AMATI GLOBAL INVESTORS LIMITED (FCA Reference Number 198024)

Pillar 3 Diclosures

2016

1. Introduction

The Basle II Accord has been implemented in the European Union through the Capital Requirements Directive ('CRD'). The CRD details the standard regulatory capital framework for the financial services industry within the EU and consists of three pillars:

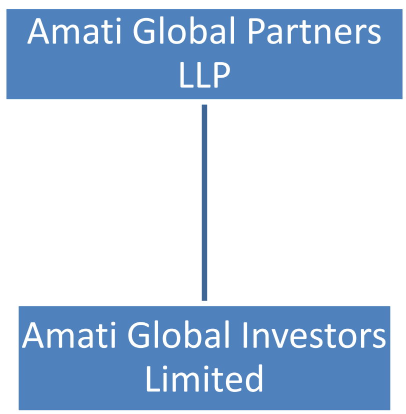
• **Pillar 1** specifies the minimum capital requirements of firms to cover credit, market and operational risk;

• **Pillar 2** requires firms to assess the need to hold additional capital to cover risks not covered under Pillar 1; and

• **Pillar 3** requires a set of disclosures to be made which enable market participants to assess information on firms' capital, risk exposures and risk management procedures.

The Financial Conduct Authority ('FCA') holds responsibility for implementing the CRD within the UK and has set out its minimum disclosure requirements in its Handbook under BIPRU 11.

2. Group Structure



AGP is a holding vehicle for AGI, a 100% subsidiary which is in the business of fund management. AGI is an FCA regulated entity. It was formerly called Noble Fund Managers Limited whilst under the ownership of Noble Group, its former parent company. The name change followed the management buyout of Noble Fund Managers Limited by Paul Jourdan and Douglas Lawson in January 2010.

AGI is the only regulated operating company within the Group. AGI is fully consolidated with AGP for accounting and prudential purposes.

There are no current or foreseen material restrictions or legal impediments to the movement of capital between the legal entities or repayment of liabilities among the parent and its subsidiary undertaking apart from the requirement to ensure there is adequate capital in AGI, and AGP on a consolidated basis.

3. Frequency of Disclosures

AGI will publish these disclosures at least on an annual basis. Future disclosures will be published after the annual financial statements are approved by the Board of AGI and the Management Committee of AGP (together the "Boards").

4. Verification

The information contained in this document has not been audited by the Group's external auditors, therefore they do not constitute financial statements and should not be relied upon in making judgements about the Group. These disclosures explain how the Boards have calculated certain capital requirements and information about risk management.

5. Risk Management Objectives and Policies

The objective of creating a risk management framework is to identify, measure, monitor, manage and report risk in a consistent fashion on a timely basis. To achieve this, the Group has a number of risk management processes, which include:

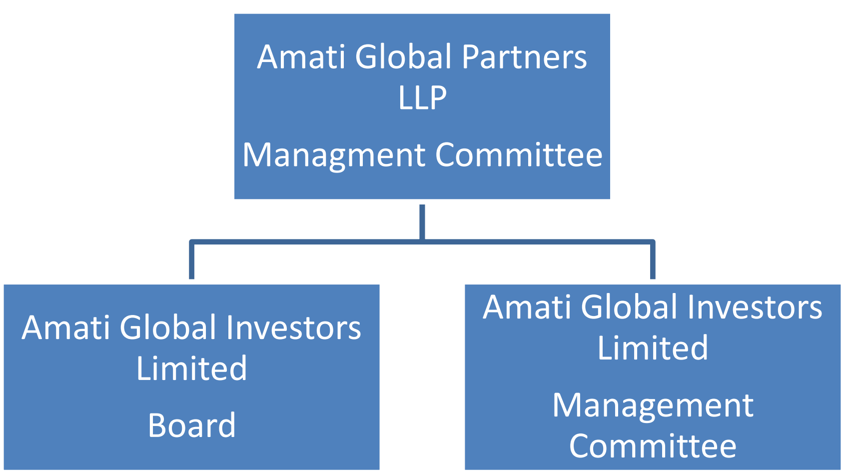
5.1 The Boards and its sub-committees

The Board of AGI meets quarterly and consists of the following:

- James Ferguson (Non-Executive Chairman)
- Dr Paul Jourdan (Executive CEO)
- Douglas Lawson (Executive Director)
- Gordon Izatt (Non-Executive Director)
- Rosanna Colangeli (Company Secretary)

Separately, Paul Jourdan and Douglas Lawson, Directors of AGI, and Rosanna Colangeli, Head of Finance and Operations, will hold a monthly Management Committee meeting.

The Designated Members of AGP, being Paul Jourdan and Douglas Lawson, hold a quarterly Management Committee meeting, with Rosanna Colangeli. The Managing Partner is Paul Jourdan. James Ferguson and Gordon Izatt, both partners of AGP, are normally present at this meeting.



5.2 Non-executive directors

AGI has two non-executive directors – James Ferguson (JF) and Gordon Izatt (GI). JF has extensive experience in the fund management industry. His role is to challenge and contribute to the development of strategy, scrutinise the performance of management in meeting objectives and strengthen the corporate governance structure of AGI. GI has long experience in information technology, which is a key component of AGI's day-to-day operations. He also spent six years as an executive director of AGI.

5.3 Definitive reporting lines and roles and responsibilities

The Group has a clear structure of reporting lines and each employee is aware of their roles and responsibilities within the organisation.

5.4 Business Continuity Plan

The Group has its own Business Continuity Plan ('BCP') within the firms Procedures document which describes the logistical plan for how the organisation will recover and restore partially or completely interrupted critical functions within a predetermined time after a disaster or extended disruption. This plan was last tested in December 2015.

5.5 Compliance manual

The purpose of this manual is to provide guidance and set out certain principles, general practices, rules and procedures which provide the foundations for the proper conduct of business within the firm and, in some cases, reflect other applicable jurisdictions' legal and regulatory requirements.

5.6 Monthly consolidated management accounts

AGP, AGI and AGP consolidated management accounts are prepared each month. The consolidated management accounts are submitted to the Boards for review and discussion. They are also used to assess the capital adequacy of each entity and of the Group.

5.7 Internal Risk Management Framework

The Group assesses its key risks in the ordinary course of business through the internal risk management framework. The system records risks across the business, together with the method of control for that risk, any actions that need to be taken and the resulting level of residual risk.

5.8 ICAAP

Senior members of AGI have been involved in identifying and quantifying risk events, mitigating controls and management actions that would be taken if the risk were to crystallise. The likelihood and potential impact of each risk event occurring given the mitigating controls are considered. The identification of these risks is based on the judgement of the management team and reflects their views of the scale of the potential impact of each risk.

6. Assessing Capital Adequacy

The main purpose of the ICAAP is to document the ongoing assessment of AGI's risks, how the Board intends to mitigate those risks and how much current and future capital the Group considers necessary having considered other mitigating factors. The ICAAP sets out how the Group manages its risks, what the key risks are and how the Group has satisfied itself that it has sufficient capital in respect of the risks faced now and during the next three years. The ICAAP is provided to the FCA on request. Given that capital management is embedded in the firm and the ICAAP summarises important information relating to the Group's risk management and capital position, it will also be used from time to time by the Group's Boards and its auditors. The ICAAP report is reviewed at least on an annual basis. In addition, however, the Group determines its overall capital requirement by reference not only to its regulatory capital requirements but to the budget approved by the Boards each year. This provides the expected operating performance of the business.

7. Risk Categories

The FCA rules in GENPRU consider risks under the headings listed below which have been explored with reference to the Group. Some of the key risk headings are not relevant to the Group's business; in such instances the reasons have been documented. The main risks are in the categories of operational, concentration and business risk. Certain risks were considered but were not included in the quantification, as they were not deemed likely to have a significant impact on capital requirements.

7.1 Credit Risk

Credit risk is defined as the risk of loss arising from a counterparty failing to meet its financial obligations.

The credit risk in AGI is limited as income is derived predominantly from its funds under management. Investment management fees are contractually payable quarterly in arrears. The investment management agreements provide that investments can be liquidated to the extent that this is required to satisfy payment of investment management fees as they fall due.

The principal creditor of AGP is AGI, which relates to sums due under the intercompany agreement.

Overall, credit risk is not material to the business.

7.2 Market Risk

The Group holds positions in Fox Marble Holdings Plc and Mirriad Limited through investments made by AGP. At 31 May 2016 these investments were valued at £15k. Fox Marble is a decorative stone extraction company operating in Kosovo with headquarters in the UK. Mirriad is a technology company, also based in the UK. Due to the size of the positions held adverse price movements would not be material to the business.

The model portfolio used for the AIM IHT Portfolio is held by AGI on the James Brearley platform. At 31 May 2016 the portfolio was valued at £65k.

We would anticipate some volatility in the value of the direct investments in Fox Marble and Mirriad and the portfolio of AIM stocks, however, given the size of these investments relative to the overall capital base of the group, we do not deem it necessary to make a provision for this risk.

Currency risk arises from the change in price of one currency against another but the Group deals almost exclusively in Sterling.

The risk of adverse currency movements is not currently material for the Group.

7.3 Liquidity Risk

Liquidity risk is the risk of a firm that, although solvent, runs out of cash and is only able to borrow at punitive interest rates to meet its obligations as they fall due. The relevant rules are outlined in BIPRU 12.3 and 12.4: http://fshandbook.info/FS/html/FCA/BIPRU/12 .

AGI is a profitable, cash generative fund management business. The fund management model offers good levels of visibility over income which allows the Directors of AGI to forecast revenues and manage costs accordingly.

Cash invested in AGI and generated through the company's profits is held in instant access deposit accounts and transferred into a current account to meet payments to creditors as they fall due. All cash is currently held in Sterling accounts. Cash levels are monitored and minuted as part of a broader review of AGI's management accounts and regulatory capital position at monthly Management Committee meetings and quarterly Board meetings. The Directors also review and approve an annual budget. If the outrun for the year is proving to be materially different on the downside relative to forecasts, the Directors will re-model the budget to review the impact on cash.

In the unlikely event of a cash shortfall in AGI, cash reserves in AGP would be used to make a further ordinary equity investment in AGI.

7.4 Operational Risk

Operational risk has been identified as one of the risks for the Group

7.4.1 Non adherence to HMRC VCT rules resulting in fine and potential reputational damage

A failure to adhere to the VCT rules in either of AGI's VCTs under management would result in the withdrawal of its VCT status. Each VCT retains the services of Phillip Hare & Associates ("PH") as VCT tax adviser. PH is consulted before a qualifying investment is made. PH reports to the Board of each VCT bi-annually on each VCT's tax compliance. Capita, AGI's back office provider, produces a weekly VCT test.

We see the worst case consequence of a loss of VCT status in one of the VCTs as an orderly wind-down of the business as we believe that the reputational damage would be too great to continue.

7.4.2 Selecting stocks for the AIM IHT Portfolio that are deemed ineligible for Business Property Relief

There is no definitive list of AIM stocks that qualify for Business Property Relief. The managers must therefore exercise judgment in selecting stocks, however, PH has also been retained to review the AIM portfolio stocks in order to opine on qualification. Any stocks that are not qualifying at death would be liable to inheritance tax.

Taking into account the size of the portfolio (£1.9m) and the disclaimers made by Amati to clients, we do not currently view this as a risk that requires a provision.

7.4.3 Failure to operate an effective dealing process

The dealing system is configured such that only qualified fund managers can place orders on the system. Each stage of the dealing process is logged on the system which provides a full audit trail of each trade.

We have Directors and Officers (D&O) liability insurance and Professional Indemnity (PI) insurance, which would be claimed should AGI be liable for executing an erroneous trade that resulted in loss. The excess on these policies is £20k.

7.4.4 Failure to monitor outsourced providers

A review of all outsourced providers is conducted at each board meeting where their effectiveness and services levels are discussed.

AGI is responsible for the performance of its outsourced suppliers. An error caused by an outsourced supplier that resulted in loss for one of AGI's clients could lead to a claim against AGI, which would then be subject to a counter-claim by AGI against its supplier. As such, AGI would most likely have to resort to its D&O and PI insurance, which carries an excess of £20k.

7.4.5 Legal claims against the Group or its employees

This is a risk faced by the Group which is mitigated by PII cover. The group's cover is limited at £5m.

7.4.6 Loss of data

A large amount of data is held electronically (including business critical data). Should there be a system failure there is the potential for this data to be lost. In order to mitigate this risk the Amati data files are backed up hourly to external hard drives and synchronised every 6 hours to external webservers. Databases are synchronised live. Nightly backup of databases and webserver files are kept for 7 days. Webservers are synchronised daily with the internal server. All incoming and outgoing emails are archived and that full archive is backed up on an external hard drive weekly.

7.4.7 Inability to use office premises

A Business Continuity Plan/ Disaster Recovery plan is in place which allows all members of staff to continue working from home with minimum disruption.

7.4.8 Failure to meet requirements of Data Protection Act, information security and data_privacy

AGI must ensure compliance with DPA requirements at all times and ensure that best practice is achieved in respect of information security and data privacy.

Failure to meet the requirements of the Data Protection Act could result in a claim against AGI, for which AGI would resort to its insurance.

7.4.9 Insider Dealing or market abuse

AGI's Compliance Manual includes rules which all partners of AGP and Directors and staff of AGI must follow.

We see the worst case consequence of an insider dealing or market abuse claim against AGI, its directors or staff as an orderly wind-down of the business as we believe that the reputational damage would be too great to continue.

7.4.10 Failure to identify conflicts of interest

If a conflict arises the relevant Business Unit Leader will be informed. If the conflict cannot be resolved by reference to the AGI Compliance Manual it is referred to our compliance consultants.

AGI does not see a material risk of loss due to a failure to identify conflicts of interest.

7.4.11 Share buyback calculated at wrong price

Detailed procedures are in place for executing a share buyback. The buyback is approved by a fund manager and the company secretary before being bought in the market and sold back to the VCT plus the market maker's turn.

The most likely cause of an incorrect price would be an erroneous communication of the buyback price to the market maker which would result in the shareholder's shares being acquired above market value. If this trade could not be unwound, the VCT would be bound to acquire the shares from the market maker at this inflated price. AGI would be liable for this error and, if the loss incurred was greater than the value of AGI's insurance excess, AGI would be likely to resort to its insurance policy.

7.4.12 Failure to maintain adequate liquidity at all times

The risk management process, the ICAAP, stress testing of forecasts and monthly management accounts reviews all ensure that adequate liquidity is maintained.

7.4.13 Incorrect allotments of VCT shares

Allotment figures are checked by the relevant VCT's external registrars before submitting to the sponsor.

If any shares were to be incorrectly allotted and the VCT suffered loss as a consequence, AGI would be liable and, depending upon the severity of the loss, would be likely to resort to its insurance arrangements.

7.4.14 Failure to adhere to the FCA's TCF initiative

Performance, complaints, errors and breaches are recorded by compliance and reviewed at monthly management and board meetings. In addition, all marketing material is approved by compliance, the website is kept up to date and the fund factsheets are updated monthly.

We see the worst case consequence of failure to adhere to the FCA's TCF initiative as an orderly wind-down of the business as we believe that the reputational damage would be too great to continue.

7.4.15 Failure to record telephone calls

All incoming and outgoing calls made via SureVoIP are recorded.

7.5 Insurance Risk

Insurance risk refers to the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. The Group does not underwrite insurance and this is not within its permitted activities. Given the nature of the Group's activities, this is not seen as a risk.

7.6 Concentration Risk

This risk is reducing as AGI grows and adds funds under management. AGI's main client, Amati VCT plc, now represents less than half of funds under management. Within this VCT there are over 3,000 shareholders. The biggest risk comes from the Board deciding to move the management contract to another fund manager due to poor performance. The VCTs benefit from 12 month notice periods which gives management the flexibility to reduce the cost base of the Group to cope with a fall in income whilst decisions are taken on future strategy.

7.7 Residual Risk

Residual risk is the risk that the credit mitigation techniques used by the firm prove less effective than expected. We do not use any credit mitigation techniques and therefore do not see this risk as relevant to the business.

7.8 Securitisation Risk

Securitisation risk is the risk that the capital resources held by a firm in respect of assets which it has securitised are inadequate having regard to the economic substance of the transaction, including the degree of risk transferred. This risk is not applicable for the Group's business.

7.9 Business Risk

Business risk is one of the Group's risk areas.

7.9.1 Shortfall in business revenue

Adverse market conditions that could give rise to a shortfall in budgeted revenue through a decrease in FUM and investors' appetite for additional investment in equities.

There are controls and procedures to monitor these risks and management would take any necessary remedial action.

This is looked at in the context of AGI's four Client Funds/ products currently under management:

- Amati VCT plc
- Amati VCT 2 plc
- TB Amati UK Smaller Companies Fund
- Amati AIM IHT Portfolio Service

The income of AGI has a relatively high degree of visibility as it is based on a fixed percentage of funds under management. Of course, the size of funds under management will vary as the underlying assets are predominantly listed equities and therefore subject to price movements. In stress testing the model, it is therefore important to assess the impact on profitability of a reduction in funds under management caused by a fall in equity values. This is the **first risk** to income.

The **second risk** to income is a high level of redemptions from the investors in AGI's funds. This is viewed as low risk as the majority of funds under management are within tax driven structures (predominantly Venture Capital Trusts) which penalise investors for withdrawing their investment within a minimum holding period, however a high proportion of investors in AGI's funds have now passed this minimum holding period. Regarding the TB Amati UK Smaller Companies Fund, investors are less 'sticky'. This is not specifically a tax driven product therefore investors are less likely to de disadvantaged from a tax perspective if they were to redeem their shares. In addition, there is a greater degree of liquidity in the shares versus VCT shares (although AGI ensures liquidity for its VCT investors by offering a regular buyback facility) which potentially increases the likelihood of fund depletion through redemptions. Whilst this fund is important to AGI from a strategic perspective, it is less so from a financial perspective as it is smaller and receives a smaller net management fee than the VCTs. However, a key strategic objective is to continue to grow this fund and, if we achieve this, the impact of redemptions will become more acute. This is also relevant for the Amati AIM IHT Portfolio Service which was launched in October 2014. As at 31 May 2016 FUM was £1.9m therefore the financial implications of redemptions from this fund are not currently significant. When the FUM does increase it will however benefit from some protection on redemptions due to the Business Property Relief exemption requirement to hold qualifying stocks for a minimum of two years.

AGI also considers shareholder communication to be of paramount importance to the retention of investors. The Directors of AGI believe that they have amongst the best level of shareholder communication in the venture capital trust industry with an informative website (www.amatiglobal.com) with sections devoted to each fund under management and monthly factsheets for each fund.

The **third risk,** and greatest risk, is the potential loss of an investment management mandate. The biggest risk to income would be the immediate loss of the management contract for Amati VCT plc or Amati VCT 2 plc. Both VCTs benefit from 12 month notice periods, however, the contracts become terminable with immediate effect on the occurrence of certain events:

- if the Manager is wound up, becomes insolvent, appoints an administrator;
- the Manager is found liable for a material breach of duty;
- the manager undergoes a change of control which the Board of the VCT deems likely adversely to affect the provision of services;
- Paul Jourdan ceases to work on a day to day basis on the management of the portfolio, unless within 20 business days an appropriate replacement is agreed; and
- if FCA authority is revoked or cancelled.

It is, therefore, unlikely but possible that both of the VCT contracts could become terminated with immediate effect at the same time or AGI ceases to be able to provide investment management services due to a withdrawal of FCA authorisation. Under these scenarios, we assume that AGI would be forced to effect an orderly wind-up of the business.

7.9.2 Excess unbudgeted cost base

This risk relates to overspending on the budget for the current financial year. Management feel that this risk has been mitigated by the following:

- Regular appraisal of actual results versus budget; and
- Maintaining the fixed cost base as low as possible. Variable costs, namely partners' pay, would be reduced in order to meet unbudgeted costs.

AGI operates as a 100% owned subsidiary of AGP, a limited liability partnership. Together, AGP and AGI form a group (the "Group"). The individuals involved operationally in AGI are, with the exception of two employees and four directors (who are also partners but partly-remunerated by AGI for their role as Directors), remunerated through AGP as partners of AGP, such remuneration being dependent on the profitability of the Group. The remuneration of the partners in AGP, which is forecast to be the largest cost to the Group, is a variable, not a fixed cost to the business.

The direct costs relating to the VCT contracts, namely administration, provided by Capita, and company secretarial, provided by City Partnership, are subject to termination provisions that are similar to those between AGI and the funds under management, such that these contracts can be terminated in the event that the specific fund management contract to which it relates is terminated.

Other fixed costs consist of compliance services, property rent and rates, IT and software license costs, insurance, audit, FCA fees and accounts support. All of these costs are agreed at the beginning of Group's financial year, giving visibility over fixed costs for budgeting purposes. These costs are contractual by nature and have specific contractual termination provisions. As a consequence the Directors can model the capital required to effect an orderly wind down of the business on the basis that there is an immediate cessation of revenues.

In the event that costs exceed revenues, the first expense which would be reduced to address this would be partners' pay.

7.9.3 Fraud or unauthorised activity

This risk is mitigated by internal controls and procedures.

However, this does not remove the possibility that a member of staff could maliciously cause loss to the company. AGI would be liable for this error and, if the loss incurred was greater than the value of AGI's insurance excess, AGI would be likely to resort to its insurance policy.

7.9.4 Loss of key people

The possible impact of losing key persons is mitigated by the fact that all staff have equity participation as partners within AGP. Key man insurance is held for Paul Jourdan, who is in turn named as a key person in both VCT contracts, although there is a provision which allows Amati to find a replacement, which would most likely be Douglas Lawson and David Stephenson, within 60 days. If no such replacement is found, it is within the VCT boards' powers to move the investment management contracts away from AGI and, under this circumstance, AGI would be forced to consider a wind-up of the business.

7.10 Interest Rate Risk

The Group is not exposed to interest rate risk.

7.11 Pension Obligation Risk

AGI has an auto enrolment compliant pension scheme. AGP is not required to have a scheme in place for partners. A provision for the firm's pension obligation has been made assuming the business winds down and all employee contracts are terminated over 3 months.

8. Capital Resources

Amati Global Investors LLP had the following capital resources on a consolidated basis at 31 December 2015 based on its audited statutory accounts:

Tier 1 Capital	**£'000**
Partners capital	665
Audited P&L Reserves	368
Total Tier 1 Capital	1,033
Tier 2 Capital	0
Tier 3 Capital	0
Group regulatory capital resources	1,033

Amati Global Investors Limited had the following capital resources on a solo basis at 31 December 2015 based on its audited statutory accounts:

Tier 1 Capital	**£'000**
Permanent share capital	265
Share premium	0
Capital contribution	0
Audited P&L Reserves	495
Total Tier 1 Capital	760
Tier 2 Capital	0
Tier 3 Capital	0
Regulatory capital resources	760

Neither AGP nor AGI has any Tier 2 or 3 capital resources at 31 December 2015.

No innovative tier one capital is held by the Group.

New staff joining the business may be offered an interest in AGP. Any such interest will be subscribed for in cash and will constitute further equity for AGP. AGI is a profitable business. If revenues were to decline, the intercompany service charge would reduce and, in turn, partners' profit in AGP would be reduced in order to ensure that neither AGI nor AGP consolidated operates at a loss. Therefore, the expectation is that regulatory capital resources will improve over time as profits are retained.

9. Capital Planning

Monthly consolidated and entity-level management accounts are prepared and reviewed in detail by Group management and subsequently discussed at the meetings of the Management Committee of AGP and the Board of AGI. The Group's financial resources compared to its minimum capital requirements are also discussed at these meetings. Annual budgets are prepared and approved by the Boards and these are tracked monthly against the actual performances with significant deviations investigated. The conclusions of the Management Committee of AGP and the Board of AGI is that AGP and AGI have sufficient capital to meet their regulatory resource requirements and also to support their current and foreseeable activities. As discussed above, there are no restrictions on management in regards to the transfer of capital in or out of businesses and in the jurisdictions that the Group operates in, apart from the need to hold the minimum regulatory capital in each entity.

10. Remuneration Policy

Amati Global Investors is 100% owned by Amati Global Partners LLP, which is in turn owned entirely by its staff. All partners have invested capital for their equity stake. It is therefore in partners' interests to protect their capital by avoiding excessive risk that could be prejudicial to the business. Also, partners know that they must deliver a minimum level of profits in order to cover fixed costs before they are remunerated through the profit sharing arrangement. Sufficient profits should be delivered with the firm's current funds under management but any excessive risk taking with these client funds could result in withdrawals of funds and therefore reduced profitability, which would put at risk the remuneration of the partners.

The remuneration policies allow each division, or business unit, of the firm to manage their own profit and loss account. In this way, each team does not receive any remuneration from their business unit until that team generates sufficient income. At the same time, as partners in Amati Global Partners LLP, the members of that team will benefit from the profitability of other teams through their equity participation as the profit share agreement contains a formula that allows for the split of profits between business unit staff and members of the partnership. In this way, conflicts of interest between business units are managed.

The firm is aligned with its investment management clients as the investment management fee is based on a fixed percentage of the value of each fund. Therefore, a successfully managed fund will result in a higher net asset value of the client fund and therefore a higher investment management fee for the firm.

The remuneration committee is chaired by James Ferguson, who is the non-executive Chairman of Amati Global Investors. He does not participate in the bonus pool and is therefore independent for the purposes of allocating the pool. Remuneration of individuals is set by the remuneration committee each year. The initial share (salary equivalent) of staff is set with reference to:

- The expected profitability of the firm; and
- Market rates.

The bonus pool defined with reference to the profit waterfall in the Amati Global Partners LLP members' agreement. Individual allocations are based on points within the total pool, which are allocated by the remuneration committee. The allocations are based on the remuneration committee's view of:

- The relative contributions of each individual within the bonus pool;
- The level of seniority of each individual; and
- Market rates.

The profit share waterfall provides for profit 'catch-up'. These sums can either be distributed to the equity holders in Amati Global Partners LLP as a dividend or retained in the business to further strengthen the capital base.