

PILLAR 3 DISCLOSURE

INTRODUCTION

The Capital Requirements Directive (“CRD”) and the Alternative Investment Fund Managers Directive (“AIFMD”), established a revised regulatory capital framework across Europe in order to implement the Basel capital adequacy framework. The framework governs the minimum amount and nature of regulatory capital that must be maintained by investment firms.

The framework is made up of 3 pillars:

- Pillar 1 – sets out the minimum capital adequacy requirements that firms are required to meet for credit, market and operational risk;
- Pillar 2 – requires firms to implement an Internal Capital Adequacy Assessment Process (“ICAAP”) and to use their ICAAP to assess whether additional capital should be held against risks not covered by Pillar 1; and
- Pillar 3 – requires firms to disclose key information about firms’ underlying risks, risk management controls and capital position.

Arcus Infrastructure Partners LLP has established Arcus European Investment Manager (“AEIM”) for the purposes of managing all Arcus funds and managed accounts. AEIM is authorised and regulated by the Financial Conduct Authority (“FCA”) (FRN 406551). The FCA implemented the CRD and AIFMD into the General Prudential Sourcebook (“GENPRU”), the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”) and the Interim Prudential Sourcebook for Investment Business.

As AEIM is a Collective Portfolio Management Investment (“CPMI”) firm and a full scope UK Alternative Investment Fund Manager it is subject to GENPRU and BIPRU in the FCA Handbook.

PURPOSE

The purpose of this document is to fulfil AEIM’s disclosure obligations as required by BIPRU 11 and explain the risk profile of AEIM. This statement is produced solely for the purposes of fulfilling AEIM’s regulatory obligations and does not constitute any form of audited financial statement.

This statement will be reviewed, at a minimum, on an annual basis and is approved by Arcus’ management committee. Arcus believes an annual disclosure is adequate when considering the nature, size and complexity of its business.

Disclosure regarding remuneration can be found in our annual report.

RISK MANAGEMENT OBJECTIVES AND POLICIES

Arcus’ risk management framework is designed to document the process for identifying, assessing, managing and monitoring risks faced by AEIM in its capacity as manager of the Arcus funds and managed accounts. It is deemed appropriate for the nature, scale and complexity of its business.

The aims and objectives with respect to risk management at Arcus are as follows:

- to determine the level and capacity of acceptable risk for Arcus and for each Investors based upon the relevant investment strategy being pursued;
- to understand, proactively identify and manage risks for both Arcus and for each investor in its funds and managed accounts in a balanced way by taking appropriate actions to maximise opportunities and to minimise the likelihood of risks occurring and/or reducing the impact of consequences should risks occur;
- to provide safeguards against conflicts of interest; and
- to provide information as to the effectiveness of the arrangements for risk management to the appropriate board or committee and as a contribution towards the annual report to respective investors.

The responsibility for day-to-day risk management has been delegated to the head of risk, who reports to the co-managing partners. However ultimate responsibility lies with senior management, please see below:

THE ARCUS MANAGEMENT COMMITTEE

- determines and sets acceptable risk appetite for the funds and managed accounts; and
- monitors risk management process and findings for the funds and managed accounts.

THE ARCUS INVESTMENT COMMITTEE:

- implements and manages the funds' and managed accounts' risk management process;
- monitors asset level risk and provides guidance to asset managers; and
- reports key findings/issues from asset level, funds' / managed accounts' risk management process to the Management Committee as appropriate.

MATERIAL RISKS

The levels of acceptable risk are agreed with investors in the governing agreement for the relevant fund or managed account. Given the infrequency of transactions undertaken and the nature of the assets held by the funds and managed accounts, Arcus does not consider it prudent or useful to set limits and manage a portfolio by utilising standardised models.

In relation to the funds, the relevant governing agreement provides maximum concentration risk for investment size, geographic location, stage of development, currency exposure and asset class.

The following are seen as material risks:

- market risks;
- credit risks;
- liquidity risks;
- counterparty risks; and
- operational risks.

MARKET RISK

Investments are only made in mature European infrastructure assets with long-term stable cash flows. Arcus does not generally invest in listed assets. Arcus hedges interest rate and foreign exchange exposures and has a well established treasury policy which governs this.

CREDIT RISK

A thorough investment process with detailed due diligence is implemented, including sensitivity analysis on cash flows, interest rates and other value drivers.

Limitations on borrowings are agreed with investors in the relevant governing agreement.

LIQUIDITY RISKS

Minimum time frames for capital calls are agreed with investors to limit the potential for delayed funding.

The funds and managed accounts typically hold investments for a long term period.

COUNTERPARTY RISKS

Arcus deposits cash with investment grade institutions and uses diversification of cash balances with upper limits.

OPERATIONAL RISKS

A detailed governance process is in place and documented in a Corporate Governance Manual and further guidelines on investment process and asset management are set out in an Operations Manual.

CAPITAL RESOURCES

AEIM's capital resources are made up of Tier 1 capital only. The firm's position as at 30 June 2017 is shown below:

	EUR '000
Tier 1 capital:	
Partnership capital	1,500
Audited retained earnings	628
Total Tier 1 capital before deductions	2,128
Deductions from Tier 1 capital (Intangible assets)	(89)
Total Tier 1 capital after deductions	2,039
Tier 2 capital	-
Total Tier 1 and Tier 2 capital after deductions	2,039
Deductions from Tier 1 plus Tier 2 capital (material holdings)	-
Total Tier 1 plus Tier 2 capital after deductions	2,039

As AEIM is categorised as a CPMI and a BIPRU 125K firm, the required regulatory capital is determined under AIFMD as the higher of 0.025% of Alternative Investment Funds under management + €125,000 or 3 months operating expenses, plus the professional indemnity insurance ("PII") shortfall.

	EUR '000
Relevant fixed expenditure	7,884
Fixed Overheads Requirement	1,971
PII excess	50
Capital Resources Requirement	2,021

The required capital for AEIM is €2,021K, it is currently holding €2,099K which reflects a €60K increase from June 2017.

ICAAP

Arcus has an ICAAP which is reviewed annually and updated as necessary to reflect investments and market events. Arcus use its ICAAP to determine whether it needs any additional capital by reviewing specific risks to its business, the likelihood of them happening, the impact should they happen and the mitigants it has in place. Arcus does not think it needs to hold any additional regulatory capital, however it feels it is prudent to retain a buffer, hence holding more than is required as detailed in 'capital resources'.

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Arcus European Investment Manager LLP
6 St Andrew Street
London EC4A 3AE

www.arcusip.com