

**Griffin Capital  
Pillar 3 Group Disclosure  
2011**

Griffin Capital Management Limited &  
Griffin Capital Management (UK) Limited &  
Griffin Capital Management AG [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.

**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 Limited is Investment Manager to Griffin Umbrella Fund plc (UCITS, Ireland).

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 Financial Services Authority for capital purposes. It has no trading book exposures. 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. Griffin Capital Management (UK) Limited is Investment Adviser to Griffin Capital Management Limited.

Griffin Capital Management AG is a Zurich-based firm, incorporated in December 2009. The firm is currently not regulated. In addition, the company established a branch in Frankfurt am Main, Germany for a Sales Manager to conduct sales activities to the German-speaking market, one of the core investor bases for the Group.

The Group (excluding Griffin Capital Management AG) 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 those risks.

Senior management have identified the major risks facing the Group. 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.

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 Overhead Requirement.

The Group calculated credit risk using the "Standardised Approach", market risk covers equities using the "Standardised Approach" and operational risk is calculated using the "Basic Indicator Approach".

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 as at 31 December 2010 are:

	<b>The Group</b> (comprising Griffin Capital Management Limited & Griffin Capital Management (UK) Limited)
<b>Capital item</b>	£'000
Total Tier 1 capital less innovative Tier 1 capital	21,849
Total Tier 2, innovative Tier 1 and Tier 3 capital	0
Deductions from Tier 1 and Tier 2 capital	0
<b>Total capital resources, net of deductions as at 31.12.2009</b>	<b>21,849</b>

The Group's regulatory requirement is £4,508,753 at 31.12.2010, as such, the Group's capital exceeds its requirement by 385%.

#### **Remuneration disclosure: Griffin Capital Management (UK) Limited**

With the implementation of FSA's Remuneration Code (SYSC 19A of the FSA Handbook), Griffin Capital Management (UK) Limited ("GCMUK") has undertaken the following work:

- Reviewed the Remuneration Code, assessed which Tier the Company is in (Tier 4).
- Implemented the Remuneration Policy Statement (RPS) to ensure compliance with the Code.
- Assessed all employees at the Firm to determine Code Staff.
- Ensured that Code Staff are aware of their status under the Remuneration Code.
- Assessed that GCMUK's remuneration policy is consistent with and promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the credit institution.
- Reviewed and approved the RPS and Remuneration Policy Memo in a Board meeting.

The Company has taken the view that the GCMUK's total variable remuneration does not limit its ability to maintain a strong capital base.

Given the nature and small size of the business, remuneration for all employees is set by the Board of Griffin Capital Management (UK) Limited. The Firm's sole business is fund management therefore all remuneration disclosed in our audited financial statements is from this business area. The Firm has defined Code Staff to be the members of the Board of Griffin Capital Management (UK) Limited; as such the remuneration of the Board is already disclosed in the audited financial statements of the Firm. Having determined that it is a Tier 4 firm, GCMUK has consequently applied proportionality to various provisions of the FSA's Remuneration Code, where permitted.

Please note that this document reflects the situation of the Group as at 2 December 2011 and is subject to change.