

## **JK Investment Management LLP**

### **Pillar 3 Disclosures**

#### **Introduction and Disclosure Policy**

JK Investment Management LLP (“JKIM”) is authorised and regulated by the Financial Services Authority (“FSA”) and as such is subject to minimum regulatory capital requirements. JKIM LLP is categorised by the FSA, for capital purposes, as a limited licence firm. It is an investment management firm; it has no trading book exposures. JKIM is not required to prepare consolidated reporting for prudential purposes. The FSA is responsible for the implementation of the European Capital Requirements Directive (“ECRD”) in the UK. The ECRD introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on Basel II rules. The Pillar 3 rules in BIPRU 11 set out the need for firms to have a formal disclosure policy. In accordance with the rules of the Financial Services Authority (“FSA”) JKIM will disclose the information set out in BIPRU 11 (the Pillar 3 rule) on at least an annual basis. The Pillar 3 disclosure will be made on the JKIM website.

JKIM may omit information it deems as immaterial, in accordance with the rules. 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 reader relying on that information. Accordingly where the JKIM has considered an item to be immaterial it has not been disclosed.

In addition, if the required information is deemed to be proprietary or confidential then JKIM may take the decision to exclude it from the disclosure. In JKIM's view, proprietary information is that which, if it were shared, would undermine its competitive position. Information is considered to be confidential where there are obligations binding JKIM to confidentiality with our customers, suppliers or counterparties. Where information is omitted for either of these reasons this is stated in the relevant section of the disclosure, along with the jurisdiction. The new framework consists of three pillars:-

**Pillar 1** : specifies the minimum capital amount that JKIM, as an authorised firm, is required to hold. This is the higher of Euros 50k, one quarter of JKIM’s annual adjusted expenditure (the Fixed Overheads Requirement (“FOR”)), or the sum of JKIM’s prescribed Credit Risk + Market Risk (immaterial). Current FOR=£84k. Hence Minimum capital=£84k (Based on actual expenditures for year to 30<sup>th</sup> November 2009).

**Pillar 2** : requires JKIM to analyse the potential risks to its business and to consider whether these risks have been mitigated to an appropriate level. On conducting its analysis through the ongoing ICAAP process, JKIM has assessed that an additional

£18.9k above its Pillar 1 capital is required in order to mitigate the identified risks, bringing the total capital required to £102.9k. The analyses conducted are subject to stress and scenario tests as part of JKIM's ICAAP assessment to ensure that the allocation of additional capital continues to be sufficient.

**Pillar 3** : requires JKIM to develop this set of disclosures which allow market participants the ability to access and assess key information about JKIM's underlying risks, risk management controls and capital position.

The FSA regulations for the disclosures required under Pillar 3 are contained in the Prudential Sourcebook for Banks, Building Societies and investment Firms ("BIPRU"). These rules allow the business to exclude disclosures where the information is regarded as immaterial or proprietary/confidential.

### **Business Structure**

The disclosures contained in the document relate to the business of JK Investment Management LLP ("JKIM"), a single client hedge fund manager which is the Investment Adviser to the JK Absolute Return Fund ("the Fund").

JKIM is controlled by its Partners and JK Investment Management Services Limited ("JKIMS LTD"). JK Investment Management LLP is the entity which is authorised and regulated by the Financial Services Authority and as such is subject to the minimum capital requirements.

### **Risk Management**

As a small hedge fund manager JKIM is mainly exposed to operational risk, however, there is an additional exposure both to business risk and credit risk. All of these exposures are regarded as typical for a business engaged in the activity of investment management. The CEO, who is independent of the investment function, acts as risk manager and monitors and manages the risk exposures of the business.

In assessing the risk appetite of the business, consideration has been given to identifying the key risk indicator applicable. This has been identified as "loss of value", which can be related at both client level and at the management entity level, taking the form of loss of revenue, loss of assets or higher costs. Two specific factors have been considered in defining risk appetite, firstly, the likelihood of the occurrence of an event and secondly, the impact level of an event. Further information on the risk exposures of the business are set out below.

**Operational Risk** is the main focus of management attention and covers a whole range of exposures from clerical errors to risk of breach of the Fund's investment objectives. JK's policy is to have more than one person involved in any activity or transaction, to follow pre-agreed procedures and to use a system of checks and balances to reduce these risks to acceptable levels.

**Business Risk** is relevant in terms of external factors causing a reduction in revenues. JKIM maintains the highest standards of compliance (monitored by an external compliance firm) and general standards of business conduct to mitigate these risks and to protect its reputation.

**Credit Risk** is the exposure to the risk of our client not paying management fees and performance fees. Specific procedures are in place to minimise this risk. The Management Fees are paid monthly and Performance Fees (where applicable are accrued monthly and paid annually within a few days of year end.

**Market Risk** relates only to the risk of exchange rate fluctuations in the Yen/GBP rate as Fees are paid in Yen and then converted into GBP. This is minimised by converting management fees on a monthly basis.

### **Capital Resources**

JKIM is a Limited Liability Partnership and its capital arrangements are established in its Partnership deed. The Partnership capital as at December 2009 was £225,000.

<b>Capital Item</b>	<b>£'s</b>
Tier 1 capital less innovative tier 1 capital	<b>225,000</b>
Total tier 2, innovative tier 1 and tier 3 capital	<b>0</b>
Deductions from tier 1 and tier 2 capital	<b>0</b>
Total capital resources, net of deductions	<b>225,000</b>

JKIM has concluded that its Tier 1 capital is sufficient to cover its Pillar 1 and Pillar 2 requirements.

January 2010