

Millennium Capital Partners LLP

**Pillar 3 Disclosures
31 December 2015**



1. Introduction

1.1. Company Overview

“Millennium Group” is a global, multi-asset investment management organisation with its headquarters in New York, USA. Millennium Group has been managing investor assets since 1989 and manages approximately \$34 billion as of November 2016.

Millennium Capital Partners LLP (“MCP”) is a sub-advisor to Millennium International Management LP (“Millennium US”), a US-based and SEC-regulated investment manager within the Millennium Group. Pursuant to its contract with Millennium US, MCP manages assets of certain trading entities, which include Millennium Partners, L.P. and some of its trading subsidiaries (collectively, the “Fund”).

MCP is authorised and regulated by the Financial Conduct Authority (the “FCA”) in the United Kingdom. MCP is classified by the FCA as a BIPRU firm.

MCP is controlled by its managing member, Millennium Capital Management Limited, a UK company (“MCML”). MCML is defined as a “Parent Financial Holding Company in a Member State”, and together with MCP, and with MCP (Switzerland) GmbH (a Swiss investment manager also controlled by MCML) (“MCPS”), forms a UK consolidated group (the “UK Group”). Except where stated to the contrary, the analysis below is conducted at the UK Group level.

1.2. Regulatory Context

The Pillar 3 disclosure of MCP is set out below as required by the Financial Conduct Authority’s (“FCA”) “Prudential Sourcebook for Banks, Building Societies and Investment Firms” (“BIPRU”) specifically BIPRU 11.3.3 R. The regulatory aim of the disclosures is to improve market discipline through increased transparency.

As a BIPRU firm from 1 January 2014, MCP is subject to the Third Capital Requirements Directive (“CRD”). The CRD requirements have three pillars:

- Pillar 1 sets out the minimum capital requirements against operational, credit and market risk;
- Pillar 2 requires firms to assess their capital adequacy, taking into account all risks and to assess whether additional capital should be held to cover risks not adequately covered by Pillar 1 requirements. This is achieved through the Internal Capital Adequacy Assessment Process (“ICAAP”);
- Pillar 3 complements Pillars 1 and 2 and requires firms to publish information on their capital resources and Pillar 1 requirements, risk exposures and their risk management framework.

1.3. Scope of Pillar 3 Disclosures and Basis of Consolidation

The Firm is subject to the disclosures under the Banking Consolidation Directive. It is a member of a “UK Consolidation Group” and reports on a consolidated basis for accounting and prudential purposes.

1.4. Frequency

The Firm will be making a Pillar 3 disclosure annually or more frequently if there is a material change to the business. The disclosures will be as at the accounting reference date (“ARD”).



1.5. Verification

The Pillar 3 disclosures are reviewed and verified by MCP Board.

The information contained in this document has not been audited by MCP's external auditors and does not constitute any form of financial statement and must not be relied upon in making any judgement on MCP or Millennium Capital Management Limited, the managing member of MCP (together with MCP, the "UK Group").

1.6. Materiality

The Firm regards information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If MCP deems a certain disclosure to be immaterial, it may be omitted from this statement.

1.7. Confidentiality

The Firm regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm's investments therein less valuable. Further, MCP must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, we shall disclose and explain the grounds why it has not been disclosed.



2. Governance and Oversight

The Board is the governing body of MCP and meets at least quarterly. It plays a central role in the establishment and oversight of the firm's risk management framework and policies, implements effective risk governance and sets risk appetite for the firm. The Board is responsible for establishing a strong risk culture and promotes the continuous improvement of systems and controls throughout the firm.

The Board is also responsible for the Internal Capital Adequacy Assessment Process ("ICAAP"), understanding the level of risk undertaken and ensuring adequate capital levels are maintained.

The Board requires that senior management including members of the Board, business heads and heads of control functions, take an active role in the implementation and oversight of the risk management framework and be accountable for the identification, assessment, mitigation and escalation of risks within their areas.

The UK Group risk governance is complemented by Global Committees which have UK Group representation.

3. Risk Management

Risk is an inherent part of MCP's business and activities. The Board recognises that the extent to which the firm properly and effectively identifies, assesses, mitigates and monitors its risks is critical to the Firm's financial soundness and profitability.

Department heads and line management own and are accountable for the risk arising from their activities as well ensuring adequate controls are in place to support those processes. This is complemented by oversight functions – Risk Management, Compliance, Legal, Operational Risk, Human Resources – who are responsible for oversight policies and procedures, independent monitoring and challenge. Further support is provided by Internal Audit who is responsible for evaluating and recommending improvements to the Firm's control structure, systems, and policies and procedures for controlling operational, technological, financial and reputational risk.

The Board is ultimately responsible for establishing risk governance and oversight, and for setting risk appetite and limits. It is the responsibility of MCP senior management to implement the Board's risk management framework, to identify, assess and manage their risks, and to escalate to the Board risk exposures that are outside of appetite.

The firm identifies its Principal Risks as Credit, Market, Operational, Business and Liquidity Risk.

Risks identified through the risk management framework are assessed as part of the firm's ICAAP process to ensure appropriate capital levels in relation to MCP's risk profile. The MCP risk assessment profile and ICAAP are reviewed by the Board annually and amended as necessary when a material change to the business occurs.

Reputational risk is viewed as an undesirable consequence of the manifestation of any of our Principal Risks. Reputational impacts are considered along with financial and regulatory impacts when performing risk and capital assessments. Maintaining the Firm's reputation is of considerable importance and the Board and senior management seek to minimise reputational damage by managing its Principal Risks effectively.



4. Principal Risk Exposures

The following are the risks that are considered for capital adequacy assessment.

4.1. Credit Risk

MCP is primarily exposed to credit risk from the risk of MIM LP's inability to pay its obligations to the UK Group, termination of the Sub Advisory Agreement or exposure to failure of banking institutions. To date MIM LP has never failed to pay the UK Group its investment management fee since inception in 2002. Additionally all cash is held at reputable global banks with high credit ratings. Counterparty exposures are monitored on a daily basis with established escalation protocols to deal with catastrophic events. As a result of this as well as the track record on payment of investment management fees, the credit risk exposure to the UK Group is low and no additional capital is required to be held.

MCP has adopted the standardised approach for credit risk to calculate the minimum capital requirements under Pillar 1.

4.2. Market Risk

Market risk is the loss that arises from adverse movements in the financial markets. Market risk exposure has been assessed by MCP and determined that its primary exposure is with respect to assets held in a foreign currency.

MCP does not have a trading book and does not carry any material interest rate risk in its non-trading book.

4.3. Operational Risk

Operational Risk is the risk of loss caused by inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk. The firm seeks to minimise operational risk through its risk governance and operational risk framework.

MCP's Fixed Overheads Requirement ("FOR") is disclosed as a proxy for the Pillar 1 operational risk capital calculation.

On an annual basis the firm identifies and assesses its key risks, taking into consideration the design and effectiveness of controls. As part of the ICAAP process, MCP uses these risk assessments to determine whether any additional operational risk capital is needed to support the risks not adequately covered by Pillar 1.



4.4. Business Risk

Business risk is the risk of loss inherent in the UK Groups operating, business and industry environment, impacting the ability of the Firm to carry out its business plan or desired strategy.

The key business risks that the UK Group faces are:

- A significant drop in fund AUM driven by poor investment performance or loss of large investor or key individuals
- Increased costs driven by changes in government policies, regulation or tax could make it unviable for Millennium Group to continue paying the UK Group's expenses.

The UK Group assesses business risks by modelling the effect of scenarios and stress tests on its capital planning forecasts and setting out actions to ensure it has adequate regulatory capital.

4.5. Liquidity Risk

Liquidity risk is defined as the risk that a firm, although solvent, either does not have available sufficient financial resources in readily realisable form to enable it to meet its obligations as they fall due, or is only able to secure such resources at excessive and/or punitive cost.

The Firm is exposed to the following principal liquidity risks on an on-going basis:

- A. A significant fall in revenue due to a fall in management/performance fee income leading to an increased probability that MCP will become unable to meet its liabilities as they fall due (including the impact of sustained losses incurred); and
- B. In the context of the Firm's non-trading book, a counterparty, fund or institution where MCP's or its client's cash or assets are held fails to meet its obligations.

The UK Group has in place strategies, policies, processes and systems in order to identify, measure, manage and monitor liquidity risk. These are proportionate given the nature, scale and complexity of the Firm's activities, liquidity risk tolerance and liquidity profile.



Capital Resources

The firm maintains sufficient capital to meet its regulatory capital requirements as a BIPRU firm and takes a prudent approach to its assessment of the capital required.

The UK Group has Tier 1 capital resources of over £44.1M as at 31 December 2015.

Capital Resources		£m
Tier One Capital	Permanent Share Capital	16.11m
	Audited Reserves	20.53m
	Partnership Capital	7.77m
Total Capital		44.41m

The Firm has calculated its FOR which amounts to £13.67m as at 31 December 2015. The credit and market risk capital requirements of the Firm amount to less than the FOR. Therefore the overall Pillar 1 capital requirement of the Firm is the FOR of £13.67m.

In addition, the UK Group also undertakes an ICAAP in accordance with the requirements to assess the need for additional capital to support the risks not adequately covered by Pillar 1.

Remuneration Code

MCP is a Remuneration Code Proportionality Tier 3 Firm and has applied the rules appropriate to its Proportionality Tier. The Board is responsible for setting the Firm's remuneration policy. All variable remuneration is adjusted in line with capital and liquidity requirements.

Remuneration Code Staff Remuneration by Business Area (BIPRU 11.5.18(6))

Business Area	Total Remuneration
Investment Management	£4,556,713

Aggregate Quantitative Remuneration by Senior Management and other Remuneration Code Staff (BIPRU 11.5.18(7))

Type of Remuneration Code Staff	Total Remuneration
Senior Management (SIF)	£2,459,884
Other Remuneration Code Staff	£2,096,829
Totals	£4,556,713