

**Griffin  
Pillar 3 Disclosure  
2008**

Griffin Capital Management Limited &  
Griffin Capital Management (UK) Limited [the "Group"]

**Overview**

The European Capital Requirements Directive ("the Directive") establishes a revised regulatory capital framework across Europe governing the amount and nature of capital which credit institutions and investment firms must maintain.

In Gibraltar, the Directive has been implemented by FSC in Financial Services (Capital Adequacy of Investment Firms) Regulations, 2007.

In the United Kingdom, the Directive has been implemented by the FSA in its Handbook of rules and guidance, including in particular in the *General Prudential Sourcebook* ('GENPRU') and the *Prudential Sourcebook for Banks, Building Societies and Investment Firms* ('BIPRU').

The Directive's framework consists of three 'Pillars':

**Pillar 1**

This 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 capital is adequate to meet its risks that are not covered by Pillar 1 and is subject to review by FSC.

**Pillar 3**

Requires public disclosure of qualitative and quantitative information about the underlying risk management controls and capital position of a firm.

The rules in FSC's Regulations and the guidance in their Guidance Notes - Capital Requirements Directive - Pillar 3, dated 18 December 2007, set out the provision for Pillar 3 disclosure. This document is designed to meet the Group's Pillar 3 obligations.

Under supervision of the Board of Griffin Capital Management Limited, the Group has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group.

The Boards of Griffin Capital Management Limited and Griffin Capital Management (UK) Limited are responsible for their own systems of internal control and regularly review their effectiveness. The systems of internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

We are permitted to omit required disclosures if we believe that the information is immaterial such that its omission or misstatement would not be likely to change or influence the assessment or decision of a reader relying on that information for the purpose of making economic decisions.

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 with the public, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers, (former) staff members and counterparties.

**Frequency and location of disclosure**

Future disclosures will be issued on an annual basis, at a minimum, and will be made available on Griffin Capital Management Limited's website.

### Significant subsidiary - individual/sub-consolidation basis

- The Group has assessed that Griffin Capital Management (UK) Limited is a significant subsidiary for the purposes of this disclosure.
- Having the same business approach to its parent company, and indeed having the parent company as its client, Griffin Capital Management (UK) Limited operates the same risk appetite and assessment as Griffin Capital Management Limited.

### Scope and application of the requirements

Griffin Capital Management Limited is licenced by the Gibraltar Financial Services Commission as Collective Investment Scheme Manager under section 8 of the Financial Services (Collective Investment Schemes) Act 2005 and authorised by the Gibraltar Financial Services Commission as Portfolio Manager under section 6 of the Financial Services (Markets in Financial Instruments) Act 2006 as a Category 3 portfolio manager with an initial capital of € 50,000 or its equivalent in sterling. It has no trading book exposures.

Griffin Capital Management (UK) Limited is wholly owned by Griffin Capital Management Limited and is authorised and regulated for investment management activities in the UK, by the FSA, and as such is subject to minimum regulatory capital requirements. Griffin Capital Management (UK) Limited is categorised as a *BIPRU €50,000 limited licence firm* by the FSA for capital purposes. It has no trading book exposures.

Griffin Capital Management Limited is Investment Manager to 2 umbrella funds:

- Griffin International Umbrella Fund (Cayman Islands)
- Griffin Umbrella Fund plc (UCITS, Ireland)

Griffin Capital Management (UK) Limited is Investment Adviser to Griffin Capital Management Limited.

The Group is an EEA Consolidation Group and is required to prepare consolidated reporting to the FSC for prudential purposes. As a significant subsidiary, Griffin Capital Management (UK) Limited's capital resources are also included in this disclosure.

There are no current or foreseen material, practical or legal impediments to the prompt transfer of capital resources, or repayment of liabilities, intra-Group.

### Risk management

Griffin Capital Management Limited determines the business strategy and risk appetite of the Group, together with the design and implementation of a defined and transparent risk management framework, having regard to relevant laws and regulatory rules.

The ICAAP process is reviewed by members of senior management across the Group during the year. New risks or new business activities are updated in the ICAAP process as part of the ICAAP risk review.

The Individual Capital Adequacy Assessment Process ("ICAAP") is an integral part of the Group's risk management framework and is reviewed and updated no less frequently than annually. The ICAAP sets out the sources of risk to the firm and then rates the potential impact of each risk to the firm's business, offsetting this against the systems and controls which have been put in place to mitigate against those risks.

Reasonable steps are taken by the Group to reduce the probability of any risk crystallising. Furthermore additional capital resources, proportionate to the potential impact, are maintained for risks where the probability is not fully mitigated and which the Group does not wish to bear.

Senior management have identified the major risks facing the Group. These include business risk (assets under management), operational risk and structural risk, as detailed immediately below. Other risks facing the Group include market risk and credit risk, which are also discussed below.

- **Business risk**

The largest business risk would take the form of a reduction in assets under management, either performance-related (defined as poor performance leading to redemptions) or market-related (defined as redemptions caused by general market movement away from equities). The appropriate response is to ensure top fund managers are retained and that performance is closely monitored with risk controls on portfolios.

- **Operational risk**

This is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. The Group seeks to mitigate all operational risks to acceptable levels. More specifically we have narrowed this further to the difficulty of retaining key individuals. The Group is comfortable with the controls in place and the residual risk.

- **Structural risk**

This is defined as the risks inherent in the group structure eg liability. Appropriate controls for this risk are, the ability to adapt to changing environment, seeking professional advice where applicable and regulatory awareness/training.

- **Market Risk**

The Group has limited exposure to market risk. It does not have a trading book and as such, market risk is limited to exposure to foreign exchange fluctuations, primarily as a result of the management fee income being denominated in EUR.

- **Credit Risk**

This is the risk that a third party will default on a financial obligation. The Group is exposed to credit risk from:

- Fund management and performance fees due from the funds which the Group manages; and
- The cash deposits which are held by authorised banks on behalf of the Group.

This risk is mitigated by procedures to collect fees promptly when due and close monitoring of banking counterparties.

The Group deems its risk exposure to be typical for a business of its size and nature.

### **Regulatory capital**

Griffin Capital Management Limited € 50,000 as it is authorised as a Portfolio Manager under section 6 of the Financial Services (Markets in Financial Instruments) Act 2006 as a Category 3 portfolio manager with an initial capital of € 50,000 or its equivalent in sterling.

Griffin Capital Management (UK) Limited is a limited licence firm and as such its capital requirements are the greater of:

- Its base capital requirement of €50,000; or
- The sum of its market and credit risk requirements; or
- Its Fixed Overheads Requirement.

The Group follows the standardised approach to market risk and the simplified standard approach to credit risk.

The Group considers that it has sufficient capital resources to more than meet the requirements under the regulations.

The main features of the Group's capital resources for regulatory purposes are:

|                                                     | <b>Griffin Capital Management Limited</b> | <b>Griffin Capital Management (UK) Limited</b> | <b>the Group</b>  |
|-----------------------------------------------------|-------------------------------------------|------------------------------------------------|-------------------|
|                                                     | <b>Gibraltar</b>                          | <b>United Kingdom</b>                          |                   |
| <b>Capital item</b>                                 | £                                         | £                                              | £                 |
| Share Capital                                       | 257,500                                   | 2,200,002                                      | 257,500           |
| Retained profits                                    | 25,234,047                                | 6,142,800                                      | 31,376,847        |
| Total Tier 1 capital less innovative Tier 1 capital | 25,491,547                                | 8,342,802                                      | 31,634,347        |
| Total Tier 2, innovative Tier 1 and Tier 3 capital  | 0                                         | 0                                              | 0                 |
| Deductions from Tier 1 and Tier 2 capital           | 0                                         | 0                                              | 0                 |
| <b>Total capital resources, net of deductions</b>   | <b>25,491,547</b>                         | <b>8,342,802</b>                               | <b>31,634,347</b> |
|                                                     |                                           |                                                |                   |
|                                                     |                                           |                                                |                   |