

ACUITY CAPITAL MANAGEMENT LIMITED
(“Acuity Capital”)

Pillar 3 Disclosures

Financial Disclosure and Risk

Risk Management

Acuity Capital’s objective with regard to risks and risk management is to meet the FSA’s Rules relating to governance arrangements, risk assessment, risk management and internal controls.

In arriving at its judgement of what constitutes a sound system of risk management and internal control, the Board will consider the following factors:

- The nature and extent of risks which it regards as acceptable for Acuity Capital to bear within its overall objective set out above;
- The threat of such risks becoming a reality
- Acuity Capital’s ability to reduce the incidence of such risk and impact on its performance; and
- The costs and benefits to Acuity Capital of operating the relevant controls

The Board of Acuity Capital has an ongoing process for identifying, evaluating and managing the significant risks faced by the Acuity Capital which is reviewed at regular intervals by the Board.

The Board of Acuity Capital is responsible for the company’s system of internal control and has regularly reviews its effectiveness. The system of internal control is 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.

The major risks facing Acuity Capital include macroeconomic risk, investment risk and regulatory risk as detailed immediately below. Other risks facing Acuity Capital include Credit Risk, and Interest Rate Risk which are discussed further below.

Macroeconomic Risk

The underlying performance of Acuity Capital’s is ultimately dependant on the performance of its clients investment portfolios. In turn our clients’ investment performance is influenced by economic growth, interest rates and government fiscal policy. Acuity Capital reduces these risks through having a wide spread of investments and by its experience and abilities in the markets where it operates.

Investment Risk

Acuity Capital operates in a very competitive market. Changes in the number of market participants, the availability of funds in the market, or in the ability to access deals on a proprietary basis could have a significant effect on Acuity Capital's competitive position. The performance of Acuity Capital client's investment portfolios is also significantly dependent on the quality of the initial investment decision made by Acuity Capital and the ability of the portfolio company to execute successfully its business strategy. A rigorous process is implemented by Acuity Capital prior to making its investment decisions to mitigate these risks.

Regulatory Risk

Acuity Capital is an authorised person under the Financial Services and Markets Act 2000 and is regulated by the FSA. Changes to the regulatory framework under which Acuity Capital operates are closely monitored. There are also appropriate processes and procedures in place, including a compliance function, whose remit is to minimise the risk of a breach of applicable regulations which could affect Acuity Capital's compliance costs, its business, results of operations or financial position.

Capital structure

The capital structure of Acuity Capital consists of shareholders equity. Capital is managed so as to maximise the return to shareholders while maintaining a capital base to allow Acuity Capital to operate effectively in the marketplace and sustain future development of the business.

Acuity Capital's regulated capital requirement is reviewed regularly by the Board of Acuity Capital. The last submission to the FSA demonstrated a significant capital surplus in excess of the FSA's prudential rules. Since 1 January 2009, Acuity Capital's capital requirement has been amended following approval of Acuity Capital's Internal Capital Adequacy Assessment Process (ICAAP) report by the Board of Acuity Capital which demonstrates that Acuity Capital maintains a significant capital surplus.

Acuity Capital's Capital Resources on a Consolidated and Solo basis are as shown below:

Solo Basis

	As at 30 September 2009	As at 30 September 2008
Tier 1 Capital Resources	£398,463	£397,278

Consolidated Basis	As at 30 September 2009	As at 30 September 2008
Tier 1 Capital Resources	£84,085	£87,925
Tier 2 and Tier 3	£252,256	£263,776
Total Capital Resources	£336,341	£351,701

Credit Risk

Acuity Capital is subject to credit risk on its loans, receivables, cash and deposits. Acuity Capital loans and receivables are either to its associated firms or clients and the credit risk on these is controlled by having processes and procedures including regular review by its Directors and finance personnel to ensure these are kept to a level appropriate to Acuity Capital's business requirements.

Acuity Capital's cash and deposits are held mainly in the form of deposits. The credit risk on these deposits is controlled by ensuring that they are held with a major UK bank with a high credit rating.

For those assets that are not past due it is believed that the risk of default is small and that payments will be made in accordance with the terms and conditions of Acuity Capital's arrangements with the organisation involved. Where a company owing money to Acuity Capital has failed or is expected to fail in the next 12 months, Acuity Capital's policy is to record a provision for the full amount of its exposure. Partial provisions are made when a payment is past due more than 90 days which implies non-recovery of all or part of Acuity Capital's exposure. In these cases the level of provision is determined by the Board of Acuity Capital. Acuity Capital has not had any reason to make a full or partial provision for this current year relating to its exposures.

Acuity Capital uses the standardised approach to calculate credit risk and calculates 8% of the risk weighted exposure amounts (using the simplified method of calculating risk weights) for the standardised credit risk exposure classes.

Interest Rate Risk

Acuity Capital does have a risk exposure to interest rate risk as it derives a small proportion of its income from interest receivable on cash deposits. However Acuity Capital neither has investments in fixed interest rate securities nor does it finance its activities through borrowings.

As the interest receivable on cash deposits is such a small proportion of Acuity Capital's total income (less than 5%), it is considered that any conceivable change in interest rates will only have a negligible impact on Acuity Capital's income and therefore it is not appropriate for Acuity Capital to carry out sensitivity analysis of these possible impacts.

January 25, 2010