RESONANCE ASSET MANAGEMENT LIMITED

Pillar III Disclosure

31 December 2016

Resonance Asset Management Limited ("Resonance" or the "Firm")

1. Introduction

The Capital Requirements Directive of the European Union ("CRD") establishes a revised regulatory capital framework across Europe governing the amount and nature of capital that must be maintained by investment firms. In the United Kingdom, and with respect to Resonance, the CRD has been implemented by the Financial Conduct Authority ("FCA") in its regulation 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 I sets out the minimum capital amount that meets the Firm's credit, market and operational risk;
- Pillar II requires the Firm to assess whether its Pillar 1 capital is adequate to meet its risks and is subject to annual review; and
- Pillar III requires disclosure of specified information about the underlying risk management controls and capital position.

The rules in BIPRU 11 set out the provision for the Pillar III disclosure. This document contains the Pillar III disclosure for Resonance Asset Management Limited ("Resonance"). The Firm is permitted to omit required disclosures if it believes that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information. In addition, the Firm may omit required disclosures where it believes that the information is regarded as proprietary or confidential. Proprietary information is that which, if it were shared, would undermine Resonance's competitive position. Information is considered to be confidential where there are obligations binding the Firm to confidentiality with its customers, suppliers and counterparties. No omissions have been made on these grounds.

2. Scope and application of the requirements

Resonance is authorised and regulated by the FCA. The Firm is categorised as a limited license firm by the FCA for capital purposes and has no trading book exposure.

The Firm is an investment manager and is limited to providing services to Professional and Eligible Counterparty clients. The Firm provides services to funds, which are all categorised as Professional Clients.

Definitions of assets and capital differ between the regulated capital adequacy rules of the FCA and the statutory accounting balance sheet standards. In these Pillar III Disclosures we use the definitions set out in the FCA rules.

3. Purpose, frequency, verification and location of disclosures

The disclosures are made to explain the risk profile of Resonance. They do not constitute any form of audited financial statement and have been produced solely for the purposes of the Pillar III requirement. Additional information on the Firm's risk management which is not required under Pillar III can be found in the Firm's financial statements.

The Pillar III disclosures are reviewed at least on an annual basis and approved by the Board of Directors of Resonance (the "Directors"). The Firm has considered the need for more frequent publication and has decided this is not necessary given the scale and complexity of the business.

This disclosure will be published on the Resonance website.

4. Risk Management Objectives and Policies

The Directors manage the Firm's business and identify risks through a framework of policy and procedures taking account of relevant laws, standards, principles and rules (including FCA principles and rules). Authority to manage the business, including internal controls and risk, is delegated from the Directors to the Chief Executive ("CEO").

The CEO determines the Firm's business strategy and risk appetite and is responsible for establishing and maintaining the Firm's governance arrangements. The CEO also determines how any risks faced by the Firm may be mitigated and assesses the arrangements to manage those risks on an ongoing basis.

The CEO is supported by the Chief Operating Officer ("COO") in monitoring risks and controls. Significant risk and control issues are reported to the CEO by the COO, and from there to the Directors. The CEO and the COO meet on a regular basis to discuss current projections for profitability, cashflow, regulatory capital management, business planning and risk management. Financial reports are reviewed monthly detailing the results, variances against forecast and other performance data. Where necessary, advice is sought from external advisers such as legal, compliance and accountancy firms.

Resonance has a simple operational infrastructure and a low risk appetite. Resonance does not hold client money, deal on its own account, underwrites deals, and is not set up to act as an investor or a risk manager for its own portfolio. The CEO has identified that operational, business, credit and market risks are the main areas to which Resonance is exposed.

Operational risk

Operational risk is defined by the FCA as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, including legal risk.

The majority of the risks affecting Resonance can be classified as operational risks and therefore most risk management efforts are focussed on mitigating operational risk. Whilst operational risk can never be eliminated, Resonance has policies and procedures in place to mitigate such risks to acceptable residual levels, in accordance with its risk appetite policy.

As part of the Firm's Individual Capital Adequacy Assessment Process ("ICAAP"), Resonance has sought to identify relevant operational risks and related mitigation and controls. Any such incidents are reported to the Directors.

Business continuity plans are in place and the security of IT systems is regularly reviewed. Resonance employs experienced staff who are given appropriate training on an ongoing basis. Outsourced relationships are monitored to ensure adherence to contractual obligations.

Resonance has not incurred any material losses as a result of operational risks crystallising and has suffered no instances of fraud.

Business (strategy) risk

Business risk is the risk arising from changes to the internal and external commercial environment, including the risk that the Firm may not be able to carry out its business plan and desired strategy.

The primary impact of business risk on Resonance is the reduction of profitability from reduced management fees due to the run-off of maturing funds or the winding down of non-sustainable business lines. This risk is mitigated by the Firm's robust management of existing funds without compromising the ability to develop suitable opportunities as they arise, to ensure stable growth.

Credit risk

Credit risk represents the risk of financial loss through default by a counterparty. Resonance is exposed to credit risk as follows:

(a) investment management fees due to the Firm from the funds it advises; and
(b) working capital in liquid deposits with UK banks.

The risk of (a) comes from insolvency caused by investor default. This is mitigated by investors' contractual obligation to commit capital and the forfeiture provisions of relevant fund documents. In addition, the variety and diversity of investors is considered and their credit-worthiness is assessed prior to accepting them as investors. Further controls are in place with respect to the invoicing of fees, payment by the fund's administrator, and reconciliation.

Income from management fees is sufficient to cover Resonance's expenditure. Resonance has sufficient liquidity to manage any liquidity risks faced, which are mainly cashflow. These are proactively reviewed with the assistance of a financial controller.

With regards to (b), Resonance only deposits money with appropriately rated UK authorised banks. Relevant due diligence checks are performed prior to entering into any material contracts, as necessary.

Market risk

This is the risk that arises from fluctuations in values of, or income from, assets or from changes in interest or exchange rates.

Resonance carries some FX risk on investment management fees receivable in US$ from one of the funds it manages. The Firm is able to mitigate this risk by using the US$ fees to pay its US$ debtors. Furthermore, GBP management fees received, on the whole, cover the Firm's GBP operational costs.

Exchange rates are monitored regularly against cashflow requirements to minimise and, where possible, optimise, the FX impact.

5. Capital Resources

As at 31 December 2016, Resonance held capital resources of £210,000. This comprised solely of Tier 1 capital after deductions.

6. Internal Capital Adequacy Assessment Process ("ICAAP")

Resonance conducts an internal assessment of the amount of capital that is considered adequate to cover the risks facing its current and future activities. Determination of the business strategy includes the projection of financial profitability, capital resources and capital requirements. The key risks to which the business is or might be exposed are considered along with the amount of capital that would be considered adequate to cover Resonance in the event that those risks were to crystallise.

7. Capital Resources Requirement

Pillar I

Resonance must at all times maintain capital resources equal or in excess of each of the following:

- The Firm's base capital requirement of €50,000; or
- The sum of the Firm's market and credit risk requirements; or
- The Firm's fixed overheads requirement ("FOR").

Resonance applies a standardised approach for calculating capital requirements. The Firm does not have a trading book and has nil exposure to the elements of the market risk capital requirement set out in the GENPRU rules. As such, it is the Firm's experience that its Pillar I capital requirement normally consists of the FOR.

Based on its audited statutory accounts as at 31 December 2016, the Firm holds £77,000 capital surplus to its Pillar I requirement. The Directors consider this to be sufficient regulatory capital to support the business and have not identified any other areas which give rise to a requirement to hold additional risk based capital. The Firm foresees no impediments to continuing to hold capital in excess of the FOR.

Pillar II

Resonance has no Pillar 2 capital.

8. Remuneration Disclosure

Resonance has adopted a remuneration policy (the "Policy") that complies with the FCA's Remuneration Code (SYSC 19A of the FCA Handbook) (the "Code"), as interpreted in accordance with the FCA's guidance publication entitled "General Guidance on Proportionality: The Remuneration Code (SYSC 19A) & Pillar 3 Disclosures on Remuneration (BIPRU 11)" and subsequent items of guidance issued by the FCA, including its document entitled "Frequently Asked Questions on the Remuneration Code".

As a BIPRU limited licence firm, Resonance falls within proportionality level 3, which allows it to dis-apply many of the technical requirements of the Code and proportionately apply the Code's rules and principles in establishing the Policy.

Resonance is satisfied that the Policy is appropriate to its size, internal organisation and the nature, scope and complexity of its activities. Resonance is satisfied that it does not need to appoint a remuneration committee, although it will use external consultants from time to time to provide advice on specific issues.

The Directors acknowledge that Resonance's reputation and success is due to the service provided to investors and clients by highly qualified and committed staff. Staff are therefore one of the key assets of the organisation and the broad principle for the Policy is therefore to encourage staff to contribute to the success of the business, reward individual performance and retain key employees.

The Policy allows for a variable element of remuneration, which takes into account individual performance and the overall results of Resonance. Staff are appraised at least annually and any bonuses are discretionary and not formulaic. There is no contractual right for any employees to receive a bonus award.

During the period to 31 December 2016, special bonuses were awarded to certain staff and paid in cash in May 2016.

The Code requires Resonance to consider senior staff and staff engaged in specific control functions and risk takers whose professional activities have a material impact on the firm's risk profile ("Code Staff"). Resonance's Code Staff fall into the "senior management" and "controlled functions" categories, rather than the "risk taker" category for the purposes of the Remuneration Code. The aggregate "remuneration" (as defined in the FCA Rules) awarded to Code Staff within the Resonance group during the financial year ending 31 December 2016 was £440,873.

9. Stewardship Disclosure

Under Rule 2.2.3R of the FCA's Conduct of Business Sourcebook, Resonance is required to disclose in an accessible form a statement about the nature of its commitment to the Financial Reporting Council's (the "FRC") UK Stewardship Code (the "Code") or, where it does not commit to the Code, its alternative.

The Code aims to enhance the quality of engagement between institutional investors and listed companies in the UK to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. It sets out good practice on engagement with investee companies and is to be applied by firms on a "comply or explain" basis. The FRC recognises that not all parts of the Code will be relevant to all institutional investors and that smaller institutions may judge some of the principles and guidance to be disproportionate.

Whilst supporting the objectives that underlie the Code, Resonance does not currently comply since the investments it manages do not include UK listed companies.