

Hotchkis and Wiley (UK) Limited (“Hotchkis” or the “Firm”)

Pillar 3 Disclosure and Policy, 31st December 2011

The following information is provided pursuant to the Pillar 3 disclosure rules as laid out by the Financial Services Authority (“FSA”) in section 11 of its Prudential sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”).

Background

The FSA has implemented a prudential framework for investment firms through changes to the FSA Handbook of Rules and Guidance (specifically in BIPRU). The framework consists of three “pillars”:

- Pillar 1 sets out the minimum capital requirements;
- Pillar 2 is an assessment of whether additional capital is needed over and above that determined under Pillar 1; and
- Pillar 3 requires the Firm to publish its objectives and policies in relation to risk management, and information on its risk exposures and capital resources as well as disclosures with respect to FSA’s “Remuneration Code”.

The rules provide that disclosures are only required where the information would be considered material to a user relying on that information to make economic decisions. Hotchkis and Wiley (UK) Limited (“Hotchkis” or the “Firm”) is an Investment Management Firm is a “BIPRU €50,000 Limited Licence Firm”, does not have permission to deal with retail clients and is authorised to control but not hold client money. The Firm has the permission to “Deal in investments as agent” as well as “Manage Investments” in addition to advising and arranging. As a consequence the main risks facing the Firm relate to its operations and its business environment. Whilst the Firm does have some exposure to credit and market risk, this is not considered to be material.

The disclosures below are the required Pillar 3 disclosures and apply solely to the Firm.

Although the Firm believes the risk management framework outlined herein is appropriate for the size and complexity of the Firm and that the Firm’s capital is adequate to meet the risks assessed, it can not guarantee that this will actually be the case in the event any particular risk arises. There will always be some unlikely risks with unusually high impact which may require additional capital should they arise.

Risk management

The Firm operates a risk management framework that sets out the responsibilities and escalation procedures for the identification, monitoring, and management of operational and business risks. Capital planning takes these identified risks into account.

Specific personnel are assigned responsibility for the risks across the Firm’s offices and business units. The Firm’s Chief Executive takes overall responsibility, with the assistance of the other three directors of the Firm and a specialised compliance consultancy firm for identifying material risks to the Firm and putting appropriate mitigating controls in place.

Risks and mitigating controls are periodically reassessed, taking into account the Firm’s risk appetite. Where risks are identified which fall outside of the Firm’s risk tolerance levels, or where the need for

remedial action is identified in respect of identified weaknesses in the Firm's mitigating controls, then actions are taken to improve the control framework.

The Board meets periodically to review the quality of the control framework and to satisfy itself that appropriate controls are in place and that mitigating actions are moving forward.

The specific types of risks faced by the Firm are;

- Operational risk,
- Business risk,
- Credit risk, and
- Market risk.

Operational risk

This is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. The Firm seeks to minimize operational risk through a controls framework, particularly when engaging in new business ventures or trading new products. The Firm considers risks which may impact the Firm directly or indirectly. The most significant operational risks facing the Firm would most likely be a catastrophic systems failure and unexpected losses due to malfunctioning market and liquidity controls.

Business risk

Business risk arises from external sources such as changes to the economic environment or one-off economic shocks, and also from internal sources such as poor decisions or suboptimal allocation of capital resulting in poor performance and damage to the Firm's reputation.

Various different scenarios are modelled in order to assess the impact of adverse economic conditions on our financial position. This enables the Firm to monitor its business risk and to assist in its capital planning.

Credit risk

The Firm is not exposed to credit risk other than in respect of investment management fees receivable and cash held on deposit at large international credit and regulated institutions. Fees are drawn down monthly on activity in the month, received by the Firm in arrears. Consequently the Firm has a limited number of credit exposures in respect of which it uses the simplified standardised approach when calculating risk weighted exposures, in accordance with the provisions of BIPRU 3.5. Credit risk is not considered to be material for the purposes of this disclosure.

Market risk

The Firm is not exposed to market risk other than foreign exchange risk in respect of its accounts receivable and cash balances held in currencies other than GBP. The Firm calculates its foreign exchange risk by reference to the provisions of BIPRU 7.5. Foreign exchange risk is not considered to be material for the purposes of this disclosure.

Capital adequacy

As at 31 December 2011, the Firm's regulatory capital resources of £780K are made up as follows:

Tier 1	£, 000
Share capital	453

Total regulatory capital	453

The Firm's Pillar 1 capital resources requirement is calculated in accordance with the General Prudential Sourcebook ("GENPRU") as the higher of the Fixed Overheads Requirement ("FOR"), the sum of market and credit risk requirements, or the base capital requirement of €50,000. The Firm's credit risk is calculated as per the "Standardised Approach (BIPRU 3.4)" and market risk in line with BIRU 7.5. As at 31 December 2011 the Firm's Pillar 1 requirement was £42K.

The Firm takes a prudent approach to the management of its capital base and monitors its expenditure on a monthly basis in order to take account of any material fluctuations which may cause its Fixed Overheads Requirement to be reassessed. The Firm ensures that at all times it has sufficient capital to meet its Fixed Overheads Requirement and formally verifies this on a monthly basis.

Under Pillar 2 of the FSA's capital requirements, the Firm has undertaken an assessment of the adequacy of capital based upon all the risks to which the business is exposed ("ICAAP"). As at 31 December 2011, this analysis concluded that the Firm did not require capital against the identified key risks. This meant the Firm had to have an internal regulatory capital of £42K, which was equal to the Pillar requirement. It has therefore been concluded that the Firm's resources are sufficient to support its operations over the coming year, and no additional capital injections are necessary.

Remuneration Code

Remuneration is determined and reviewed annually by the Board of Directors. For the purposes of the "Remuneration Code" the Firm is classified by the FSA as a Tier 4 firm. No other firm in the group is subject to these regulations.

The firm remunerates the code staff purely by way of discretionary bonus payments.

These arrangements are very much linked to performance. The firm does not make any guaranteed bonus commitments.

Staff outside senior management will be classified as code staff if their variable remuneration becomes greater than their fixed remuneration.

In 2011, four employees were classified as code staff: being the four Directors of the Firm. One of the directors is approved as the Chief Executive and Compliance Officer/MLRO as well as in the Customer Function, CF30. Their aggregate remuneration of the code staff in 2011 amounted to £209,894.

The Board is confident that variable remuneration is linked to the interests of the firm and does not encourage any risk taking.