

KAIROS INVESTMENT MANAGEMENT LIMITED

PILLAR 3 STATEMENT

CAPITAL ADEQUACY AND RISK MANAGEMENT

FINANCIAL YEAR ENDING 31st DECEMBER 2018

Kairos Investment Management Limited (the “Firm” or “KIML”) is authorised and regulated by the Financial Conduct Authority (“FCA”) and as such is subject to minimum regulatory capital requirements. The Firm is categorised by the FCA, for capital purposes, as a collective portfolio management investment (“CPMI”) firm. The disclosure has been prepared by the Firm in accordance with section 11 of the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”) sourcebook and summarises the material disclosures the Firm is required to make under Pillar 3 of the Capital Requirements Directive (the “Directive”) of the European Union.

The Directive 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 FCA in its regulations through the General Prudential Sourcebook (‘GENPRU’) and BIPRU.

The Firm is indirectly owned by Julius Baer Group Ltd. As the Firm has no subsidiaries of its own, the following information has been prepared on a solo (unconsolidated) basis. The Firm’s auditor is KPMG.

Risk management objectives and policies

Under FCA rules, the Firm is required to establish, implement and maintain adequate risk management policies and procedures, including effective procedures for risk assessment which identify the risks relating to its activities, processes and systems. The risk management system is also required to document the controls that have been adopted to ensure all the risks are appropriately managed and fall within acceptable levels.

The business strategy and risk appetite are determined by the Firm’s Board of Directors. Based on this, a risk management framework, geared to the specific risks that are applicable to the Firm, is devised and put into practice, designed to ensure timely identification of all risks to the Firm and effective risk mitigation.

The Firm operates a risk management framework that sets out the responsibilities and escalation procedures for the identification, monitoring, and management of operational and business risks. Capital planning takes these identified risks into account. The Firm’s Compliance Officer, who is independent from other operational functions of the business, including portfolio management, takes overall responsibility for identifying material risks to the Firm and putting appropriate mitigating controls in place. Risks and mitigating controls are periodically reassessed, taking into account the Firm’s risk appetite. Where risks are identified which fall outside of the Firm’s risk tolerance levels, or where the need for remedial action is identified in respect of identified weaknesses in the Firm’s mitigating controls, then actions are taken to improve the control framework. The Firm’s Board

meets periodically to review the quality of the control framework and to satisfy itself that appropriate controls are in place and that mitigating actions are moving forward.

The Firm's main categories of risk and its management objectives and policies for those categories are as follows:

Operational Risk:

Operational Risk is deemed to be the risk of loss, as a result of inadequate or failed internal processes, people and systems or from external events, including legal risk. The Firm seeks to minimise operational risk through a controls framework, particularly when engaging in new business ventures or trading new products. The Firm considers risks which may impact the Firm directly or indirectly. The Firm's procedures are documented in its compliance and procedures manuals.

The Firm is small and has a simple operating infrastructure. Compliance is overseen by the Compliance Officer, who reports directly to the Board. Opportunity to mitigate operational risk is reviewed regularly by the Board.

Business Risk:

Business risk is deemed to be the risk of loss of earnings and impact on the Firm's ability to meet its obligations as a consequence arising from external sources such as changes to the economic environment or a one-off major market disruption event, and also from an event attributable to the Firm or any of its outsourcers damaging the Firm's reputation.

Various different scenarios are modelled in order to assess the impact of adverse economic conditions on the Firm's financial position. This enables the Firm to monitor its business risk and to assist in its capital planning. The Firm's risk appetite and its willingness to accept business risk are defined by the Board of Directors. The risk management function is overseen by the Board. Business strategy is managed and updated on a day-to-day basis by the Firm's senior management.

Credit Risk:

The Firm is not exposed to credit risk other than in respect of fees/commission receivable (see Market Risk below) and cash held on deposit at large international credit and regulated institutions.

A list of the Firm's exposures to counterparties is maintained as part of the accounting function and overseen by the Chief Operating Officer.

As at 31 December 2018 the firm's credit risk exposures were:

	Exposure £'000	Risk Weight	Risk weighted exposure £'000
Central governments or central banks;	64	0%	0
Institutions	7,140	20%	1,428
Corporates	10,892	100%	10,892
Other items	260	100%	260
Total	18,356		12,580
Credit risk requirement at 8%			1,006

Market Risk:

Market risk relates to exposure to movements in foreign exchange.

The main market risk relates to the Firm's monthly management fees which are predominantly denominated in € (Euro). Market Risk is monitored as part of the accounting function and discussed as part of quarterly board meetings.

As at 31 December 2018 the firm's foreign currency risk exposure was £8,807 thousand resulting in a foreign currency PRR, at 8% of total exposures, of £705 thousand.

Financial and Liquidity Risk:

Risk of the Firm breaching its regulatory capital requirements or falling short of its cash flow obligations is monitored as part of the accounting function.

Liquidity risk would only arise in the Firm should a credit, market or other risk arise, resulting in financial loss. The Firm has robust liquidity management and corporate governance procedures for continuous monitoring to enable remedial action if and when required. These are reviewed at quarterly board meetings. Where necessary external professional advice is sought.

CAPITAL RESOURCES

The Firm is a BIPRU Firm under the Directive and has calculated its capital resources in accordance with GENPRU 2.2. The Firm's capital resources are detailed in the table below:

@31/12/2018	£000
Tier 1 capital resources less innovative tier 1 capital resources	6,148
Innovative tier 1 capital resources	0
Deductions from tier 1 capital resources	0
Upper tier 2 capital resources	0
Lower tier 2 capital resources	0
Deductions from tier 2 capital resources	0
Tier 3 capital resources	0
Deductions from total capital e.g. illiquid assets	0
Total capital resources	6,148

Capital resource requirements

Pillar 1 - Minimum Capital Requirements

As a BIPRU firm, KIML has an ongoing capital resource requirement which comprises the greater of:

- i. sum of market risk and credit risk (for non-AIFM business); and
- ii. the base capital resources requirement of €125k; and
- iii. the own funds based on fixed overheads requirement (FOR).

The Firm has deemed the FOR to be the higher of these values and this is therefore used for the purposes of the Pillar 1 calculation.

As at the date of this report the Firm has a surplus of capital resources over its Pillar 1 capital resources requirement.

AIFMD - Minimum Capital Requirements

KIML is also a CPMI firm and therefore is also subject to the AIFMD capital requirements. Under these it has an initial capital requirement of €125k and an ongoing capital resource requirement which comprises the greater of:

- i. the funds under management requirement (the sum of the Firm's base own funds requirements of €125k plus 0.02% of the amount by which the Firm's relevant funds under management exceed €250m); and
- ii. the own funds based on fixed overheads requirement; plus

Whichever is the applicable of:

- iii. the professional negligence capital requirement ("additional own funds requirement"); or
- iv. the professional indemnity insurance ("PII") capital requirement.

The Firm's CPMI requirement as at 31 December 2018 was £1,915 thousand, being the sum of the FOR of £1,836 thousand plus the professional negligence capital requirement, which was calculated as £79 thousand.

Pillar 2

The Firm has undertaken an Internal Capital Adequacy Assessment Process ("ICAAP") to determine whether it needs any further regulatory capital due to the operational, business, credit and market risks it faces.

As a result of this the Firm has concluded that it requires approximately £662,000 of regulatory capital to cover theoretical additional wind-down and liquidation costs in excess of the FOR to meet its additional requirements under Pillar 2.

Remuneration

The Firm has adopted a remuneration policy which complies with the requirements set out in Article 14 of the Alternative Investment Fund Managers Directive ("AIFMD") and SYSC 19B of the FCA Handbook (the "AIFM Remuneration Code"), as well as SYSC 19C ("the BIPRU Remuneration Code"). The purpose of these Remuneration Codes is to ensure that firms have risk focused

remuneration policies, which are consistent with and promote effective risk management and do not expose themselves to excessive risk.

Role of the relevant stakeholders

The Firm's Board, acting in lieu of a remuneration committee, takes full account of the Firm's strategic objectives in setting its remuneration policy and is mindful of its duties to shareholders and other stakeholders. The Firm's Board seeks to preserve shareholder value by ensuring the successful retention, recruitment and appropriate motivation of employees.

Code Staff criteria

The following groups of employees have been identified as potentially meeting the FCA's criteria for Code Staff:

1. Senior Management (those holding a Significant Influence Function CF1 to CF29 inclusive (excluding CF2);
2. Staff responsible for heading the Portfolio Management teams;
3. Other risk takers such as any member of staff receiving total remuneration that takes them into the same remuneration bracket as senior management and whose professional activities have a material impact on risk profiles of the Firm or of the AIFs the Firm manages; and
4. Where appropriate categories of staff of entities to which Portfolio Management and/or Risk Management Functions have been delegated by the Firm, whose professional activities have a material impact on the risk profiles of the AIFs that the Firm manages.

The link between pay and performance for Remuneration Code Staff is made up of fixed pay (i.e. salary and ancillary benefits) and discretionary performance-related pay. Performance-related pay is designed to reflect success or failure against a range of objectives.

The Firm provides incentives which are designed to link reward with the long-term success of the Firm and recognise the responsibility participants have in driving its future success and delivering value for stakeholders.

The structure of the remuneration package is such that the fixed element is sufficiently large to enable the Firm to operate a fully flexible variable remuneration policy.

Aggregate and fixed/variable remuneration cost for Code Staff

During the year ended 31 December 2018 there were twelve Code Staff. Aggregate fixed/variable remuneration expenditure in respect to Code Staff was £8.35m, of which £2.7m was fixed, comprising base compensation plus benefits.

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