SEVEN PILLARS
CAPITAL MANAGEMENT LLP

PILLAR 3 DISCLOSURE REPORT

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1 Introduction

Seven Pillars Capital Management LLP ("Seven Pillars") was incorporated as a limited liability partnership in England and Wales on 9 July 2008 and is authorised and regulated by the Financial Conduct Authority (the "FCA"). Seven Pillars acts as an investment manager to two unregulated collective investment schemes, namely the Seven Pillars Fund Ltd and The Seven Pillars Credit Opportunities Fund SPC ("the Funds"). Both of these Funds are Alternative Investment Funds ("AIF's").

Seven Pillars, as an authorised AIFM which is an external manager of one or more AIFs, is required to have initial capital of (i) €125,000 plus (ii) 0.02% of the value of the portfolios of the AIFs it manages in excess of €250 million, subject to a cap of €10 million. The Firm has never managed as much as €250 million at any time since being subject to AIFMD rules. It has no trading book exposures. It reports on an entity rather than consolidated basis because its corporate partner (to which it is a "subsidiary" under the definition of UK company law) undertakes no regulatory or trading activities other than to provide certain administrative services to Seven Pillars.

Pillar 3 disclosure fulfils Seven Pillars' obligation to disclose to market participants key pieces of information on a firm's capital, risk exposures and risk assessment processes.

2 Disclosure Policy

The Pillar 3 rules in BIPRU 11 set out the need for firms to have a formal disclosure policy. In accordance with the rules of the FCA, Seven Pillars will disclose the information set out in BIPRU 11 ("the Pillar 3 rule") on at least an annual basis. The Pillar 3 disclosure will be made in annual financial statements or on any website which from time to time it may operate.

Seven Pillars may omit information it deems immaterial. Materiality is based on the criterion that omission or misstatement would be likely to change or influence the decision of a person relying on that information. Accordingly where Seven Pillars has considered an item to be immaterial it has not been disclosed.

In addition, if the required information is deemed to be proprietary or confidential then Seven Pillars may take the decision to exclude it from the disclosure. Seven Pillars defines proprietary information as that which, if shared, would undermine its competitive position. It defines information as confidential where there are obligations binding it to confidentiality with customers, suppliers or counterparties.

If information is omitted for either of these reasons this is clearly stated in the relevant section of the disclosure.

3 Capital Resources

The FCA's current prudential regime can be split into 3 Pillars as follows:

- Pillar 1 – this prescribes the minimum capital requirements that authorised firms need to hold. For an AIFM this is the highest of;

    a) Euro 125,000 (plus increments based on AUM which do not apply to the Firm)
    b) The sum of its market and credit risk requirements, and
    c) Its Fixed Overhead Requirement ("FOR")

- Pillar 2 – requires firms to analyse the risks to the business and then consider whether the risks are mitigated to an appropriate standard. This is part of the Internal Capital Adequacy Assessment Process ("ICAAP"). If Seven Pillars feels that the risks are not adequately mitigated then it will allocate additional capital to cover those risks. An assessment is made of the probability of occurrence and the potential impact in order to arrive at a level of required capital. Seven Pillars stress tests future impact by considering a forecast for the 3 years ending 31 March 2019, its breakeven point in terms of AUM and related fee rates, the estimated impact of the loss of its Managing Partner and the implications of an orderly close down in a worst case scenario. Seven Pillars' ICAAP is formally updated by the COO/Compliance Officer every 12 months, but will be revised should there be any material changes to the business or risk profile in the interim. The conclusions from the ICAAP are that no additional capital is required as a result of the analysis.

- Pillar 3 – requires firms to develop a set of disclosures which allow market participants to assess key information about firms' risks, controls and capital position.

Seven Pillars Capital Resources Requirement is normally be determined by reference to its FOR, adjusted to include the excess stipulated under its professional indemnity policy, but changes to business and operations are monitored to ensure this is the case.

Its capital arrangements are contained in its Partnership Deed and stipulate that priority is given to maintaining sufficient cash and reserves such that its regulatory capital base is not compromised. Its capital position following an unqualified audit report for the period ended 31 March 2016 is summarised as follows:

Component	**£'000**
Current total capital (Tier 1)	393
Fixed overhead requirement	345
Professional Indemnity Insurance requirement	20
Total capital requirement	365
Surplus	28
Solvency ratio	107.67%

4 Risk Management

Due to the size, nature and lack of complexity of the business, there is no independent risk management function. The partners and senior management determine its business strategy and the risk appetite. They have designed and implemented a risk management framework that recognizes the risks that the business faces.

The partners also determine how those risks may be mitigated and assess on an ongoing basis the controls and procedures necessary to manage those risks. The Managing Partner and senior management liaise on a regular basis and discuss projections for profitability, liquidity, regulatory capital, business planning and risk management.

Seven Pillars has considered key risks in the following categories:

- Business risk – the risk of events such as poor performance, pricing pressures or loss of key personnel which would reduce the net cash flow generated by Seven Pillars and hinder its ability to finance its operations and meet its expenses.

- Operational risk – the risk of trading errors due to a breach of the Funds' investment objectives or established procedures. Legal and reputational risks are also included within this category.

- Credit risk – the exposure of Seven Pillars or the Fund to any counterparty for non-payment of fees, or recovery of assets.

- Market risk - the exposure to external market forces which could impact on Seven Pillars financial resources, such as economic or political events, interest rates and FX rates.

Seven Pillars applies a standardised approach to credit and market risk, applying 8% to Seven Pillars risk weighted exposure amounts, consisting mainly of investment management fees due but not paid, and foreign currency bank balances. Having performed the ICAAP it is Seven Pillars' opinion that no additional capital is required in excess of its Pillar 1 capital requirement.