Investcorp Securities Limited

Pillar 3 Disclosure

As at 30 June 2019

Background - The Capital Requirements Directive and Pillar 3

The Capital Requirements Directive (the "Directive" or the "CRR") of the European Union created a revised regulatory capital framework across Europe governing the amount and nature of capital that financial services firms must retain. In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority ("FCA"). To 31 December 2013 the guidelines contained in the General Prudential Sourcebook ("GENPRU") and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") regulated these activities. From 1 January 2014, with the implementation of the Capital Requirement Directive IV ("CRD IV"), regulations under BIPRU have been replaced by:

- the Capital Requirements Regulation ("CRR");
- the IFPRU sourcebook of the FCA handbook; and
- additional standards released by the European Banking Authority.

This regulatory capital framework consists of three pillars:

1. Pillar 1 sets out the minimum capital requirements to meet Investcorp Securities Limited's (the "Firm's" or "ISL's") credit, market and business/operational risk;
2. Pillar 2, requires firms and their supervisors to consider whether additional capital should be held to cover risks not covered by the Pillar 1 requirements
3. Pillar 3 seeks to improve market discipline by requiring firms to disclose certain information on their risks, capital and risk management process. Articles 431 – 455 of the CRR require that a firm subject to the provisions of the CRR must disclose, as appropriate, the relevant information required under Pillar 3. This must be done in accordance with a formal disclosure policy which sets out policies for assessing the appropriateness of ISL's disclosures, including their verification and frequency.

Pursuant to CRR Article 432(1), the Firm may omit one or more of the disclosures listed in Articles 435-455 of the CRR (Title II of the CRR) if the information provided by such disclosures is not regarded as material, except for the disclosures laid down in Article 435(2)(c), Article 437 and Article 450.

Similarly, CRR Article 432(2) notes that the Firm may also omit one or more items of information included in the disclosures listed in Titles II and III of the CRR if those items include information which is regarded as proprietary or confidential in accordance with the second and third subparagraphs, except for the disclosures laid down in Articles 437 and 450.

Information shall be regarded as proprietary to an institution if disclosing it publicly would undermine its competitive position. Information shall be regarded as confidential if there are obligations to customers or other counterparty relationships binding an institution to confidentiality.

Subject to the aforementioned exemptions regarding information of a proprietary and/or confidential nature, the Firm has disclosed information in accordance with the following provisions of the CRR:

- Article 435 on the Firm's risk management objectives and policies;
- Article 436 on the scope of application of the CRR;
- Article 437 on the Firm's own funds;

- Article 438 on the Firm's compliance with the capital requirements contained in the CRR;
- Article 439 on the Firm's exposure to counterparty credit risk;
- Article 442 on the Firm's exposure to credit and dilution risk;
- Article 443 on the Firm's unencumbered assets
  (see Annex1-Additional Disclosure on Asset Encumbrance); and
- Article 449 on the Firm's exposure to securitisation positions

Disclosures are required to be made on at least an annual basis and, if appropriate, more frequently. This document is designed to meet the Pillar 3 obligations of ISL. It has not been audited and it does not constitute any form of audited financial statement.

ISL's Board of Directors is ultimately responsible for the strategy and operation of ISL and for setting the risk appetite for the Firm. The risk appetite is considered to be the type and level of risks that ISL is willing to accept in pursuit of its strategic goals. Although ISL, through its implementation of Board approved policies and procedures, is able to demonstrate that it has appropriate and reasonable mitigants in place to minimize the level of residual risks to its business, no such risks can ever be eliminated.

ISL's Board of Directors is comprised of:

- Ms. Andrea Davis, Head of ISL's European Operating Team;
- Mr. Neil Hasson, Head of Real Estate Investment-Europe;
- Mr. Daniel Lopez-Cruz, Head of Private Equity-Europe;
- Mr. Craig Lawrence Sinfield-Hain, Head of Business Analysis and Planning for the Investcorp Group and
- Mr. Gilbert Kamieniecky, Head of Private Equity-Technology.

Mrs. Davis holds directorships in the following portfolio companies: Abax, Acura, Agromillora, Kee Safety, Georg Jensen, Securelink, SPG Prints, Corneliani, Dainese, POC, Vivaticket and Cambio in addition to serving as a director of Investcorp International Limited and Investcorp Europe Holdings Limited. Mrs. Davis also holds an external directorship with William Jackson Food Group.

Mr. Hasson holds no additional directorships with Investcorp, while holding one external directorship with The Big Tug Boat Company.

Mr. Lopez-Cruz holds directorships in the following portfolio companies: Agromillora, Cambio and SPG Prints in addition to serving as a director of Investcorp International Limited, Investcorp Europe Holdings Limited, Investcorp Credit Management EU Limited and Investcorp Europe S.A

Mr. Sinfield-Hain holds directorships in twenty one companies that either are, or are affiliated with, Investcorp Group private equity portfolio companies in addition to serving as a director of Investcorp Europe S.A., Investcorp Europe Holdings Limited, Investcorp Nominee Holder Limited, Investcorp Management Services Limited and Investcorp International Limited.

Mr. Kamieniecky holds directorships in the following portfolio companies: Ageras, Calligo, Contentserv, Eviivo, Impero, Opsec Security Group, Softgarden and Ubisense

ISL's policy is to limit Board membership to individuals with appropriate experience in the private equity and real estate sector.

Ms. Davis has led the European Operating team at Investcorp since joining in 2014. Her team focuses on the financial management of Investcorp's investment portfolio companies. Ms. Davis spent the prior sixteen years as CEO and CFO in multi-national businesses operating in both high growth tech sectors as well as manufacturing with tight margins. She has experience in private equity, pan-EU integration and international expansion through JVs and acquisitions.

Mr. Hasson joined Investcorp in 2016 to head its real estate operations in Europe. Prior to this, he spent seven years at Citi Property Investors, where he was Head of Europe and Chief Investment Officer of CPI Capital Partners Europe.

Mr. Lopez-Cruz, who is the Head of Private Equity-Europe, led the team of investment professionals who performed due diligence on and negotiated the Investcorp Group's acquisition of Investcorp Credit Management EU Limited and its US affiliate which was completed in early March 2017. Prior to joining the Investcorp Group, Mr. Lopez-Cruz had approximately 10 years of experience in originating and executing a broad range of leveraged finance and high yield transactions.

Mr. Sinfield-Hain joined the Investcorp Group in 2003 and is currently the Head of Business Analysis and Planning. Before joining Investcorp he spent more than seven years as an actuary and pension consultant at Watson Wyatt in Brussels and Chicago.

Mr. Kamieniecky joined Investcorp in 2005 and leads Investcorp Technology Partners. Prior to Investcorp, Gilbert worked with Morgan Stanley in the Leveraged Finance Group, the Global Industrials Group and Firm Management. Gilbert graduated as Valedictorian from Cass Business School (City University) with a BSc in Business Studies and also holds an MSt in International Relations (History, Politics) from Cambridge University.

Scope of application of CRD IV requirements

The disclosures in this document are made in respect of ISL, the activities of which include the sourcing of potential European based private equity investments for the Investcorp Group and arranging such investments, providing business consulting services to European based private equity companies in which the Investcorp Group invests, arranging sales of European-based private equity investments on behalf of the Investcorp Group, sourcing of real estate investment opportunities in Western Europe for the Investcorp Group, and acting as a small AIFM for AIFs. The Firm is authorized and regulated by the Financial Conduct Authority (Firm Reference #139122).

For the purposes of CRD IV, the Firm is not a member of a group for prudential purposes and is therefore not required to prepare consolidated reporting or to make disclosures in relation to any other entities.

So far as the Firm is aware, there are no known current or foreseen practical or legal impediments to the prompt transfer of capital resources or repayments of liabilities between parent and subsidiary undertakings within the Firm's group.

Company Profile | Investcorp Securities Limited

Group Structure

ISL (the "Firm") is an indirect wholly owned subsidiary of Investcorp Holdings B.S.C. ("IHBSC"). IHBSC is incorporated in the Kingdom of Bahrain and has shares listed on the Bahrain Bourse. IHBSC and its consolidated subsidiaries, including ISL, are from time to time referred to in this Pillar 3 Disclosure as the "Investcorp Group".

Description of Activities

The Firm is categorized by the FCA as an IFPRU 50K limited license firm for capital purposes. The Firm is not a member of a group for prudential purposes and is therefore not required to prepare consolidated reporting or to make disclosures in relation to any other entities.

ISL's original and ongoing role in the Investcorp Group's business is to source potential European-based private equity investments for the Investcorp Group and arrange such investments (including the correlative due diligence, negotiation of acquisition agreements and arrangement of debt facilities). ISL provides business consulting services to European-based private equity companies in which the Investcorp Group invests with the objective of increasing their value during the investment holding period prior to sale. ISL also arranges sales of European-based private equity investments on behalf of the Investcorp Group. ISL is also involved in the Investcorp Group's sourcing of real estate investment opportunities in Western Europe.

ISL has FCA permissions to arrange deals in investments for these activities. The Firm also has investment passports on a cross border basis for the reception and transmission of orders in relation to units in collective investment undertakings to several EU countries, including France, Germany, Norway and Italy.

In alignment with certain of the Investcorp Growth Initiatives (the "Investcorp European Growth Initiatives") to provide financial services products to investors resident in various EU countries and Switzerland, including investments in Alternative Investment Funds ("AIFs") sponsored by the Investcorp Group, subject to compliance with the EU Alternative Investment Managers Directive ("AIFMD")[1], ISL has sought and has been granted additional FCA permissions to:

- Manage investments;
- Deal in investments as agent;
- Advise on investments;
- Arrange safeguarding and administration of assets, and
- To "control but not hold client money".

In relation to the Investcorp European Growth Initiatives these enable ISL to:

- Manage private equity and real estate investments in managed accounts.
- Advise on, and arrange/deal as agent, in private equity investments for clients under non-discretionary mandates.
- Promote Investcorp Group deal by deal private equity investments.

ISL has also obtained FCA permissions to act as a Small AIFM for AIFs.

The Firm's main fixed overheads are base employee costs, rent and other office expenses.

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[1] [1] Such collective investment undertakings may be established utilizing an AIFMD compliant platform.

Description of Client Base

Clients are eligible counterparties and professional clients resident in the EU and Switzerland.

The Firm does not carry discretionary or advisory accounts for retail clients.

However, the persons to whom the Firm may promote Investcorp Group deal by deal private equity investments on a non-advised basis may include some ultra-high net worth and high net worth individual investors, family offices and institutions qualifying as retail clients. Accordingly, the Firm has retail client permissions for arranging in case it may be called upon to arrange a non-advised transaction resulting from a promotion to such investors classified as retail clients.

Risk Management Objectives and Policies

Risk Assessment

Information on the risks the Firm faces and how it manages them was discussed during internal consultation, data gathering and analysis. Company records, including financial statements and control documents were reviewed as part of this process.

The data was organized using the risk classifications established by the Financial Services Authority (the predecessor to the FCA) Risk Assessment Framework, August 2006, which have been edited according to the Firm's activities and are contained within the Firm's ICAAP document.

The review has been undertaken afresh following the change in the Firm's permissions and its change of prudential category from an Exempt CAD firm to an IFPRU 50K Limited License firm.

ISL's Board is ultimately responsible for the strategy and operation of ISL and for setting the risk appetite for the Firm. The risk appetite is considered to be the type and level of risks that ISL is willing to accept in pursuit of its strategic goals.

ISL is able to demonstrate that it has appropriate mitigants in place to ensure that the risks it might face are factored down to an insignificant level.

ISL is only prepared to accept low risk in relation to its clients and investment services and it is prepared to accept medium risk in relation to investments.

Accordingly ISL has been assessed as having a medium risk profile overall.

Risk Identification

Each risk element was considered in the light of its relevance to the business. Identified risks were mapped on a Risk Matrix under appropriate headings together with brief descriptions.

Each relevant risk was then assessed on two dimensions, probability (P) and impact (I), using a five point scale (0 – 4) for each. The resulting inherent (or gross) risk [(P) * (I)] was calculated for ranking purposes.

Strategies, policies and procedures applied within the Firm to mitigate individual risks were identified and brief descriptions logged on the Risk Matrix.

There were 15 gross risks identified that were thought might have some impact on the Firm if they were not mitigated effectively.

These were:

1. Economic Environment
2. Competitive Environment
3. Clients
4. Loss of Clients
5. Financial Crime
6. Litigation/Legal Risk (Client)
7. Litigation/Legal Risk (Employees)
8. People Risk
9. IT Systems
10. Reputation Risk
11. Strategic Risk

12. Compliance
13. Internal Audit
14. Business Continuity
15. Group Risk

<u>Risk Mitigation and Monitoring</u>

The effect of mitigation on the inherent risk (P) and (I) scores was assessed and a second set of scores (the net risk) assigned to each showing the degree to which mitigation was considered to reduce either the probability or the impact of the risk materializing or its impact on the Firm, or a combination of both. These scores were used in calculating the risk based Pillar 2 capital requirement.

The Firm quantified the net risk scores as follows:

Impact score expressed as Pillar 2 Capital requirement:

0 - Financial cost negligible.
1 - Financial cost can be met from current resources with no impact on profits = £250K
2- Financial cost is significant but can be met from current resources although profits diminished = £500K
3 - Financial cost very onerous – additional resources needed = £3M
4 - Financial cost so great that the company cannot survive = £6.35M

Probability score expressed as a multiplier

0 - Unlikely to occur in the next 5 years = 0
1 - Likely to occur once in 5 years = 0.25
2 - Likely to occur once in 3 years = 0.5
3 - Likely to occur once in 2 years = 0.75
4 - Likely to occur within next 12 months = 1.0

After mitigation the number of risks was reduced to 8 net risks which were:

1. Economic Environment
2. Competitive Environment
3. Loss of Clients
4. Litigation/Legal Risk (Employees)
5. People Risk
6. Reputation Risk
7. Strategic Risk
8. Group Risk

None of these net risks were considered to be of any significant impact to ISL's capital resources.

<u>Stress Testing the Impact of Key Risks</u>

The gross risks identified were considered in the light of imagined and historical scenarios. Historical and prospective scenarios considered were:

Economic downturn – e.g. Brexit, unrest in the Middle East
Damage to the Investcorp Group's reputation
Failure of funds or managed portfolios to perform – staff failing to perform

If the net risks assessed materialized they would impact the Firm by reducing its revenues or increasing its costs thereby decreasing its capital or increasing its regulatory capital requirement respectively. However, ISL is part of a well-resourced and well established group, and in the event of the Firm experiencing capital resource deficiencies it is highly likely that it would be supported by another member of the Investcorp Group as long as its services were still considered viable and necessary. It was therefore considered that the most straightforward stress test would be to project how long ISL could survive if revenue were reduced to zero in the unlikely scenario of the Investcorp Group not supporting it or becoming insolvent. According to the figures the Firm could survive for a period of 25 months in 2019 decreasing to 28 months in 2022 without reducing staff or overheads

ISL's business activities are not considered to be 'critical functions'[2], and the Stress Testing Analysis demonstrates that the Firm has sufficient capital to wind down its business in an orderly fashion, with no significant impact to the financial markets, and no return of client assets or money required.

Risk Reporting

ISL's capital position is annually reported to the ISL Board and as part of the consideration when sourcing/arranging new private equity/real estate investments or taking on new advisory/discretionary management mandates.

Description of Key Net Risks Identified and Mitigants

Economic Environment

A slump in the economy and financial markets leading to a lesser appetite for ISL's services and a loss of clients.

In the lower oil price environment Gulf investors have historically shown a desire to diversify their portfolios from Middle East private equity and real estate investments, and are willing to look to increase their exposure to alternative investments in Europe. In addition, if there is a downturn in Europe it may be possible to arrange private equity investments on more favourable terms. If the Investcorp Group Technology IV Fund raises capital there will be a continuing stream of income for ISL to the end of the investment period. ISL has sufficient capital to see it through a market downturn and the back-up of the Investcorp Group where necessary.

Competitive Environment

Risk of competitors increasing market share and new competitors entering the market place.

Clients are obtained from a number of sources, including referrals from (1) the Investcorp Group's extensive base of contacts in the EU, (2) senior executives and directors of European private equity companies in which the Investcorp Group has invested, and (3) the Investcorp Group's GCC clients.

Loss of Clients

Risk of loss of clients from failure of investments to perform satisfactorily.

A small number of investments are likely to fail and there may be a loss of clients for investments marketed on a deal by deal basis. However, ISL's Corporate Investment team shows a great deal of expertise and diligence when working with investee companies to try to prevent losses on investments in such companies. Clients who are committed to closed ended funds are unable to withdraw their investment.

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[2] Critical functions are defined by the FCA as activities, services or operations the discontinuance of which is likely, in one or more EEA States, to lead to the disruption of essential services to the real economy or to disrupt financial stability due to the:
(a) size; (b) market share; (c) external and internal interconnectedness; (d) complexity' or
(e) cross-border activities.

Litigation/Legal Risk (employees)

The risk that ISL is sued by employees for offences that may occur within the workplace.

There are in place robust contracts of employment. Investcorp International Limited has an independent HR Department. Staff are required to complete the Annual Compliance Declaration whereby they confirm their compliance with the ISL Compliance Manual as well as the Investcorp Group Code of Conduct. These documents outline rules relevant to their own and ISL's conduct and the way in which ISL will treat them. There is annual training on issues such as harassment. The Firm has insurance to cover staff actions.

People Risk

Potential risk to the company of using inexperienced and incompetent staff. Risk of losing key staff to rival companies. Risk of losing key individuals due to incapacity or death. Risk of seconded staff from the Investcorp Group carrying out investment activities without appropriate FCA registration.

Prior to employment staff are vetted and qualifications assessed to confirm that they are qualified for the role they are to perform. Training and competence are monitored and staff appraised for their continued competence. Staff are retained by sound employment conditions and competitive salaries. Given the nature of ISL's business a temporary absence would not be critical. Prolonged absence or departure may cause investors to reassess their investments, however, historically this has not amounted to a change in the GP of any fund. There is adequate forward planning in relation to seconded staff to ensure that they are registered with the FCA in advance where required, or supervised by local registered staff if on a temporary basis. Staff are not rewarded on the basis of risks that they may have taken. The Remuneration Code Policy Statement will be reviewed annually and staff appraisals are carried out annually.

Reputation Risk

The risk of lost revenue, increased operating capital/regulatory costs, and/or destruction of shareholder value as a result of damage to ISL's or another member of the Investcorp Group's reputation arising from poor performance, potentially criminal event, and/or regulatory sanction.

The Investcorp Group understands the value of its reputation and therefore protects it strongly. The Investcorp Group has a legal department and would employ external advisors where necessary to defend any allegations against it that might damage its reputation.

Strategic Risk

Risks that are created by the Firm's business strategy and strategic objectives.

ISL benefits from the experience of a highly experienced CEO and Board. Strategy is driven on the Investcorp Group level and senior management of the Investcorp Group bring an equal level of experience to any strategic decisions made. Performance against strategic plans and budgets is monitored closely by the Head of Finance and Board of Directors. ISL is sufficiently capitalised to withstand any failure to meet its business development targets.

Group Risk

The risk that the Firm's financial position may be adversely affected by its relationships (financial and non-financial) with other entities in the same group, or contagion.

Contagion is a concern for ISL and it is acknowledged that damage to another part of the Investcorp Group could negatively affect ISL's operations. However, the Investcorp Group has excellent operations and compliance functions globally, and the control measures that are described in this Risk Matrix in relation to ISL can be seen across the Investcorp Group.

Regulatory Capital

As an IFPRU 50k limited licence firm, ISL's Pillar 1 calculation requires it to hold sufficient capital to cover the sum of credit risk and market risk, (being greater in aggregate than 12.5x its fixed overhead requirement). The details of the Firm's Capital after deductions as at 30 June 2019, its Pillar 1 capital requirement as at 30 June 2019, and its Pillar 2 capital requirement are outlined below:

As at 30 June 2019	ICAAP ISL's Pillar 2 Capital Requirement
Credit Risk[3]	£2,236,927
Market Risk[4]	£0
Fixed Overhead Requirement (FOR)	£ 2,474,611
Total Risk Exposure Amount (TREA) (Market + Credit Risk or **12.5x FOR**, whichever highest)	£0 (Market Risk) £2,236,927 (Credit Risk) TOTAL **£30,932,639**
Total Capital Ratio 8% of TREA	£2,474,611
Pillar 1 Total Requirement	**£2,474,611**
Pillar 2 Total	**£ 1,189,000**
Total Regulatory Capital Requirement (the greater of Pillar 1 and Pillar 2 Total)	**£2,474,611**
Total capital	**£20,220,622**
Surplus	**£ 17,746,011**

The Firm's Pillar 1 capital requirement is currently £2,474,611, and its Pillar 2 capital requirement amounts to £1,189,000. Its Common Equity Tier 1 Capital stands at £20,220,622.

Based on the analysis conducted, the Pillar 1 amount is higher than the Pillar 2 amount and therefore it is the Pillar 1 amount that is the Firm's minimum capital requirement. This results in a surplus of £17,746,011 above ISL's regulatory capital requirement.

In addition, pursuant to Article 92(1) of the CRR, ISL must satisfy the following three own funds requirements as a percentage of its TREA:

- Common Equity Tier 1 capital of 4.5% of TREA. ISL's minimum requirement based on the above TREA is £1,391,969 and the Firm currently has a Common Equity Tier 1 capital amount of £20,220,622;
- Tier 1 capital of 6% of TREA. ISL's minimum requirement based on the above TREA is £1,855,958 and the Firm currently holds a Tier 1 capital amount of £20,220,622; and
- Total capital (own funds) of 8% of TREA. ISL's minimum requirement based on the above TREA is £2,474,611, and the Firm currently holds own funds of £20,220,622.

Based on this analysis, ISL therefore meets the requirements of the CRR.

Looking forward, it is not envisaged that additional capital will be required to support the Firm's continued operations.

[3] Credit risk is calculated using the Standardised Approach (Art 111 – 144 CRR)
4 Market risk is calculated using the non-trading book approach (Art 325 – 377 CRR) for market risk

The Finance Director will continue to monitor the capital adequacy position, closely monitoring any impact of the Firm's new business activities on its capital resources. Should the capital adequacy headroom fall below 8%, then a formal review of ISL's capital position will be undertaken by the Board.

Compliance with CRR and Pillar 2

Our overall approach to assessing the adequacy of our internal capital is set out in our Internal Capital Adequacy Assessment Process (ICAAP).

The ICAAP process involves separate consideration of risks to our capital combined with stress testing using scenario analysis. The level of capital required to cover risks is a function of impact and probability. We assess impact by modeling the changes in our income and expenses caused by various potential risks. Probability is assessed subjectively.

Exposure to Securitisation Positions

ISL does not undertake securitisation.

<u>Remuneration</u>

As an IFPRU limited license firm regulated by the UK Financial Conduct Authority, ISL is subject to the FCA's IFPRU Remuneration Code (the "Remuneration Code") contained within SYSC 19A.

The firm does not hold client money or assets and does not deal as principal in transactions. As such, the firm falls within the FCA's third (and lowest) proportionality tier. This allows the Firm to disapply the following Remuneration Code requirements:

- Remuneration Principle 12(d), which requires a firm to set an appropriate ratio between the fixed and variable components of total remuneration;
- Remuneration Principle 12(f), which requires a firm to pay at least 50% of variable remuneration in the form of shares, non-cash instruments or other share-equivalent instruments;
- Remuneration Principle 12(g), which requires a firm to defer at least 40% (or 60% for very senior or highly paid individuals) of variable remuneration for a period of not less than three years (vesting no more quickly than on a pro rata basis; and
- Remuneration Principle 12(h), which requires a firm to ensure that variable remuneration is subject to clawback.

In addition, the following principles are disapplied by the Firm on the basis that they are irrelevant:

- Principle 7: Exceptional government intervention (SYSC 19A.3.20R); and
- the establishment of a remuneration committee under Principle 4, on the basis that the Firm does not qualify as a Significant IFPRU Firm (SYSC 19A.3.12R and 19A.3.12BR).

As the Firm is also subject to the CRR, the following disclosures are required under Article 450:

Decision-making Process for Remuneration Policy (Article 450(1)(a))

As a consolidated subsidiary of Investcorp Holdings B.S.C., the Firm is also subject to the Investcorp Group Remuneration Policies.

The Firm's Remuneration Policies are intended to be aligned with both the IFPRU Remuneration Code and the Investcorp Group Remuneration Policies and are based upon the objectives of:

- Attracting and retaining top talent;
- Delivering pay for sustainable long-term performance on a risk-adjusted basis;
- Aligning executive remuneration with shareholders' and clients' interests; and
- Mitigating excessive risk taking and incentivizing top-quartile risk-adjusted returns.

Annual remuneration for employees is comprised of two key elements (in addition to health and welfare benefits):

- A fixed base salary; and
- A variable remuneration component that is based on the Firm's performance and individual performance factors.

The determination of whether an employee is entitled to an award of variable remuneration in respect of any year will be based upon an evaluation of that employee's performance during that year. This evaluation will include an assessment of both (i) the employee's performance of his or her objectives that were established for the year and (ii) a range of performance competencies, including:

- Business acumen
- Judgement and maturity
- Leadership
- Teamwork and culture
- Commitment
- Adherence to process

If an employee's performance warrants an award of variable remuneration, the variable remuneration generally is awarded as a mix of an upfront cash bonus and deferred long-term incentives. A significant percentage of variable remuneration is subject to vesting requirements and cancellation risk, with the amount deferred depending on the amount of the award, which typically reflects the seniority and/or responsibility of the employee.

The only circumstances under which deferred remuneration may be paid out before the end of the relevant vesting period are the death or permanent disability of the employee.

The mix of remuneration will vary depending upon employees' functions and the mix must be consistent with risk alignment.

Individuals performing a control function (risk management, internal audit, operations, financial controls, anti-money laundering, legal and compliance) must be remunerated in a manner that will attract qualified and experienced staff and they must be remunerated in a manner that is independent of the business areas they oversee. A significant portion of the remuneration paid to these individuals will be fixed and they will be compensated based on their performance versus the objectives and targets of their functions.

As required by SYSC 19A.3.30R, ISL employees are required to commit themselves not to use personal hedging strategies or remuneration and liability related insurance that undermines the risk alignment embedded in the Investcorp Group's remuneration programs and policies.

Pay and Performance (Article 450(1)(b))

Link between Pay and Performance

The Firm's variable remuneration pool is linked to the overall financial performance of the Firm and individual remuneration awards are linked to the financial and non-financial contribution of an individual employee to the business.

Variable remuneration awards are reduced or deferred in the event of poor financial performance by a line of business or by the Firm as a whole.

Contractual payments related to a termination of employment are aligned with long-term value creation and prudent risk-taking. Such payments are related to performance achieved over time and designed in a way that does not reward failure or misconduct.

Disclosures (Articles 450(1)(g), (h), and (i))

As an *IFPRU* limited license firm, Investcorp Securities Limited is required to disclose certain quantitative information regarding remuneration broken down;

- by business area;
- by senior management and members of staff whose actions have a material impact on the risk profile of the Firm (see *Remuneration of Code Staff section below*) ; and
- the number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500 000 and for remuneration of EUR 5 million and above broken down into pay

bands of EUR 1 million.

Business area

The Firm considers that it has one business area, fund management services. All remuneration information disclosed in this disclosure is from this business area.

Remuneration of Code Staff

The Firm's Remuneration Code Staff are its employees and officers whose professional activities have a material impact on the Firm's risk profile and are comprised of senior managers and other staff. Examples of material risk takers are given in SYSC 19A.3.6 Table 2.

Pursuant to SYSC 19A.3.5R(1), the Firm will maintain a record of its Remuneration Code Staff and take reasonable steps to ensure that they understand the implications of their status as such.

Nine (9) Remuneration Code Staff have been identified in total for this performance year. This includes employees who have been Code staff for any part of the year. The aggregate remuneration paid to such persons for the financial year ended 30 June 2019 was:

Senior Managers: $1,005,188

Other Members of Staff: $2,153,335

None of the Remuneration Code Staff received remuneration of €1M or more for the financial year ending 30 June 2019.

Annex 1- Additional Disclosure on Asset Encumbrance

Template A- Assets

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	**Assets of the reporting institution* (£000s)**				
030	Equity instruments				
040	Debt securities				
120	Other assets			27,962	

*As at 30 June 2019