Cavenham Capital Limited

Pillar 3 Disclosure – 31 January 2012

Overview

These disclosures are made in accordance with the rules of the Financial Services Authority which implement in the UK the EU directives regarding the revised capital adequacy framework agreed by the Basel Committee on Banking Supervision. It is this application of the Capital Requirement Directive and Basel II that requires Cavenham Capital Limited to make these disclosures.

The new FSA framework now consists of three 'Pillars':

- Pillar 1: Minimum capital requirements
- Pillar 2: Supervisory review process: the need to assess whether the capital held under Pillar 1 is sufficient to meet the additional risks not covered by Pillar 1
- Pillar 3: Disclosure requirements allowing market participants to assess information on a firms' risks, capital and risk management procedures

The Financial Services Authority, in BIPRU 11, outlines the minimum disclosure requirements. The information below satisfies Cavenham Capital Limited Pillar 3 requirement.

Frequency of Disclosure

Cavenham Capital Limited will report their Pillar 3 disclosure annually. These disclosures are based on the company's position as at September 2011. The Pillar 2 (ICAAP) capital requirements are excluded from this summary but are reviewed annually or upon material change.

Location and Verification

These disclosures have been validated by the partners and are available direct, upon request, from Cavenham Capital Limited and on our company website. This availability is referenced in the audited accounts. These disclosures are not subject to an audit, except to the extent where they are equivalent to disclosures made under accounting requirements.

Scope of Application

This disclosure is made on an individual basis.

Risk Management

The directors of the firm, in addition to the risk mapping structure of the ICAAP, are very much involved with the day to day running of the company including the continual assessment of risk. They meet on a regular basis to discuss current projections for profitability, regulatory capital management, business planning and risk management. The Directors manage the firm's risks through a framework of policy and procedures having regard to relevant laws, standards, principles and rules (including FSA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required.

The firm is relatively small with an operational infrastructure appropriate to its size.

The ICAAP has identified the most significant risk types to which Cavenham Capital Limited to be as follows:

- Operational Risk:

This is the risk associated with inadequate, or the failure of, internal processes or external factors such as regulation.

The firm has not identified any major operational risk to its business. The firm is small and the business is simple. The firm also employs external consultants to assist with compliance monitoring which reduces the risk of any regulatory issues having an impact on the firm.

- Business Risk:

This is the risk that external factors, such as a fall in market appetite will result in an unexpected loss.

There is a minimum risk to the firm that it fails to generate funds to manage. At present this is not a large risk but this will be kept under review. There is also the risk that, should the trading underperform, it will impossible to continue with the long term business model. These risks have been identified and mitigated at varying levels.

- Market Risk

This is the risks that arise from fluctuations in values of, or income from, assets or in interest or exchange rates.

There is a risk that the firm will lose money on funds under management because of these fluctuations. The mitigation is that internal capital of £38,000 is maintained by the firm on an ongoing basis, as calculated in the firm' ICAAP.

- Liquidity Risk

This is the risk that the firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

There is a potential liquidity risk to the company of there being insufficient funds to meet the FSA Capital Adequacy Requirement. The mitigation is that the Directors could inject fresh capital should this situation occur.

Capital Resources	**September 2011**
Core Tier 1 Capital	£190,000
Permanent Share Capital	£50,000
Profit and loss a/c plus other reserves	£5,000
Share Premium	£135,000
Total Tier 1 Capital after deductions	£190,000
Total Tier 2 capital	n/a
Capital Resources Requirement	£42,000

Capital adequacy in compliance with BIPRU 3, 4 6, 7 & 10 (BIPRU 11.5.4)

Cavenham Capital Limited has forecasts in place to ensure that they will continue to meet they regulatory capital requirement on an ongoing basis.

Cavenham Capital Limited is a BIPRU €50,000 limited License firm and, as such, is not required to calculate its operational risk capital requirement under Pillar 1 in accordance with BIPRU 6. Instead they are required to calculate a Fixed Overhead requirement in accordance with GENPRU 2.1.53R

The total Market Risk requirement, (BIPRU 11.5.12), has been calculated at two and the Commodity PRR has been calculated at zero.

Further Enquiries

Should you have any queries please contact:

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