

PILLAR 3, STEWARDSHIP CODE AND REMUNERATION DISCLOSURE

The Capital Requirements Directive ('CRD') and Alternative Investment Fund Management Directive ('AIFMD') of the European Union establish 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 CRD and AIFMD have been implemented by the Financial Conduct Authority ('FCA') in its regulations through the General Prudential Sourcebook ('GENPRU'), the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU'), The Interim Prudential Sourcebook for Investment Business ("IPRU (INV)").

The CRD consists of three 'Pillars':

- Pillar 1 sets out the minimum capital amount that meets the firm's credit, market and operational risk capital requirement;
- Pillar 2 requires the firm to assess whether its capital reserves, processes, strategies and systems are adequate to meet pillar 1 requirements and further determine whether it should apply additional capital, processes, strategies or systems to cover any other risks that it may be exposed to; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position to encourage market discipline.

The AIFMD adds further capital requirements based on the Alternative Investment Fund ('AIF') assets under management and professional liability risks.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet our Pillar 3 obligations.

The Pillar 3 disclosure document has been prepared by Gladstone Capital Management LLP ('The Firm') in accordance with the requirements of BIPRU 11 and is verified by the senior management. Unless otherwise stated, all figures are as at the 30 November 2019 financial year-end.

Pillar 3 disclosures will be issued on an annual basis after the year end and published as soon as practical when the audited annual accounts are finalised.

We are permitted to omit required disclosures if we believe that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions about the firm.

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, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties.

We have made no omissions on the grounds that it is immaterial, proprietary or confidential.

Where we have chosen to omit information because it is proprietary or confidential we have explained the omission and provided our reason.

Scope and application of the requirements

The Firm is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. The Firm is categorised as a Collective Portfolio Management Investment Firm ('CPMI' Firm' by the FCA for capital purposes.

It is an agency investment management firm and as such has no trading book exposures.

The Firm is not a member of a group and so is not required to prepare consolidated reporting for prudential purposes.

Risk management

The Firm has established a risk management process in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. The risk management process is overseen by the Senior Management team who also take overall responsibility for this process and the fundamental risk appetite of the firm. The Compliance officer has responsibility for the implementation and enforcement of the Firm's risk principles.

Senior Management meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, and business planning and risk management. Senior Management engage in the Firm's risks through a framework of policy and procedures having regard to the relevant laws, standards, principles and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required.

The Senior Management team has identified that business, operational, market and credit are the main areas of risk to which the Firm is exposed. Annually the Senior Management team formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness.

A formal update on operational matters is provided to the Senior Management team on a regular basis. Management accounts demonstrate continued adequacy of the firm's regulatory capital are reviewed on a regular basis.

Appropriate action is taken where risks are identified which fall outside of the Firm's tolerance levels or where the need for remedial action is required in respect of identified weaknesses in the firm's mitigating controls.

Business Risks

Specific risks applicable to the Firm come under the headings of credit, market and liquidity risks.

Credit risk

The Firm is exposed to credit risk in respect of its investment management fees receivable and cash held on deposit.

The number of credit exposures relating to the Firm's investment management clients is limited. Management fees are drawn monthly from the funds managed and performance fees are drawn annually where applicable. The Firm considers that there is little risk of default by its clients and all bank accounts are held with large international credit institutions.

Given the nature of the Firm's exposures, no specific policy for hedging and mitigating credit risk is in place. The Firm uses the simplified standardised approach detailed in BIPRU 3.5.5 of the FCA Handbook when calculating risk weighted exposures of 1.6% (Cash in Bank) and 8% in respect of its other assets.

Credit risk summary

Credit risk exposure	Exposure	Risk weighting 1.6% or 8% subject to institution and FCA rules	Risk weighted exposure
Cash in the bank	£17,140,225	8%	£274,244
Inter-company		8%	£0
Trade Debtor	£298,275	8%	£23,862
Prepayments and Accruals	£10,405	8%	£832
Other debtors (<1 year)	£2,067,339	8%	£165,387
Other debtors (>1 year)		8%	£0
Other assets		8%	£0
Total	£19,516,244		£464,325

Market risk

The Firm takes no market risk other than foreign exchange risk in respect of its accounts receivable and cash balances held in currencies other than GBP.

No specific strategies are adopted in order to mitigate the risk of currency fluctuations.

Losses arising on foreign exchange movements are monitored on a regular basis and reported to senior management via the monthly management accounts.

The Firm calculates its foreign exchange risk by reference to the rules in BIPRU 7.5.1 of the FCA Handbook and applies an 8% risk factor to its foreign exchange exposure.

Market risk summary

Market risk exposure	Risk weighting	Risk weighted exposure
Foreign currency assets and liabilities	8%	£293,329

Liquidity risk

The Firm is required to maintain sufficient liquidity to ensure that there is no significant risk that its liabilities cannot be met as they fall due or to ensure that it can secure additional financial resources in the event of a stress scenario.

The Firm retains an amount it considers suitable for providing sufficient liquidity to meet the working capital requirements under normal business conditions. The firm has always had sufficient liquidity within the business to meet its obligations and there are no perceived threats to this given the cash deposits it holds. Additionally, it has historically been the case that all management fee debtors are settled promptly, thus ensuring further liquidity resources are available to the firm on a timely basis. The cash position of the firm is monitored on a regular basis.

Regulatory capital

The Firm is a Limited Liability Partnership and its capital arrangements are established in its Partnership deed. Its capital is summarised as follows:

The main features of the Firm's capital resources for regulatory purposes are as follows:

	30 November 2019
	£
Tier 1 capital*	975,000
Tier 2 capital	0

Tier 3 capital	0
Deductions from Tiers 1 and 2	0
Total capital resources	975,000
*No hybrid tier one capital is held	

Our Firm is small with a simple operational infrastructure. Its market risk is limited to foreign exchange risk on its accounts receivable in foreign currency, and credit risk from management and performance fees receivable from the funds under its management. The Firm follows the standardised approach to market risk and the simplified standard approach to credit risk.

BIPRU - The Firm is subject to the Fixed Overhead Requirement and is not required to calculate an operational risk capital charge though it considers this as part of its process to identify the level of risk based capital required.

As discussed above the firm is a CPMI Firm and as such its capital requirements are the higher of:

- €125,000 + 0.02% of AIF AUM > €250m; and
- The sum of the market & credit risk requirements; or
- The fixed overheads requirement ('FOR') which is essentially 25% of the firm's operating expenses less certain variable costs.

AIF AUM 0.02% is taken on the absolute value of all assets of all funds managed by the firm (for which it is the appointed AIFM and / or UCITS operator) in excess of €250m, including assets acquired through the use of leverage, whereby derivative instruments shall be valued at their market value, including funds where it the firm has delegated the management function but excluding funds that it is managing as a delegate. The FOR is calculated, in accordance with FCA rules, based on the firm's previous years audited expenditure. The firm has adopted the [simplified] standardised approach to credit and market risk and the above figures have been produced on that basis. The firm is not subject to an operational risk requirement.

Capital requirement

As at the 30 November 2019, the Fixed Overhead Requirement exceeded the capital requirements for Market Risk and Credit Risk. The Fixed Overhead Requirement was calculated as being £811,000.

Gladstone's overall approach to assessing the adequacy of its internal capital is documented in the Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP process includes an assessment of all material risks faced by Gladstone and the controls in place to identify, manage and mitigate these risks. The risks identified are stress-tested against various scenarios to determine the level of capital that needs to be held. Where risks can be mitigated by capital, the Firm has adopted CRD reporting requirements for Pillar 1. If the Firm considers that the Pillar 1 calculations do not adequately reflect

the risk, additional capital would be added on in Pillar 2. As a result of the latest ICAAP, no additional amount has been added to the firm's capital resources requirements.

As at the 30 November 2019, the firm's capital resources exceeded its capital resources requirement.

UK Financial Reporting Council's Stewardship Code for Firms managing investments

FCA COBS Rule 2.2.3R requires FCA authorised firms to disclose whether they conform to the requirements of the UK Financial Reporting Council's Stewardship Code (the 'Code'). Adherence to the Code is voluntary. Therefore, while the Firm supports the principles of the Code, it does not consider it appropriate to conform to the Code at this time.

If the Firm investment strategy changes in such a manner that the provisions of the Code become relevant, the Firm will amend this disclosure accordingly.

Remuneration disclosure

The Firm is authorised and regulated by the Financial Conduct Authority as a Collective Portfolio Management Investment ('CPMI') Firm and, so, it is subject to FCA Rules on remuneration. These are contained in the FCA's Remuneration Codes located in the SYSC Sourcebook of the FCA's Handbook.

CPMI Firms are required make a remuneration disclosure in respect of the whole of their business, i.e. MIFID and AIFMD. The specific requirements of the AIFMD remuneration disclosure are set out in the Annual Report of the AIF(s).

The Remuneration Code ('the RemCode') cover(s) an individual's total remuneration, fixed and variable. The Firm incentivises staff through a combination of the two.

The Firm's business is to provide portfolio management services and manage an alternative investment fund.

Our policy is designed to ensure that we comply with the RemCode and our compensation arrangements:

1. are consistent with and promotes sound and effective risk management;
2. do not encourage excessive risk taking;
3. include measures to avoid conflicts of interest; and
4. are in line with the Firm's business strategy, objectives, values and long-term interests.

Proportionality

Enshrined in the European remuneration provisions is the principle of proportionality. The FCA has sought to apply proportionality in the first instance by instituting two tests. Firstly, a firm that is significant in terms of its size must disclose quantitative information referred to in BIPRU 11.5.18R at the level of senior personnel. Secondly, that a firm must make disclosure that is appropriate to the size, internal organisation and the nature, scope and complexity of their activities.

The firm is not 'significant' (that is to say has relevant total assets <£50bn*) and so makes this disclosure in accordance with the second test (BIPRU 11.5.20R(2)).

* average total assets on the last three accounting dates.

Application of the requirements

We are required to disclose certain information on at least an annual basis regarding our Remuneration policy and practices for those staff whose professional activities have a material impact on the risk profile of the firm. Our disclosure is made in accordance with our size, internal organisation and the nature, scope and complexity of our activities. The Firm's full Remuneration Policy is available at the request of investors.

1. Summary of information on the decision-making process used for determining the firm's remuneration policy including use of external benchmarking consultants where relevant.

- The Firm's policy has been agreed by the Senior Management in line with the Remuneration principles laid down by the FCA.
- Due to the size, nature and complexity of the Firm, we are not required to appoint an independent remuneration committee.
- The Firm's policy will be reviewed as part of annual process and procedures, or following a significant change to the business requiring an update to its internal capital adequacy assessment.
- The Firm's ability to pay bonus is based on the performance of Firm overall and derived after its fund's managed returns have been calculated by client appointed third party administrators.

2. Summary of how the firm links between pay and performance (SEE REM CODE).

For operations employees the variable element will be a relatively smaller ratio than investment employees. The Firm's policy is to ensure that the total remuneration paid to employees is competitive relative to market levels.

All senior staff are generally Partners and their remuneration is linked to the overall performance of the firm as well as their individual performance. Partners usually receive an advanced draw which in terms of the SYSC19B requirements is considered Fixed. The Firm's policy is to ensure that the fixed portion represents an adequate basic monthly remuneration for the Partners and it is recognised that the variable compensation element for Partners can be the same or higher than the fixed element. Some Partners may also receive an additional profit share which is not considered as Variable.

The Firm's Remuneration Policy is set out in the document "Remuneration Policy for the Performance Year from 1 December 2018 to 30 November 2019" which was updated in November 2018. The Remuneration policy was established in accordance with the AIFMD requirements. It is envisaged that this policy will remain unchanged for 2020.

Partnership profits allocated to members of the LLP are normally disclosed in aggregate in the report and accounts.

The Firm may omit required disclosures where we believe that the information could be regarded as prejudicial to the UK or other national transposition of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data.

The Firm have made no omissions on the grounds of data protection.