

PILLAR 3, STEWARDSHIP CODE AND REMUNERATION DISCLOSURE

The Capital Requirements Directive ('CRD') and Alternative Investment Fund Management Directive ('AIFMD') of the European Union establish a revised regulatory capital framework across Europe governing the amount and nature of capital, credit institutions and investment firms must maintain.

In the United Kingdom, the CRD and AIFMD have been implemented by the Financial Conduct Authority ('FCA') in its regulations through the General Prudential Sourcebook ('GENPRU'), the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU') and the Investment Funds Sourcebook ('FUND').

The FCA framework for the CRD consists of three 'Pillars':

- Pillar 1 sets out the minimum capital amount that meets the firm's credit, market and operational risk capital requirement;
- Pillar 2 requires the firm to assess whether its capital reserves, processes, strategies and systems are adequate to meet pillar 1 requirements and further determine whether it should apply additional capital, processes, strategies or systems to cover any other risks that it may be exposed to; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position to encourage market discipline.

The AIFMD adds further capital requirements based on the Alternative Investment Fund ('AIF') assets under management and professional liability risks.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet the Firm's Pillar 3 obligations.

The Pillar 3 disclosure document has been prepared by the Firm in accordance with the requirements of BIPRU 11 and is verified by the Board Risk Management Committee. Unless otherwise stated, all figures are as at the 31 December 2016 financial year-end.

Pillar 3 disclosures will be issued on an annual basis after the year end and published as soon as practical when the audited annual accounts are finalised.

The Firm is permitted to omit required disclosures if it believes that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions about the Firm.

In addition, the Firm may omit required disclosures where it believes that the information is regarded as proprietary or confidential. In the Firm'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 it to confidentiality with its customers, suppliers and counterparties.

Where the Firm has chosen to omit information because it is proprietary or confidential, it has explained the omission and provided the reason.

Scope and application of the requirements

The Firm is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. The Firm is categorised as a Full Scope UK AIFM that also has permission to provide additional portfolio management services. The Firm is thus categorised as a Collective Portfolio Management Investment ('CPMI') firm by the FCA for capital purposes.

The Firm is not a member of a group and so is not required to prepare consolidated reporting for prudential purposes.

Risk management

The Firm has established a risk management process in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. The Firm's Governing Body ('the Board') is collectively responsible for the monitoring of any risk management issues at the Firm, through its Board Risk Management Committee ('BRMC'). Whilst maintaining the overall responsibility for monitoring risk management, the Board has delegated the day-to-day risk management to the Firm's Chief Risk Officer ('CRO') who is responsible for the reporting of various risk management matters including operational issues. It should also be noted that Independent Valuation of derivatives in relation to Worldwide Healthcare Trust PLC, has been delegated to J.P. Morgan Clearing Corp.

The principal risks in respect of the Firm and each of its AIF Clients from time to time will be identified and monitored by the Firm's risk management function and the CRO shall report to the Board in respect of such risks through the BRMC.

As detailed above, the Firm's Board has established a sub-committee, the BRMC, to support it in achieving its objectives and responsibilities, reporting to the Board on all risks associated to the Firm's business with focus on business, portfolio and operational risk management issues. The BRMC will meet at least quarterly. Full details the BRMC are set out in the Firm's Risk Management Policy.

Both the BRMC and the Firm's Board meets at least four times a year and discuss current projections for profitability, cash flow, regulatory capital management, business planning and risk management. The Partners, through the BRMC, engage in the Firm's risks through a framework of policy and procedures having regard to the relevant laws, standards, principles and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required.

The BRMC and ultimately the Board, have identified that Business, Portfolio, Operational Credit, Counterparty, Regulatory, Legal and Financial, Reputational and Internal Breaches are the main areas of risk to which the Firm is exposed. Annually, the Board formally reviews the risks, controls and other risk mitigation arrangements and assess their effectiveness.

A formal update on operational matters is provided to the Board on a regular basis. Management accounts demonstrating continued adequacy of the Firm's regulatory capital are also reviewed on a regular basis.

Appropriate action is taken where risks are identified which fall outside of the Firm's tolerance levels or where the need for remedial action is required in respect of identified weaknesses in the Firm's mitigating controls.

Specific risks applicable to the Firm come under the headings of Business Risk, Credit Risk, Market Risk, Portfolio Risk, Operational and Counterparty Risk, Portfolio Risk, Regulatory Risk, Legal and Financial Risk, Reputational Risk, Professional Liability Risk, Liquidity Risk and Internal Breaches. In respect of this disclosure it is the first four of these risks that are relevant and further information is provided on these risks below.

Business Risks

The Firm has developed internal controls appropriate to the size, nature and scope of its activities, which reflect the perceived primary risks to the business. A high level description, together with the controls proposed is detailed below. The Firm, as an AIFM, is responsible for these, however, responsibility also falls on the portfolio managers, OrbiMed Capital LLC and Lindsell Train Limited which have been engaged to provide portfolio management services to three of the Firm's AIF Clients.

Transaction Controls: The Firm has ensured that the portfolio managers have suitable pre-order checks within their own firms as trades are the responsibility of the portfolio managers. The Firm carries out post trade checks on a daily basis.

Portfolio Controls: Daily checking of portfolio positions against independent brokers and custody reports.

Settlement Controls: Reconciliation and reporting of trades to the Firm by the portfolio manager and ensuring that the settlement process is efficient.

Financial Resources: The Firm is adequately capitalised and it closely monitors its financial resources on a daily basis. The Partners of the Firm provided the necessary financial resources in order to act as an AIFM.

Contingency Plan: The Firm has prepared and maintains a contingency plan in the form of a business continuity plan.

Regulatory Controls: Initial training and ongoing monitoring are carried out to ensure compliance with applicable rules and regulations.

Conflicts Controls: It is not envisaged the Firm will have any material conflicts outside of those typical of every investment firm.

Compliance: The Firm ensures that its compliance arrangements are suitable and effective and seeks to ensure that its delegates similarly have in place suitable policies and procedures and that these are properly adhered to.

Senior Management: The Firm has a rigorous framework in place both for internal promotion and external recruitment.

Credit risk

The Firm has *de minimis* exposure to credit risk. The Firm's cash is held at C Hoare & Co, a highly respected family run bank based in London. The credit risk to the Firm's own invoices is also *de minimis* and all clients are going concerns with minimal risk of default in the short or medium term.

Given the nature of the Firm's exposures, no specific policy for hedging and mitigating credit risk is in place. The Firm uses the simplified standardised approach detailed in BIPRU 3.5.5 of the FCA Handbook when calculating risk weighted exposures of 1.6% (Cash in Bank) and 8% in respect of its other assets.

Credit risk summary

Credit risk exposure	Risk weighting	Risk weighted exposure
Cash in the bank	1.6%	£33,088
Inter-company	8%	£0
Trade debtor	8%	£0
Prepayments and accruals	8%	£72,560
Other debtors (<1 year)	8%	£2,560
Other debtors (>1 year)	8%	£0
Total		£108,208

Market risk

The Firm does not have any exposure to either foreign exchange risk or position risk which together make up market risk.

Professional liability risk

The Firm has a legal responsibility for risks in relation to Investors, products and business practices including, but not limited to; loss of documents evidencing title of assets of the AIF; misrepresentations and misleading statements made to the AIF or its investors; acts, errors or omissions; failure by the senior management to establish, implement and maintain appropriate procedures to prevent dishonest, fraudulent or malicious acts; improper valuation of assets and calculation of unit/share prices; and risks in relation to business disruption, system failures, process management. The Firm is aware of, and monitors, a wide range of risks within its business operations and towards its investors. The Firm has in place appropriate internal operational risk policies and procedures to monitor and detect these risks. These procedures and risks are documented, demonstrating how the Firm aims to mitigate these risks. This is reviewed annually.

The Firm has in place appropriate coverage of professional indemnity insurance, where single claims are covered for up to £30,000,000, exceeding the required 0.7% of total assets under management, and aggregate cover is £30,000,000, exceeding the required 0.9%. The excess of £35,000 is held in Own Funds.

Liquidity risk

As defined in the Firm's Liquidity Management Policy, Liquidity Risk is the risk that an AIF will encounter difficulty in meeting obligations associated with financial liabilities.

Shareholders have no right to redeem their shares from the AIF but may trade their shares on the Secondary market. However, there is no guarantee that there will be a liquid market in the shares.

The Firm's AIF Clients are closed ended funds and can only buy back up to 14.99% of shares without obtaining further shareholder approval.

Liquidity risk is not significant as the majority of the Firm's AIFs assets are investments in quoted equities and other quoted securities that are readily realisable within one week.

The Board of each of the Firm's AIFs gives guidance to the portfolio manager as to the maximum amounts of the AIF's resources that should be invested in any one Company. For further details on the management of liquidity risk, see The Fund's Risk Guidelines for each of the AIFs managed by the Firm.

The Biotech Growth Trust PLC and Worldwide Healthcare Trust PLC both have overdraft facilities with J.P. Morgan Clearing Corp. The level of borrowing is reviewed daily by the Firm to ensure the gearing limit investment guideline set by the Board. In addition, each AIF's leverage levels are reviewed by the Firm on a daily basis.

Finsbury Growth & Income Trust PLC has a borrowing facility with Scotia Bank; the level of borrowing is reviewed daily by the Firm and periodically with the Portfolio Manager on the level of borrowing drawn down, whilst still maintaining the gearing limit investment guideline set by the Board.

A cash summary is produced daily to record movements and forecast cash positions of the Firm's AIF Clients and to ensure that the AIFs are in compliance of their liquidity and gearing investment policies. In the production of the cash summary, all unsettled cash items such as trades, outstanding invoices, outstanding dividend payments, share issues or buy-back of own shares are recorded and monitored. This ensures cash movements are tracked and any delays or issues raised are recorded and resolved on a timely manner.

The Firm is required to maintain sufficient liquidity to ensure that there is no significant risk that its liabilities cannot be met as they fall due or to ensure that it can secure additional financial resources in the event of a stress scenario.

The Firm retains an amount it considers suitable for providing sufficient liquidity to meet the working capital requirements under normal business conditions. The Firm has always had sufficient liquidity within the business to meet its obligations and there are no perceived threats to this given the cash deposits it holds and support it receives from one of its corporate partners, Finsbury Growth & Income Trust PLC. Additionally, it has historically been the case that all management fee debtors are settled promptly, thus ensuring further liquidity resources are available to the Firm on a timely basis. The

cash position of the Firm is monitored by the Managing Partner on a regular basis and the Firm would be able to call on the corporate partner for further capital as required.

The Firm maintains a Liquidity Risk Policy which formalises this approach.

Operational and Counterparty Risk

The Firm places strong reliance on its robust operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that all Personnel are aware of their responsibilities in this respect.

The Firm has identified a number of key operational risks to manage. These relate to the failure of its systems, failure of a third party provider, the loss of key personnel, serious regulatory breaches, market abuse, administrative errors and customer service. Appropriate policies are in place to mitigate against these risks, which include taking out adequate professional indemnity insurance.

Regulatory capital

The Firm is a Limited Liability Partnership and its capital arrangements are established in its Partnership Deed. Its capital is summarised as follows:

The main features of the Firm's capital resources for regulatory purposes are as follows:

	31 December 2016
	£000
Tier 1 capital*	760
Tier 2 capital	-
Tier 3 capital**	-
Deductions from Tiers 1 and 2	-
Total capital resources	760
* No hybrid tier one capital is held	
** Note: Tier 3 capital is to be removed under the CRD IV	

The Firm is small with a simple operational infrastructure. It has no market risk and credit risk from management and performance fees receivable from its AIF Clients under its management.

As detailed under 'Scope and application of the requirements', the Firm is a Full Scope UK AIFM that also has permission to provide additional portfolio management services and is thus categorised by the FCA as a Collective Portfolio Management Investment ('CPMI') firm and, as such, its capital requirements are the higher of:

- €125,000 (base capital requirement) + 0.02% of AIF AUM (> €250m) (own funds requirement);
- The sum of the market & credit risk requirements; or
- The fixed overheads requirement ('FOR') which is essentially 25% of the Firm's operating expenses less certain variable costs.

plus the Firm's professional indemnity insurance policy excess of £35,000.

0.02% is taken on the absolute value of all assets of all AIFs managed by the Firm (for which it is the appointed AIFM) in excess of €250m, including assets acquired through the use of leverage, whereby

derivative instruments shall be valued at their market value, including funds where it, the Firm, has delegated the portfolio management function, but excluding any AIFs that it is managing as a delegate.

The Firm has not identified credit risk exposure classes or the minimum capital requirements for market risk as it is believed that they are immaterial.

The Firm has adopted the simplified standardised approach to credit and market risk and the basic indicator approach to operational risk. The basic indicator approach calculates operational risk as a simple 15% of average annual income over 3 years. Where possible this has been based on historic figures.

The FOR is calculated, in accordance with FCA rules, based on the Firm's previous year's audited expenditure and based on the Firm's annual expenses, net of variable costs deducted, which includes discretionary bonuses paid to staff and administrator fees. The Firm monitors its expenditure on a monthly basis and takes into account any material fluctuations in order to determine whether the FOR remains appropriate to the size and nature of the business or whether any adjustment needs to be made intra-year.

This is monitored by the Managing Partner and reported to senior management on a monthly basis.

Remuneration disclosure

As the Firm is authorised and regulated by the FCA as a CPMI firm, it is subject to FCA Rules on remuneration. These are contained in the FCA's Remuneration Code located in the SYSC/FUND Sourcebook of the FCA's Handbook. The Remuneration Code ('the RemCode')/Remuneration principles cover(s) an individual's total remuneration, fixed and variable. The Firm incentivises staff through a combination of the two.

The Firm's business is to provide a range of services to its investment trust Clients, including being appointed as the AIFM to four of its Alternative Investment Fund ('AIF') Clients.

The Firm's policy is designed to ensure that it complies with the RemCode/Remuneration principles and its compensation arrangements which

1. are consistent with and promotes sound and effective risk management;
2. do not encourage excessive risk taking/risk-taking which is inconsistent with the risk profiles or instruments of incorporation of the AIFs it manages;
3. include measures to avoid conflicts of interest;
 - a. is likely to make a financial gain, or avoid financial loss, at the expense of the AIF;
 - b. has a distinct interest in the outcome of the service provided to the AIF or of a transaction carried out on behalf of the AIF;
 - c. has a financial or other incentive to favour the interest of another AIF or group of AIFs over the interests of the AIF;
 - d. carries on the same business as the AIF; and

- e. receives, or will receive, from a person other than the AIF an inducement in relation to the service provided to the AIF, in the form of monies, goods or services, other than the standard commission fee or free for that service.
4. are in-line with the Firm's business strategy, objectives, values and long-term interests.

The Firm is owned 70% by four individual partners, with the residual 30% balance owned by two corporate partners.

The four partners receive partnership profits through monthly drawings, with an annual top-up to the agreed percentage split. The two corporate partners receive one annual payment.

All remaining members of staff at the Firm receive a salary and a discretionary bonus.

With respect to the hiring of new members of staff, the Board agrees their reward structure; this is subject to ongoing review.

Proportionality

Enshrined in the European remuneration provisions is the principle of proportionality. The FCA have sought to apply proportionality in the first instance by categorising firms into three levels. The Firm falls within the FCA's proportionality level three and as such this disclosure is made in-line with the requirements for a Level three firm.

Application of the requirements

The Firm is required to disclose certain information on at least an annual basis regarding its Remuneration Policy and practices for its Code Staff whose professional activities have a material impact on the risk profile of the Firm. The Firm's disclosure is made in accordance with the Firm's size, internal organisation and the nature, scope and complexity of its activities. The Firm's full Remuneration Policy is available at the request of the AIFs' Investors.

1. Summary of information on the decision-making process used for determining the Firm's Remuneration Policy including use of external benchmarking consultants where relevant.
 - The Firm's policy has been agreed by the Firm's Board in-line with the Remuneration principles laid down by the FCA.
 - Due to the size, nature and complexity of the Firm, it is not required to appoint an independent remuneration committee.
 - The Firm has disapplied the pay-out process rules with respect to the Firm and to any of its Delegates because on assessment of the proportionality elements there is sufficient evidence to demonstrate that the Firm can be considered to be carrying out non-complex activities and is operating on a small scale or based on the rationale as detailed in the Remuneration Policy.
 - The Firm's policy is reviewed annually or following a significant change to the business, requiring an update to its internal capital adequacy assessment.
2. Summary of how the Firm links between pay and performance

With respect to the Firm’s staff, the Board determines annual awards following year end staff performance appraisals. Remuneration considerations that result from performance appraisals are based on performance and the financial performance of the Firm.

The measurement of performance used to calculate Firm bonuses or bonus pools includes the consideration of an individual’s performance in the role assigned to them.

The Firm awards annual discretionary bonuses.

- Aggregate quantitative information on remuneration broken down by significant business division (where such business divisions exist).

Business Area	Aggregate compensation expense for prior fiscal year
Portfolio Management and Trading	†
Non-Trading	†

†As detailed previously, the Firm has disappplied the pay-out process rules with respect to the Firm and to any of its Delegates because on assessment of the proportionality elements there is sufficient evidence to demonstrate that the Firm can be considered to be carrying out non-complex activities and is operating on a small scale or based on the rationales as detailed in the Firm’s Remuneration Policy.

- Aggregate quantitative information on remuneration, for staff whose actions have a material impact on the risk profile of the Firm/of those staff of the Firm who are fully or partly involve in the activities of the AIF.

Code Staff	Aggregate compensation expense in 2016
Senior Management:	†
Staff/Secondees* whose actions have a material impact on the AIF (If applicable)	†

*In order to enable the Firm to perform its portfolio management function as AIFM to Menhaden Capital PLC (“MHN”), the Firm has formed an Investment Committee (“the Committee”) to carry out and oversee MHN’s day-to-day portfolio management activities. The Committee consists of four individuals seconded to the Firm by Menhaden Capital Management LLP.

†As detailed previously, the Firm has disappplied the pay-out process rules with respect to the Firm and to any of its Delegates because on assessment of the proportionality elements there is sufficient evidence to demonstrate that the Firm can be considered to be carrying out non-complex activities and is operating on a small scale or based on the rationales as detailed in the Firm’s Remuneration Policy.

- Amounts of remuneration for the financial year for those staff of the Firm who are fully or partly involved in the activities of the AIF and the number of beneficiaries (Level 3 only).

Code Staff/Beneficiaries (Number)	Total amounts of remuneration
Fixed Remuneration	†

Variable Remuneration	†
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†As detailed previously, the Firm has disapplied the pay-out process rules with respect to the Firm and to any of its Delegates because on assessment of the proportionality elements there is sufficient evidence to demonstrate that the Firm can be considered to be carrying out non-complex activities and is operating on a small scale or based on the rationales as detailed in the Firm’s Remuneration Policy.

6. Total remuneration allocated to relevant AIFs. The Firm currently manages four AIFs.

AIF	Fixed remuneration	Variable remuneration	Total remuneration	Total AUM
Finsbury Growth & Income Trust PLC	†	†	†	†
The Biotech Growth Trust PLC	†	†	†	†
Worldwide Healthcare Trust PLC	†	†	†	†
Menhaden Capital PLC	†	†	†	†

†As detailed previously, the Firm has disapplied the pay-out process rules with respect to the Firm and to any of its Delegates because on assessment of the proportionality elements there is sufficient evidence to demonstrate that the Firm can be considered to be carrying out non-complex activities and is operating on a small scale or based on the rationales as detailed in the Firm’s Remuneration Policy.

The Firm may omit required disclosures where it believes that the information could be regarded as prejudicial to the UK or other national transposition of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data.

The Firm has made no omissions on the grounds of data protection.

A note on Materiality

A firm must regard 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 purposes of making economic decisions.

A firm must regard information as proprietary information if the sharing of 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 investment in them less valuable.

A firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the firm to confidentiality.

The Committee of European Banking Standards (“CEBS”) has stated that it is unlikely that the disclosure of information relating to remuneration would be confidential or proprietary for firms that

have been allowed to aggregate the information due to proportionality. Where there is a limited number of Code Staff then the firm may consider such omissions.

See FCA Templates on Remuneration Code and FAQ for further consideration.

Stewardship Code

The Firm acts as portfolio manager to its Client, Menhaden Capital PLC only and delegates portfolio management activities with regard to its Clients, Finsbury Growth & Income Trust PLC, The Biotech Growth Trust PLC and Worldwide Healthcare Trust PLC.

The Firm's UK Stewardship Code Compliance Statement is available for viewing at www.frostrow.com.

27 February 2017