CAMBRIDGE ASSOCIATES LIMITED

Pillar 3 (BIPRU 11) Disclosures for 31st December 2015

Introduction and Regulatory Context

The Capital Requirements Directive ('the Directive') of the European Union established 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 Directive has been implemented by the regulatory capital rules[1] of the Financial Conduct Authority ('FCA').

The FCA framework consists of three 'Pillars':

- Pillar 1 sets out the minimum capital amount that meets the Company's credit, market and operational risk;
- Pillar 2 requires the Company to assess whether its Pillar 1 capital is adequate to meet its risks and is subject to annual review by the FCA; and
- Pillar 3 requires the Company to disclose specific information about the underlying risk management controls and capital position.

The FCA rules allow the Company to omit certain disclosures if the Company believes that the information is immaterial or where the Company believes that the information is proprietary or confidential.[2] The Company has made no omissions on the grounds that the disclosures are immaterial, proprietary or confidential.

The Company is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. The Company is categorised as a BIPRU 50k Limited Licence Firm for regulatory purposes. This annual disclosure has been prepared by the Company in accordance with BIPRU 11 and summarizes the material disclosures the Company is required to make under Pillar 3 of the Directive.

Pillar 3 Disclosure Policy

The Company will be making Pillar 3 disclosures annually. The disclosures will be as at the Accounting Reference Date ("ARD") and will be published on the Company website.

Risk management objectives and policies

The business strategy and risk appetite of the Company are determined by the directors. The directors determine how the risks the business faces may be mitigated and assess on an ongoing basis the arrangements to manage those risks. The directors meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, and business planning and risk management. The directors manage the Company's risks and business through a framework of policy and procedures having regard to relevant laws, standards, principles and rules (including FCA principles and rules). These policies and procedures are updated as required.

The directors have identified that business, operational, market and credit risks are the main areas of risk to which the Company is exposed. Annually, the directors formally review these risk exposures to assess the appropriateness of controls and other risk mitigation measures in place. Where the directors identify material risks, they consider the financial impact of these risks as part of the Company's business planning and capital management and conclude whether the amount of regulatory capital is adequate.

Pillar 1 - Capital Resource Requirements

As a BIPRU 50k Limited Licence firm, the Company's Pillar 1 capital requirements are the greater of:

- Base capital requirement of €50,000; or
- The sum of its credit and market risks requirements; or
- Fixed Overhead Requirement

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[1] The FCA's "Prudential Sourcebook for Banks, Building Societies and Investment Firms" (BIPRU)

[2] Materiality is based on the criterion that the omission or misstatement of any information would be likely to change or influence the decision of a potential client relying on that information.

Since the Fixed Overhead Requirement is greater than both the Company's base capital requirement and also the total of its credit and market risks, the Fixed Overhead Requirement determines the Company's regulatory capital requirement. The cumulative total of sums held by the Company will be maintained at a level greater than or equal to the Total Reserve requirement (or equivalent to the Fixed Overhead Requirement) at all times.

The Company's capital resources as at 31st December 2015 are detailed in the table below.

	£000
Tier 1 capital resources	£ 4,582
Tier 2 capital resources	-
Tier 3	-
Total capital resources	4,582
Total variable capital requirement	4,007
Capital surplus	£ 575

Pillar 2 – Assessment of Pillar 1 Capital

The Company has assessed the adequacy of capital and liquidity resources based on all risks to which the Company is exposed in the course of its Internal Capital Adequacy Assessment Process (ICAAP). The risk review includes an assessment of risks and the controls in place to mitigate such risks. The directors have determined that the risks are acceptable, and that there are sufficient mitigating controls in place.

Operational risk: Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes and IT systems, employee errors, or from external events, including legal risk. The Company seeks to minimize operational risk via internal controls and the Cambridge Associates group's professional indemnity insurance coverage.

Credit risk: The Company manages credit risk with regards to uncollectible receivables by recording an allowance for doubtful accounts which reflects management's best estimate of probable losses. The Company has no history of bad debts. The allowance for doubtful accounts is based on known troubled accounts, historical experience, and other currently available evidence. The Company is exposed to foreign currency exchange gains/losses since it conducts certain transactions that are denominated in a currency other than its functional currency.

Business risk: Principal risks are the loss of clients or a significant fall in the value of the assets of those clients who pay an asset-based fee, thereby resulting in significant falls in the fee turnover of the Company. Various scenarios are modeled to assess the impact of adverse economic conditions on the Company's financial position.

Market risk: Since the Company holds no trading book positions on its balance sheet, the main market risk it potentially faces relates to fluctuations in the value of its revenues, cash balances and vendor payments due to movements in currency rates, since certain of its accounts are denominated in currencies other than sterling. When considering market risk, the Company has included 8% of all foreign currency denominated accounts in its market risk component.

The Company maintains sufficient capital and liquidity to support its business through different market conditions and business cycles. The amount of required liquidity and adequacy of capital is assessed based on assumptions of stressed business conditions, including loss of clients, a reduced level of assets under advisement and management and economic downturns as well as the probable cost to wind down the business. The directors have also considered whether there are any contracts which are essential to the continuation of the business and have concluded that there are none. Based on the above, the directors have determined that the Company has adequate capital to withstand unexpected losses arising from these risks and no additional allocation of capital is necessary.

Remuneration Policy & Structure

The directors have determined that the Company's Remuneration Structures are consistent with and promote sound and effective risk management and do not pose a risk to the Company.

Pillar 3 - Remuneration Disclosure and Policy

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. Pillar 3 mandates the disclosure of specific information about the underlying risk management controls in place and the Company's capital position. The Company believes that the information provided with respect to Pillars 1 and 2 above meets the disclosure requirements of Pillar 3. The Company makes Remuneration Code Pillar 3 disclosures annually as at the ARD and these are published on our website. The first such disclosure was published in December 2011.