

J. Rothschild Capital Management Limited

Pillar 3 Capital Requirements Regulatory Disclosure Year ended 31st December 2019

Company regulatory status and overview

J. Rothschild Capital Management Limited (“JRCM”) is authorised and regulated by the Financial Conduct Authority (“FCA”). JRCM is a wholly owned subsidiary of RIT Capital Partners plc (“RIT”), a UK investment trust listed on the London stock exchange.

JRCM’s main business activity is the provision of investment and administrative services to RIT. JRCM also provides certain investment services to partners of RIT or investment entities where RIT is a significant investor.

Under the EU Capital Requirements Directive IV (“CRD”), Capital Requirements Regulations (“CRR”) and the FCA IFPRU and IPRU(INV) Rules, JRCM is required to disclose certain relevant information relating to its capital position and management of material risks. JRCM has in place an Internal Capital Adequacy Assessment Process (“ICAAP”) that informs this disclosure. JRCM is categorised for prudential purposes at 31st December 2019 as an IFPRU Limited Licence Firm and also as a Collective Portfolio Management Investment Firm. The capital requirements covered in this disclosure are:

Capital Ratios – as per the CRD, CRR and IFPRU Rules, capital ratios are based upon Common Equity Tier 1 Capital, Tier 1 Capital and Total Capital; as all of JRCM’s capital is Tier 1 Capital all of these values are the same. Capital is compared against the Pillar 1 capital requirement (the minimum capital amount that meets the Firm’s credit, market and operational risk) and Pillar 2 capital requirement (any additional capital that the firm assesses is needed to cover all the risks and liabilities faced by the firm). JRCM’s capital ratios substantially exceed the minimum required capital ratios.

Own Funds Requirement – the base own funds requirement plus any additional capital required by the fixed overheads requirement and/or the funds under management requirement and also against the professional negligence capital requirement. JRCM has a substantial own funds surplus.

Liquid Assets Requirement – similar to the own funds requirement; JRCM also has a substantial liquid assets surplus.

The disclosures below relate only to JRCM and not to RIT or other subsidiaries of RIT. In preparing its standalone financial statements upon which its prudential returns are based, JRCM consolidates in full the JRCM Employee Benefit Trust (under SIC-12). JRCM may omit from its disclosure any information that is not considered to be material.

Risk assessment and management

Governance

The Board of RIT has delegated responsibility for the day-to-day risk management of the activities of JRCM, RIT and RIT's subsidiaries to the executive management of JRCM, with oversight from the various RIT Board Committees, in particular the Audit & Risk Committee. The Executive Committee of JRCM and the Audit & Risk Committee of RIT believe the systems and controls in place to be adequate and proportionate to the nature of JRCM's business and risk.

The Audit & Risk Committee of RIT has four scheduled meetings per year and also convenes on an ad hoc basis if required. The JRCM Executive Committee meets weekly, or as required, and is made up of four JRCM Directors who are selected for their relevant experience and expertise.

In addition, the JRCM Investment Risk Committee and the JRCM Operational Risk Committee meet on a regular basis. These risk committees are chaired by the Chief Risk Officer of JRCM (a member of the JRCM Executive Committee) and also report into the Audit & Risk Committee of RIT.

Principally, JRCM organises its affairs to ensure the continuity of future services to RIT. In providing investment services to RIT, JRCM takes into consideration RIT's appetite for investment risk. RIT's corporate objective is to deliver long-term capital growth, while preserving shareholders' capital; to invest without the constraints of a formal benchmark, but to deliver for shareholders increases in capital value in excess of the relevant indices over time. RIT's long-term approach and commitment to capital preservation contributes to the security of JRCM's long-term financial arrangements.

Risk

The principal risks of JRCM are those relating to the ongoing services provided to RIT, its parent undertaking. These incorporate both financial and operational risks. Areas of specific risk considered under Pillars 1 and 2 and their applicability to JRCM are:

Credit risk: JRCM has a limited appetite for credit risk, to the extent that it has balance sheet assets such as holdings in its bank and in its exposure to RIT. Credit risk is not a material risk to JRCM.

Market risk: JRCM does not have an appetite for market risk. JRCM is exposed to market risk only where it holds RIT shares via an Employee Benefit Trust in order to hedge existing share-based payment awards. As these shares offset these liabilities, the Company's own exposure to investment risk is low. Market risk is therefore not material to JRCM.

Operational risk: JRCM has a low appetite for, and attempts to minimise, operational risk by having robust systems and controls in place. Robust controls exist round investment decision making, the placing of trades and ongoing monitoring of RIT's portfolio. For the purposes of the Pillar 3 disclosure, JRCM is an IFPRU Limited Licence Firm and so in accordance with the FCA rules does not have an operational risk capital requirement.

Liquidity risk: JRCM has a low appetite for liquidity risk and holds on its own account cash balances that are sufficient to meet the need for short and medium-term working capital. In addition, JRCM also has significant liquid assets that are readily realisable. Liquidity risk is not a material risk to JRCM.

Capital resources

Capital Ratios

As at 31st December 2019 JRCM held £65,892,135 Tier 1 capital. All capital held by JRCM is Tier 1, i.e. JRCM does not hold Tier 2 or Tier 3 capital. The Tier 1 capital is made up of permanent share capital and retained earnings (required to be audited by an independent source, and so as at 31st December 2019 the retained earnings from the audited 2018 accounts are used). JRCM holds no hybrid capital or capital instruments which provide an incentive to redeem.

Capital Ratio	Ratio Expressed as Percentage	Required Ratio
(1) Common Equity Tier 1 Capital Ratio	71.080%	4.5%
(2) Tier 1 Capital Ratio	71.080%	6%
(3) Total Capital Ratio	71.080%	8%

Own Funds and Liquid Assets Requirements

As at 31st December 2019 JRCM held £65,892,135 in Own Funds and £93,412,515 in Liquid Assets (where relevant using figures based on the retained earnings from the audited 2018 accounts). The Own Funds and Liquid Assets requirements are calculated as £5,089,130, calculated from the base requirement, the fixed overhead requirement and the professional negligence capital requirement. The fixed overhead requirement of JRCM for the year ending 31st December 2019 is calculated as £4,752,869, which is one quarter of JRCM's relevant fixed expenditure for the preceding year. This is significantly higher than:

- JRCM's base requirement, €125,000 (calculated as at 31st December 2019 as £105,816);
- the funds under management requirement (0.02% of FUM in excess of €250m);
- a sum for additional risks that JRCM may face, for example counterparty, credit, market and operational risk), which would be negligible; or
- the sum of all of the above.

JRCM's Own Funds and Liquid Assets materially exceed its capital requirements in respect of both the EU/FCA rules and JRCM's own risk assessment. Based on JRCM's capital resources, JRCM has adequate resources to support its current and future activities. In conclusion, JRCM is sufficiently capitalised.

Remuneration policy and disclosure

JRCM has in place a remuneration policy in accordance with the FCA remuneration code rules (for AIFMs and IFPRU firms). Under these rules JRCM is considered to be a "Tier 3" firm. JRCM's remuneration and associated policy is the responsibility of the JRCM Executive Committee and is overseen by the RIT Remuneration Committee. Under the FCA rules, JRCM publishes a separate remuneration disclosure, which can be found on the RIT website at www.ritcap.com.

Leverage

JRCM is not leveraged as per CRR art 451.