



Capital Requirements Directive: Pillar 3 Disclosures

30 September 2010

Table of Contents

1. Overview	1
1.1 Introduction	1
1.2 Frequency of disclosure	1
1.3 Location and verification.....	1
1.4 Scope of application.....	1
2. Risk Management Framework	2
2.1 Objectives.....	2
2.2 Approach to risk management	2
2.2.1 Risk identification.....	2
2.2.2 Risk measurement and management	2
2.2.3 Risk monitoring	2
2.3 Types of risk	3
2.3.1 Operational risk.....	3
2.3.2 Market risk	3
2.3.3 Credit risk	3
2.4 Risk assessment and identification	3
2.5 Risk mitigation.....	3
2.6 Risk monitoring and reporting	3
3. Capital Resources.....	4
3.1 Compliance with rules in BIPRU and Pillar 2 rule requirement	4
3.2 Capital Adequacy	5
4. Further Enquiries	5

1. Overview

1.1 Introduction

The EU Capital Requirements Directive (CRD) came into effect on 1 January 2007 and created a revised regulatory capital framework across Europe based on the provisions of the Basel II Capital Accord. Basel II is an international initiative aimed at implementing a more risk sensitive framework for the calculation of regulatory capital and is organised around three “pillars” which the Basel committee considers to be complementary:

- Pillar 1: Minimum capital requirements;
- Pillar 2: Supervisory review; and
- Pillar 3: Market discipline.

Pillar 3 aims to facilitate market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm’s capital, risk exposures and risk assessment process. The disclosures contained in this document cover the qualitative and quantitative disclosures requirements of Pillar 3 and are based on data as at 30 September 2010.

1.2 Frequency of disclosure

Disclosures will be issued as a minimum on an annual basis, or more frequently if required. Disclosures will be as at the accounting reference date, which is 30 September 2010.

1.3 Location and verification

These disclosures are published on the firm’s website at www.coronation.com. These disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion in the firm’s annual report.

The Pillar 3 disclosures have been prepared in order to comply with regulatory requirements to provide information on the firm’s risk management objectives and policies, its capital position, its approach to assessing the adequacy of its capital and its exposure to credit, market and operation risk. They do not constitute financial statements of the firm and should not be relied on in making investment decisions in relation to the firm.

1.4 Scope of application

In the United Kingdom, the Financial Services Authority (FSA) has introduced Pillar 3 by duplicating the CRD articles and annexes to create Chapter 11 – Disclosure (Pillar 3) of the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU).

In this document, we disclose information in accordance with the following BIPRU 11.5 Rules unless it has been determined as immaterial or of a proprietary or confidential nature:

- BIPRU 11.5.1R on our risk management objectives and policies;
- BIPRU 11.5.2.R on the scope of application of the directive requirements;
- BIPRU 11.5.3R on our capital resources;
- BIPRU 11.5.4R on our compliance with the rules of BIPRU and on Pillar 2 requirements;
- BIPRU 11.5.8R on exposure to credit risk;

- BIPRU 11.5.12R on market risk; and
- BIPRU 11.5.14R on exposure to operational risk.

The disclosures are prepared on an individual basis i.e. the firm is not part of a UK consolidation group.

2. Risk Management Framework

2.1 Objectives

Coronation believes that active and effective risk management is a business imperative and it is regarded as a core competence by clients, consultants, regulators, counterparties, and other interested parties.

Risk management is the process of identifying the principal risks to the firm achieving its strategic objectives, establishing appropriate controls to manage risks and ensuring that appropriate monitoring and reporting systems are in place to ensure that controls remain robust and evolve with the changing risk profile of the firm.

2.2 Approach to risk management

The firm is committed to developing and applying best market practice in all of its risk activities. The highest standards of risk identification, risk management and risk monitoring are important components to the success, reputation and continuing strength of the Coronation Fund Managers group. In order to implement the group's overall risk philosophy, the firm has developed a risk framework based on the following 3 standards:

2.2.1 Risk identification

- Proper identification and understanding of various risks at different business levels
- Clear definition and acknowledgement of responsibilities

2.2.2 Risk measurement and management

- Development of risk management procedures
- Timely and consistent measurement of risk taking into account the limitations of quantitative measures

2.2.3 Risk monitoring

- Compliance and oversight of the risk management function
- Independent reviews of risk policies

Underpinning the firm's philosophy is the principle of individual responsibility and accountability across the firm, supported by guidance and training as required and subject to independent review and oversight.

2.3 Types of risk

2.3.1 Operational risk

Operational risk is the risk of material loss or other adverse impact resulting in inadequate internal processes, people or systems or from external events and is inherent in our business.

2.3.2 Market risk

Market risk is analysed as market priced risk, interest rate risk and currency risk.

Market risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market prices other than due to currency or interest rate risk.

Interest rate risk consists of cash flow interest rate risk (the risk that future cash flows of a financial instrument will vary due to changes in market interest rates) and fair value interest rate risk (the risk that the value of a financial instrument will vary due to changes in market interest rates).

Currency risk is the risk that the value of assets and liabilities denominated in a foreign currency will fluctuate due to adverse movements in exchange rates.

2.3.3 Credit risk

This is the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion.

2.3.4 Liquidity risk

Liquidity risk is the risk that a financial entity won't be able to meet its liabilities as they fall due.

2.4 Risk assessment and identification

Change in every aspect of the business and the external environment the firm operates within, are key drivers of risk. Change may impact the potential occurrence or potential magnitude of events relating to existing risks or may result in new or emerging risks. Different approaches may be used for the assessment of risk depending on the type of risk faced and the evidence available to assess the risk. These approaches may be used in combination or isolation.

2.5 Risk mitigation

Like any successful business, the firm is exposed to a range of risks. Some risks are inherent in taking active investment decisions on behalf of clients. The firm's focus is on managing this risk rather than eliminating it. Others, like regulatory and compliance risk, are risks that the firm seeks actively to minimise. There are a variety of techniques that can be used to mitigate risks, which may be used in isolation or in combination depending on the nature of the risk. These techniques include use of controls, contingency planning, insurance and capital allocation.

2.6 Risk monitoring and reporting

Risks are managed in a variety of different ways, depending on the nature of the risk and the areas potentially affected, to ensure that wherever appropriate their impacts are mitigated. Monitoring and communication is key to an effective risk management framework. Senior management takes an active role in the risk management process and is responsible for the maintenance, and ultimately

compliance, with the risk management strategy. The firm recognises that in a complex financial services environment, risk management processes are evolutionary and should be subject to ongoing review and modification.

3. Capital Resources

As at 30 September 2010, and throughout the year, the firm has complied with the capital requirements as required by the FSA. The following table provides a breakdown of the capital resources available to meet these requirements:

	Sept 2009 (£'000)
Tier 1	
Permanent Share Capital	1,000
Audited Reserves	1,603
Less: Material Interim Losses	0
Total Capital Resources	2,603

Tier 1 Capital is the highest ranking form of capital and comprises share capital, retained profits and other reserves. The firm did not hold any Tier 2 or Tier 3 capital as at 30 September 2010.

3.1 Compliance with rules in BIPRU and Pillar 2 rule requirement

The firm's overall approach to assessing the adequacy of internal capital is set out in its Internal Capital Adequacy Assessment Process (ICAAP).

The ICAAP process involves separate consideration of risks to capital resources combined with stress testing using scenario analysis. The level of capital required to cover risks is a function of impact and probability. Impact is assessed by modelling the changes in income and expenses caused by various potential risks over a 1-year time horizon. Probability is assessed subjectively.

After an analysis of risks faced by the firm and in line with applying a conservative approach to risk management, the firm has highlighted the following material risks that have not otherwise been covered by Pillar 1:

- Market Risk
- Currency exposure risk
- Concentration risk
- Liquidity risk

All of the above risks have been incorporated into the capital planning and capital adequacy scenario testing and sufficient capital amounts attributed to them under the Pillar 2 calculations.

3.2 Capital Adequacy

Coronation's policy has always been to be well capitalised and soundly financed. Our approach to capital management is driven by strategy and organisational requirements, while also taking into account the regulatory and commercial environments in which we operate. We also maintain a strong capital base to support the development of the business and to ensure we meet regulatory capital requirements at all times. We would therefore expect to have capital adequacy ratios well in excess of minimum regulatory requirements.

The firm's objectives for managing capital are as follows:

- To comply with the capital requirements set by the FSA and all other regulators to which the firm is subject;
- To ensure that the firm is able to operate as a going concern and satisfy any minimum externally imposed capital requirements; and
- To ensure that the firm maintains a strong capital base to support the development of its business.

In accordance with GENPRU2.1.45R (calculation of variable capital requirement for a BIPRU firm), the firm's capital requirement has been determined as being the fixed overhead requirement (25% of annual audited expenditure) and not the sum of the credit risk capital requirement and the market risk capital requirement. The firm's fixed overhead requirement as at 30 September 2010 is **£446,597**. Figures are accurate as at 30 September 2010.

4. Further Enquiries

Should you have any queries, please contact:

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