The following has been calculated in accordance with GENPRU 2.1.

GENPRU			
2.1.40/41	The capital requirement of the firm is the greater of:		
2.1.45	(1) The variable capital requirement, which is the sum of:		
	(a) Credit + Market risk capital requirement	£	**997.62**
	(b) Fixed overheads requirement (FOR)	£	**4,869.52**
	which is:	£	**5,867.14**
2.1.48	(2) The Base capital resources:	£	**47,526**
	Total capital requirement :	£	**47,526**

Core Tier 1 Capital after deductions	£	**60,000**
Tier 2 Capital after deductions	£	-
Tier 3 capital after deductions	£	-
Excessive capital:	£	**12,474**

The Firm has adopted the "Structured" approach to the calculation of its Pillar 2 Minimum Capital Requirement as outlined in the Committee of European Banking Supervisors Paper, 27 March 2006, which takes the higher of Pillar 1 and 2 as the Internal Capital Adequacy Assessment Plan ("ICAAP") capital requirement. It has assessed Business Risks by modelling the effect on its capital planning forecasts and assessed Operational Risk by considering if Pillar 2 capital is required taking into account the adequacy of its mitigation.

Since the Firm's ICAAP process has not identified capital to be held over and above the Pillar 1 requirement, the capital resources detailed above are considered adequate to continue to finance the Firm over the next year. No additional capital injections are considered necessary and the Firm expects to continue to be profitable.