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Equitile Investments Ltd – Pillar III disclosure

Scope and application

Equitile Investments Ltd ("the Company") is authorised and regulated by the U.K. Financial Conduct Authority and is a company registered in England and Wales with registration number: 09459099. The Company acts as discretionary portfolio manager for retail and professional clients and has been appointed as an investment management company and investment adviser for a number of collective investment schemes ("the Funds").

Pillar 3 disclosures fulfil the Company's obligation to disclose to market participants key pieces of information on its capital, risk exposures and risk assessment processes.

The Company acts as the Authorised Corporate Director of the Equitile Resilience Feeder OEIC, a UK Open Ended Investment Company (OEIC), an umbrella UCITS feeder fund and is the Authorised Contractual Scheme Manager for the Equitile Investments ACS, a U.K. Authorized Contractual Scheme (ACS) which is a UCITS master fund.

We are permitted to omit certain disclosures if we believe that the information is immaterial and that such omission would not be likely to change or influence the decision of a reader relying on that information. In addition, we may omit disclosures where we believe that the information is regarded as proprietary or confidential. *We have made no omissions on the grounds that information is immaterial, proprietary or confidential.*

Disclosures are required to be made at least annually. The Company will make its disclosure as soon as reasonably practical after the annual accounting date which is 31 December. Publication will be made available at www.equitile.com

Risk Management Frameworks

The Company has a documented risk management framework which details the processes and procedures used to identify, measure, manage and monitor appropriately all risks to which the Funds are or may be exposed. The risks covered by the framework include market risk, liquidity risk, currency risk, credit/counterparty risk, operational risk and any other risks that might be material to the Funds. The risks are both investment and operational and refer to the risk of loss arising from inadequate or failed processes, people or systems including attempted fraud.

The risk framework details:

- the techniques, tools and arrangements including systems and processes used;
- the content and frequency of reports

The risk management process is fully integrated with the position keeping for the Funds and is used to measure and monitor market risk, credit / counterparty risk and liquidity risk. A separate process is maintained to track instances of operational risk and monitor amendments to controls made seeking to ensure that operational risk errors do not re-occur. The Company has a formal structure of oversight committees who review the risk profile, including market, credit, operational and liquidity risks, of each fund jointly and separately. As part of its governance processes, the Company reviews the performance of the risk management framework and its associated arrangements, processes, systems and techniques on an annual basis, and the compliance of the Funds with the risk management framework.

The risk management framework is updated by the Company following any significant change in the business or in risk exposures or at least annually. It is also reviewed by the Depositary.

<u>Market Risk</u>

Market risk is the risk of loss arising from fluctuations in the market value of investments held by the Funds attributable to changes in market variables, such as equity prices, foreign exchange rates, interest rates or the credit worthiness of an issuer. The risk management framework monitors the levels of market risk to which the Funds are exposed in relation to their investment objective and policy.

<u>Leverage</u>

The Funds do not use leverage as part of its investment strategy. The Funds use the commitment method to calculate global exposure in preference to the VaR ("Value at Risk") method and therefore, although VaR is calculated for internal purposes, it does not form part of the formal limits structure for the Funds and no details are provided here.

<u>Liquidity Risk</u>

Liquidity risk exists when the sale of assets or exit of trading positions is impaired by such factors as decreased trading volume, increased price volatility, industry and government regulations, and overall position size and complexity. It may be impossible or costly for the Funds to liquidate positions rapidly particularly if there are other market participants seeking to dispose of similar assets at the same time or the relevant market is otherwise moving against a position or in the event of trading halts or daily price movement limits on the market or otherwise. Derivative transactions that are particularly large and bonds traded in the secondary market may be less liquid and it may be difficult to achieve fair value on transactions. Closing positions held in the secondary markets prematurely, for instance, to meet client redemption requests, can result in increased transaction costs which will be reflected in the investment returns.

Liquidity risk is the possibility that the Funds will not be able to sell the assets without incurring losses within the timeframe required to meet investor redemptions. The asset liquidity profile of the Funds is monitored on a regular basis and compared to both historical investor redemption patterns and potential redemption scenarios, with the aim of ensuring that the Funds will be able to meet any actual redemptions in a timely manner. The liquidity risk management process includes an assessment of the market turnover, percentage of an issue held by the Funds, credit rating of the issuer and/or the buy-sell spread of the market in the securities held where the information is available and is applicable.
Liquidity profile stress tests under both normal and exceptional conditions are conducted on a regular basis. If market liquidity is perceived to be decreasing, the Company might seek to take any of the following actions to improve the liquidity profile of the Funds: maintain higher cash balances; maintain a greater proportion of assets in securities which are traditionally more liquid; diversify the range of issue.

Credit Risk

Credit risk comprises both credit issuer risk and counterparty risk. Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation. The Funds will be exposed to credit risk of the parties with whom they trade. Investing in sovereign debt, any other debt guaranteed by a sovereign government, or corporate debt entails risks related to the issuer's ability and willingness to repay the principal and pay interest. A default by the issuer of the bond may impact the value of the Master Fund. Short-term cash equivalent investments, such as commercial paper, bankers' acceptances, certificates of deposit, and repurchase transactions, are not guaranteed by any government and are subject to some risk of default.

Credit risk may also arise through a default by one or several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This is sometimes referred to as a "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which the Funds interact on a daily basis.

In line with the fund documentations, the Funds may use FX forwards in order to hedge or manage the FX risk of both the assets and the share classes.

Currency Risk

Hedged unit class

The Funds are made up of multiple classes of units, some of which will be hedged and some not hedged. Unitholders that do not invest in hedged units are not expected to be affected by the associated currency hedging strategies for that hedged unit class.

All non-GBP (Pound sterling) unit classes are hedged in both Funds. These unit class hedges are managed to a performance target of 99-101%. Hedging transactions are designed to reduce, within defined performance limits, the currency risk for unitholders, however there is no guarantee that attempts to hedge currency risk will be successful and no hedging strategy can eliminate currency risk entirely. Should a hedging strategy be incomplete or unsuccessful, the value of the Funds' assets and income can remain vulnerable to fluctuations in currency exchange rate movements. Unitholders should be aware that there may be circumstances in which a hedging transaction may reduce currency gains that would otherwise arise in the valuation of the Funds. The gains/losses on and the costs of such hedging transactions accrue solely to the relevant hedged unit class.

Unitholders investing in any hedged unit class may be exposed to fluctuations in the net asset value per unit in relation to the relevant hedged unit class reflecting the gains/losses on and the costs of the hedging transactions and the relevant financial instruments. In the case of a net investment flow to or from a hedged unit class, the hedging strategies may not be accurately adjusted and reflected in the net asset value of the said class until the following or a subsequent Business Day following the valuation day on which the instruction was accepted. Funds' performance could vary from one class of Unit to another within the same sub-fund. More specifically, given that the Funds' investment strategy is based on currencies ("Currency of Return") different from that sub-fund's base currency and that the Funds offer hedged units and nonhedged units, investors who wish to invest in nonhedged units must be aware that total returns for the non-hedged unit class will be maximised in the currency of return and restated into the Funds base currency at the prevailing rate. As a result, actual returns expressed in the Funds base currency will vary over time in accordance with the fluctuations of the exchange rate between the currency of return and the sub-fund's base currency.

Asset Hedging
The investments of the Funds may be acquired in currencies which are different from its base currency and therefore the performance may be impacted by movements in exchange rate between the base currency and investment currency. The assets of the Funds not denominated in their base currency are hedged using Short Dated FX Forwards (OTC Derivatives) to manage currency risks. The risk arising from investing in non-base currency assets is substantially mitigated through the use of FX Forwards.
All currencies in which the Funds hold equity positions in are hedged back to GBP. These hedges are managed to a performance target of 95-105%.
Hedging techniques employed by the Funds could involve a variety of derivative transactions. As a result, hedging techniques involve different risks than those of underlying investments, including liquidity risk and the potential for loss in excess of the amount invested. In particular, the variable degree of correlation between price movements of hedging instruments and price movements in the position (including asset positions) being hedged creates the possibility that losses on the hedge may be greater than gains in the value of the Funds' positions.
In addition, although the contemplated use of these techniques should minimise the risk of loss due to a decline in the value of the hedged position, at the same time they may limit any potential gains resulting from an increase in the value of such positions.
There can be no assurance that hedging transactions will be successful in protecting against adverse market and/or currency movements.

Counterparty Risk
Counterparty risk arises primarily with the financial brokers through whom the Funds buy and sell securities. The Funds may only transact with brokers from an approved broker list maintained by the Company. All brokers on the Company's approved list are subject to periodic credit and general business checks. The Funds may also be exposed to counterparty risks arising from the use of forward currency instruments, usually transacted to decrease exposure to foreign currency. These risks are monitored daily.

Capital Resources
Under the FCA rules the Company's FCA prudential categorisation is:

- Collective Portfolio Management Investment (CPMI) Firm (as a UCITS investment firm); and
- Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU) Firm.

CPMI Firm
As a CPMI Firm, the Company is required to hold own funds and liquid assets in excess of the higher of:

- The funds under management requirement i.e. A minimum capital requirement of €125,000 plus 0.02% of the amount by which the Company's funds under management exceed €250,000,000 (IPRU (INV) 11.3.2R) and
- The fixed overheads requirement ("FOR") – i.e. shall hold eligible capital of at least one quarter of the fixed overheads of the preceding year. (IPRU (INV) 11.3.3AEU).

BIPRU Firm
As a BIPRU firm, the Company's capital requirements are the greater of:

- Its base capital requirement of €125,000;
- The sum of its market and credit risk requirements; or
- Its fixed overhead requirement ("FOR").

Management of the ICAAP

The approach of the Company in assessing the adequacy of its internal capital to support current and future activities is contained in the ICAAP. This process includes;

- an assessment of the specific risks to the Company and the internal controls in place to mitigate those risks and
- an assessment is made of the probability of occurrence and the potential impact, in order to arrive at a level of required capital, as relevant.

The Company's ICAAP is formally reviewed by the Directors at least once per annum but will be revised should there be any material changes to the Company's business or risk profile.

Remuneration disclosure

The provisions of the Undertaking in Collective Investments Schemes Directive ("UCITs V") took effect on 18 March 2016. The legislation requires the Company to establish and maintain remuneration policies for its staff which are consistent with and promote sound and effective risk management. The Board of Directors of the Company have established a remuneration policy to ensure the UCITs Remuneration Code in the UK FCA handbook is met proportionately for all UCITs Remuneration Code Staff. The policy sets out a framework for determining the level of fixed and variable remuneration of staff, including maintaining an appropriate balance between the two.

Arrangements for variable remuneration, where applicable, are calculated primarily by reference to the performance of each individual and the profitability of the relevant business unit. The policy is designed to reward long term performance and long-term profitability.

The Board of Directors reviewe the general principles of the Remuneration Policy and its application at least annually. The details of the Company's Remuneration Policy can be found at www.equitile.com.