Polar Capital Group

Basel II Pillar 3 & Remuneration Code Disclosure Document

2019

Contents

Disclaimer

This document has been prepared by Polar Capital Holdings plc (the “Group”/ “Polar Capital”) in accordance with the requirements of the Capital Requirement Directive.

Unless otherwise stated, all figures are, as at 31 March 2019, our financial year-end. These disclosures have been reviewed by the Group’s Audit Committee and Board. The disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion in the Group’s Annual Report and Accounts. Reliance should not be placed on these disclosures as to the operation or failure to operate correctly any internal controls to detect any fraud or misappropriation of any assets which may occur. The risks identified and reported are not all the risks which the Group faces. An ISAE 3402 report has been prepared which provides a more extensive analysis of the controls which operated during the financial year to 31 March 2019 and their effectiveness. Global Investments Performance Standards (“GIPS”) verification reports are available for every calendar year since 2009 confirming the Group’s compliance with all the processes, procedures and composite construction requirements of GIPS. The latest calendar year report available is as at 31 December 2018. Although we endeavour to provide accurate and timely information, there is no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in future.

1. Capital Requirements Overview

In 2007, the Capital Requirements Directive ("CRD") came into effect as the common framework for implementing the Basel II framework in EU. The CRD is built on three pillars:

Pillar 1 is the base capital requirement and is determined by the size and nature of the company. The FCA's Prudential Sourcebook for Banks, Building Societies, and Investment Firms ("BIPRU") provides that firms, like Polar Capital LLP, that do not have permission to deal in investments on their own account or do not underwrite or place financial instruments on a firm commitment basis are limited licence firms subject to a minimum base capital requirement of €50k. If our calculated Pillar 1 capital exceeds this figure then this will be the base capital requirement to be held by the company.

Pillar 1 capital comprises the higher of:

- A base capital requirement (€50k); or
- The sum of the credit risk capital requirement and market risk capital requirement; or
- The fixed overheads requirement ("FOR").

Pillar 2 is the level of capital the Polar Capital Group considers adequate to cover all of the risks to which it is exposed within the context of the risk management framework and this is carried out through the Internal Capital Adequacy Assessment Process ("ICAAP"). It is the Group's responsibility to produce the ICAAP and this forms a key input into the FCA's supervisory review process.

Pillar 3 is the disclosure element of the Capital Requirements Directive ("CRD"). Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). Its aim is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on the Group's capital, risk exposures and risk assessment processes. The disclosures are to be made to the market for the benefit of the market.

AIFMD Capital Requirements

The AIFMD is a European Union Directive that entered into force on 22 July 2013, with a 12 month transitional period allowing firms to comply with the directive by 22 July 2014. The Directive was agreed by the European Parliament and the Council of the European Union and transposed into UK legislation. The AIFMD classifies certain investment vehicles, including investment companies, as Alternative Investment Funds ("AIFs") and requires them to appoint an Alternative Investment Fund Manager ("AIFM") and Depositary to manage and oversee the operations of the investment vehicle. The AIF boards retain responsibility for strategy, operations and compliance and the AIF directors retain a fiduciary duty to shareholders.

For the purpose of the directive Polar Capital LLP is the appointed AIFM to the Polar Capital investment trusts and hedge funds which are classified as AIFs under the directive.

Initial Capital and Own Funds

As an external AIFM, Polar Capital is required to maintain initial capital of €125,000 (or equivalent). This new initial capital requirement represents a substantial increase, from the €50,000 CRD minimum capital required. The initial capital requirement represents an absolute minimum or "floor" level of capital.

Polar Capital is also required to maintain own funds equal to the higher of:

(1) One quarter of fixed annual overheads[1] plus the PII capital requirement; or
(2) The Funds under Management requirement which is the base capital requirement plus 0.02 percent of the amount by which the total value of assets under management[2] exceeds €250 million (or equivalent), subject to a cap of €10 million (or equivalent).

Own funds maintained by an AIFM are required to be invested in liquid assets or assets readily convertible to cash in the short term, and are not permitted to be invested in speculative positions — meaning that, for an AIFM, any own funds requirements may *not* be used as working capital.

Additional Requirement to Cover Professional Negligence Risks

In addition to the initial capital and own funds requirements, AIFMs are also required to:

(1) Have additional own funds which are appropriate to cover potential liability risks arising from professional negligence. The amount of additional own funds that must be maintained is 0.01 percent of the AUM of the AIFs being managed by the AIFM; or

(2) Hold professional indemnity insurance against liability arising from professional negligence which is appropriate to the risks covered. The Delegated Regulation requires that coverage of such insurance for an individual claim must be equal to at least 0.7 percent of the value of the portfolios of AIFs managed by the AIFM, with the coverage of the insurance for claims in aggregate per year to be equal to at least 0.9 percent of the value of the portfolios of AIFs managed by the AIFM.

Qualitative Requirements Addressing Professional Liability Risks

AIFMs are required to implement effective internal operational risk management policies and procedures in order to identify, measure, manage and monitor appropriately operational risks including professional liability risks to which the AIFM is or could be reasonably exposed. The operational risk management activities are required to be performed independently as part of the risk management policy, and the AIFM is also required to keep a database recording any operational failures, loss and damage suffered by the AIF(s) that the AIFM manages.

[1] Under the CRD, the concept of fixed annual overheads includes the salaries of employees, as well as rent paid for the firm's premises etc.

[2] The Delegated Regulation states that "The value of the portfolios of AIFs managed shall be the sum of the absolute value of all assets of all AIFs managed by the AIFM, including assets acquired through use of leverage, whereby derivative instruments shall be valued at their market value."

Operational risk exposures and loss experience must be monitored by the AIFM on an ongoing basis, with operational risk management policies and procedures and measurement systems to be subject to regular review, at least on an annual basis.

2. Consolidation Group

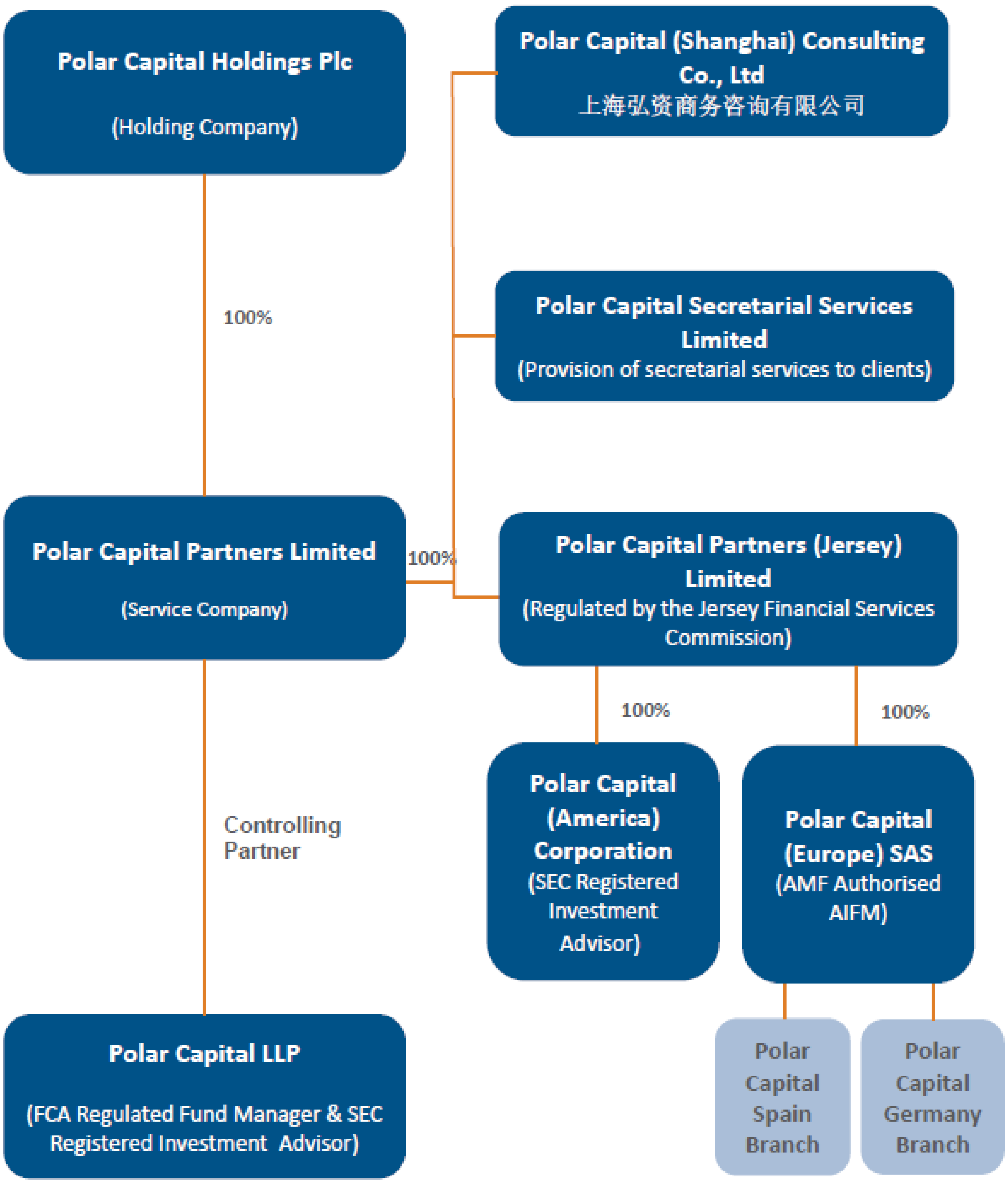
Polar Capital is a specialist asset management group which has built a range of funds diversified by asset class, geographical and sectoral specialisation, strategy and structure. Polar Capital was established in December 2000 and now manages 22 funds, three investment trusts and one managed account with combined assets of £14.3 billion as at 30 September 2019. The first office was located in London, from where the business is principally operated.

The Group's regulated business is mainly operated through Polar Capital LLP ("PC LLP"), a limited liability partnership, Income is earned through PC LLP, and many of the fund managers operate through PC LLP. The service side of the business however, continues to be operated through Polar Capital Partners Limited. Meaningful reporting is therefore found in the consolidated figures – i.e. the consolidated accounts of Polar Capital Holdings plc. PC LLP is regulated by the UK Financial Conduct Authority ("FCA") and registered with the U.S. Securities and Exchange Commission ("SEC") as an Investment Advisor.

In February 2007, the shares of Polar Capital Holdings plc were admitted to trading on AIM. As can be seen in the Group structure below, 27% of Polar Capital Holdings plc is owned by key management and staff. As at 30 September 2019 there was one key corporate investor: Caledonia Investments plc which owns 5.9%; Key members of staff/the Polar Capital Employee Benefit Trust/Directors who hold in excess of 3% of the issued share capital constitute 17.4% of Polar Capital ordinary shares.

As part of the Polar Capital Group Brexit contingency plan Polar Capital (Europe) SAS ("PCE") established an office in Paris with branch offices in Madrid and Frankfurt. PCE is authorised by the Autorité des marches financiers (AMF) as an EU AIFM with permissions to market Polar Capital funds throughout the EU.

2.1 Group Structure



3. Risk Management

The Group operates a comprehensive risk management structure of four defensive layers to support the Group's core business, fund management. The diagram in section 4.1 illustrates the various levels of risk management at Polar Capital.

Layer One – First line of Defense - Front office controls

The first line of defense are front office controls embedded in Polar Capital's business units. Infrastructure Operations, and Sales & Marketing play a key role in supporting fund management and providing a good control environment. These business units are primarily responsible for managing its own processes, identifying and controlling risks by using business control frameworks, and implementing internal processes and controls. Key controls include but are not limited to: restricted lists; dealing; hard and soft trading, position and risk limits; best execution; regulatory reporting with various exchanges and regulatory bodies worldwide; use of research and costs; client intake; data protection; controls over the production and distribution of financial promotions.

Layer Two – Second line of Defense – Functions that oversee controls

The Finance, Risk, Compliance and IT functions as well as Group committees all serve as the Group's second line of defense by managing controls and providing oversight over key risks to the business.

The CLO/CCO manages the overall Polar Capital Risk Monitoring Programme (RMP). The RMP sets the framework under which controls are reviewed, monitored and evaluated in adherence with the risk strategy outlined by the Group's Board. The RMP captures all controls and monitoring which relate to all risks to the Group's seven business units (Executive, Fund Management, Sales & Marketing, Executive Operations, Infrastructure Operations, Finance and Legal & Compliance). The CLO/CCO reports the outcome of the RMP to the Group Risk Committee, Audit Committee and PCH Board as part of the Internal Capital Adequacy Assessment Process. (ICAAP)

The Group has a constructively challenging Group Risk Committee (GRC) which determines the acceptability of risks in portfolios and investments, ensures that fund managers do not go "off piste" or lose their convictions and assurance, and ensure risks are within the parameters outlined in the fund prospectuses as well as those set by the Polar Capital Hedge Funds, UCITS and Investment Trust Boards.

The GRC is also tasked with identifying emerging risks and prioritising the top five risks in each business unit as well as the top ten risks to the business (see, Appendix 10.01 Polar Capital Top 10 Business Risks and Appendix 10.6 to 10.12 Risk Map Summaries)

The Committee is chaired by the CLO/CCO and includes the CEO, Executive Director, COO, CIO, CRO, Global Head of Distribution and Finance Director. The PCH Audit Committee Chair may attend all Committee meetings and a copy of the Committee minutes are also provided to the Audit Committee and PCH Board. The Committee considers all Group risks including corporate, operational, distribution, portfolio, legal and compliance risk. The CRO reports portfolio risks to the Committee and any matters of concern noted at the Trade Compliance Committee, Cyber Security Committee and, Product Governance Committee are reported to the Group Risk Committee. The Group's portfolio managers may also be invited to present to this Committee when requested. The Group Risk Committee meets on a quarterly basis.

The Chief Risk Officer (CRO) has responsibility for portfolio and investment risk monitoring. Risks are identified, assessed and reported to the Group Risk Committee as well as the Hedge Fund, UCITS and Investment Trust Boards. The CRO monitors risk on an individual fund level as well as at Group level. The CRO reports to the Chief Investment Officer ("CIO"). The CIO is a Senior Manager and has ultimate responsibility and oversight over the Group's investment risk. Both the CRO and CIO are within the investment manager and are independent from fund management.

The Trade Compliance Committee meets on a quarterly basis and has responsibility for reviewing issues arising from monitoring trade allocations, leverage limits, cross holdings, best execution, market abuse, dealing commissions and broker approval lists. The Committee also oversees the implementation of operational regulatory initiatives. The Committee consists of the Head of Compliance (Chair), CLO/CCO, COO, CRO and their respective teams.

The Cybersecurity Committee meets on a quarterly basis to review the group's cyber security controls and testing as well as the business continuity arrangements, test results and breaches. The Committee is chaired by the Chief Technology Officer and attended by the CCO and members of their respective teams.

The Product Governance Committee meets on a quarterly basis to review the Group's product governance. The Committee consists of the CEO (Chair), COO, CLO/CCO, Group Company Secretary and Global Head of Distribution and attended by members of their respective teams.

The Head of Performance Attribution has responsibility for producing performance attribution reports to aid in the process of understanding where value is being created in the fund management process as well as to more accurately monitor potential style drift.

Layer three Review and Oversight

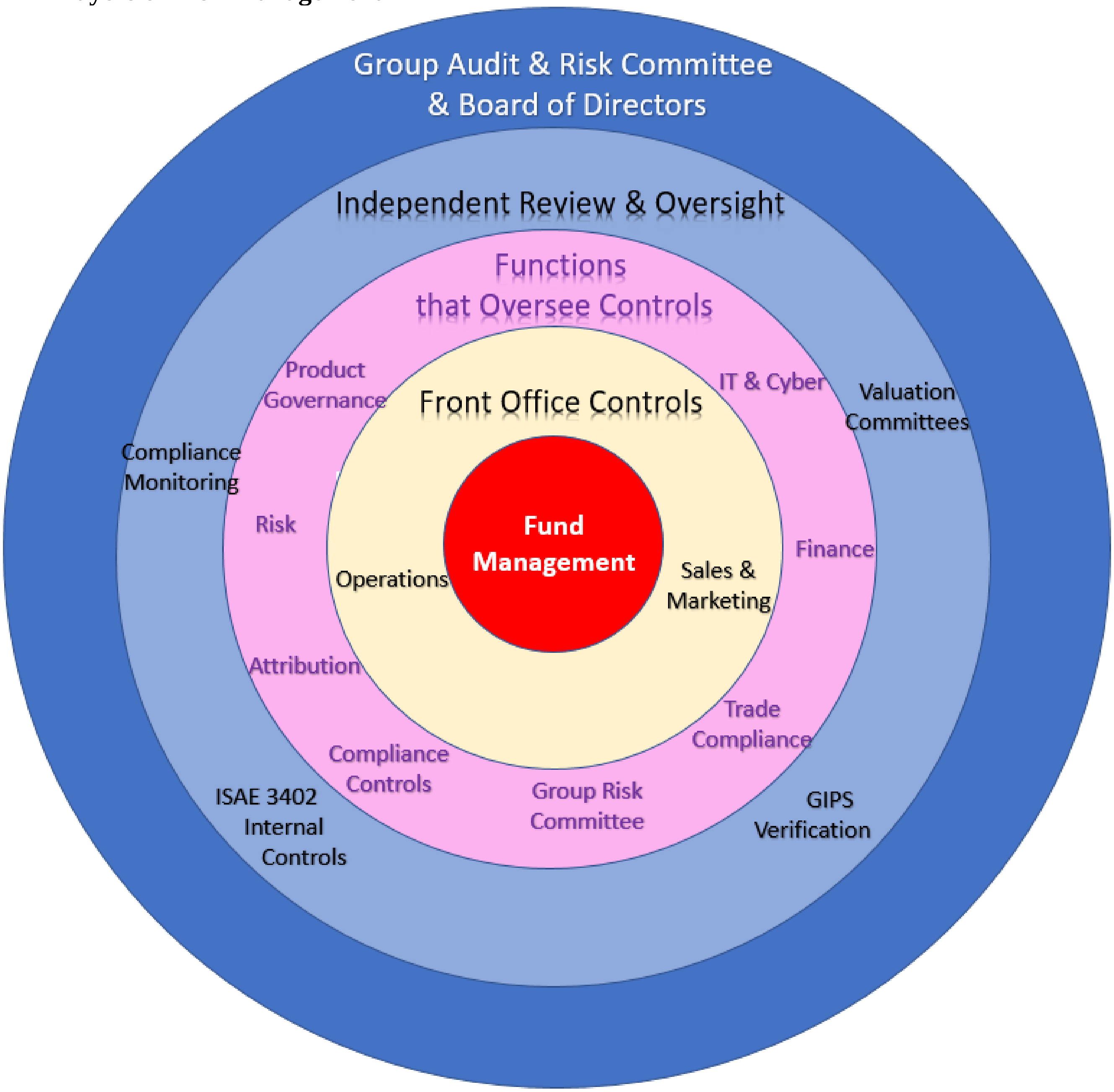
The Compliance team is responsible for carrying out monitoring and reviews of the first line's controls to ensure that they are effective. Monitoring includes periodic audits of financial promotions reviews, trade restrictions and control reviews as well as testing business controls to determine their effectiveness. Issues noted are raised to the Group Risk Committee and Audit & Risk Committee. This work is similar to that carried out by an Internal Audit function.

The UCITS Valuation Committee is chaired by a non-executive director of the Polar Capital UCITS Boards. The AIFM Valuation Committee specifically oversees the valuation process alongside the Polar Operations Desk who ensures that the fund administrators, who are responsible for the calculation of the Net Asset Value ('NAV') of the AIFs, receive the list of pricing directly from the third-party source. All members of the Valuation Committee and the Polar Operations Desk are separate from portfolio management. The Committees are tasked with reviewing and challenging the pricing of unquoted or illiquid positions, or positions over certain sizes held in Polar Capital funds. The CRO, COO and Head of Compliance are also members of both valuation committees. The Investment Trust Boards review the portfolio each meeting and consider the investment manager's recommendations for valuing the unlisted investment every six months.

The independent Group auditors conduct an internal controls review and prepare the ISAE 3402 report which provides a more extensive analysis of the controls which operated during the financial year and their effectiveness. Global Investments Performance Standards ("GIPS") verification reports are available for every calendar year since 2009 confirming the Group's compliance with all the processes, procedures and composite construction requirements of GIPS.

<u>Layer four – Group Audit & Risk Committee & Board of Directors</u>
The Group's Board of Directors has ultimate responsibility in determining the acceptability of risks that the Group faces and in determining the framework for mitigating those risks. Authority flows from the Group's Board of Directors to the Audit Committee to provide an objective assessment of controls and monitoring in place to mitigate risks.

3.1 Layers of Risk Management



4. Capital Resources

Under the existing CRD capital adequacy rules, the Group has a regulatory requirement of £13,200,000 and has carried a surplus of £22,205,000 (as at 30 September 2019). We have adopted the criteria for a "limited licence" BIPRU €50K firm in our calculations.[3]

Determining the impact of the Internal Capital Adequacy Assessment Process ("ICAAP") involves the use of internal and external data, various sensitivity and stress/scenario testing of the key risks and an assessment of how the Group mitigates these risks, i.e. by use of available systems and management controls or by increasing levels of capital as a precautionary measure.

The unconsolidated Capital Resource Requirement ("CRR") for Polar Capital LLP is calculated at £3,064,000. On a consolidated basis the CRR for the Group is calculated at £13,200,000 at 30 September 2019.

Under the AIFMD, European Union Alternative Investment Fund Managers ("AIFMs") that opt-in to the AIFMD rules are required to maintain a minimum level of capital to ensure the continuity and the regularity of their ability to manage the Alternative Investment Funds ("AIF") that they manage and to cover the potential exposure of those AIFMs to professional liability in respect of all their activities, including the management of AIFs under a delegated mandate.

The minimum capital requirement for Polar Capital LLP as the AIFM is calculated at £13,450,000

The assessment of the Group's Pillar 1 & 2 calculations was based on the following data:

Credit Risk Capital Requirement
The Credit Risk capital component reflects the risk that the Group is unable to realise the cash value of its assets or must pay out an off-balance sheet liability. Under the BIPRU rules this is calculated as £3,869k.

Market Risk Capital Requirement
The Group hedges currency and market risk and therefore has an element of foreign exchange and equity position risk. In 2018 under BIPRU rules this was calculated at £125k. In 2019 this increased to £172k due to a larger number of seed investments in the Group's own funds.

Operational Risk Capital Requirement
As a limited license firm we are not required to calculate an operational risk capital requirement under Pillar 1. Moreover, Polar Capital does not deal directly with retail investors and only deals with institutional clients. The Group has assessed its Pillar 2 capital

[3] The FCA's Prudential Sourcebook for Banks, Building Societies, and Investment Firms ("BIPRU") provides that firms that do not have permission to deal in investments on their own account or do not underwrite or place financial instruments on a firm commitment basis are limited licence firms.

requirement arising from operational risk which is adequately covered by Pillar 1 Capital and therefore no additional capital requirement is felt necessary under Pillar 2. However, operational activities are fundamental to the successful running of the Group and we can clearly state that operational risk is clearly a key risk area for the Group.

Other Risks

As part of the ICAAP we conducted a comprehensive risk assessment of the Group. We took a conservative approach in quantifying risks posed. However, we concluded that there was no need for additional capital under Pillar 2 and that Pillar 1 adequately covers all other risks.

Capital Required under the AIFMD

Initial Capital

On initial implementation of AIFMD requirements a firm must hold initial capital of at least €125k.

Funds under management

Under the AIFM Directive the funds under management requirement is (subject to a maximum of €10,000k) the sum of:

1. the base own funds requirement; plus
2. 0.02% of the amount by which the funds under management exceed €250,000k.

Professional Indemnity Insurance

As a full scope UK AIFM the firm is required to cover professional liability risks by either:

1. maintaining an amount of own funds to meet the professional negligence capital requirements or
2. by holding professional indemnity insurance and maintaining an amount of own funds to meet the PII capital requirement.

The Group has opted to meet the second criteria as it already maintains PII cover which meets the AIFMD requirements and holds enough own funds to cover the PII capital requirement.

5. Capital Adequacy

When determining the capital adequacy of the Group it is necessary to identify the risk appetite used in the ICAAP.

From our detailed understanding of how the Group operates, the activities undertaken and controls in place, we have generally applied a risk appetite of **medium/low** level and our controls have been designed to match this risk appetite. However, **medium/high** risk scores are considered acceptable and within risk tolerance limits where the impact score is **High** due to increased regulatory, financial or reputational impact to the Group and the probability of such a risk occurring remains **medium/low.** Where risks are identified at **medium/high** and **High** levels, enhanced controls and monitoring are implemented and the frequency of monitoring is also increased to mitigate these risks.

In evaluating each of the major risks the Group has used the guidelines of the handbook and the relevant sections for each risk type under the prudential sourcebook rules[4] as well as other relevant regulatory rules. Risks pertinent to the Group such as the culture of openness, having a clear understanding of the style and performance of managers, maintaining a body of skilled managers and operating thorough risk and valuation committees were also examined. Although not directly part of the Group's capital resource calculations these are a very significant part of managing risk and maintaining the value and reputation of the business. From this, Polar Capital has documented how it calculates the capital requirements under Pillar 2 and AIFMD, given that not all aspects are relevant to the Group's business, and considered if and to what level major risks facing other institutions are applicable, the level of risk involved and how the Group mitigates/controls these risks through its systems and controls.

Risk Assessment

We have reviewed all of the major risks as described in GENPRU 1.2.30R (2) of the FCA handbook and assessed how each risk is applicable to the Company.

These risks are all addressed within this section of the report.

5.1 Credit Risk & Counterparty Risk

Under GENPRU 2.1.51 there are three elements that make up the credit risk capital component, these being the credit risk capital component, counterparty credit risk capital component and concentration risk capital component.

5.1.1 Credit Risk Capital Component

The Credit Risk capital component reflects the risk that the Group is unable to realise the cash value of its assets or has to pay out an off-balance sheet liability. Under the BIPRU rules this is calculated as £3,896,000.

5.1.2 Counterparty Risk Capital Component

As a Group we do not undertake trading book activities and therefore do not incur the risk that the counterparty to the trade/trades could default.

5.1.3. Concentration Risk (material holding)

The impact of this risk could be significant due to material holdings in a concentrated number of seed investments. The definition of a material holding is:

a) the firm's holdings of shares and any other interest in the capital of a financial institution, whether in the firm's non-trading book or trading book or both, which in aggregate equals or exceeds 10% of the share capital of the issuer; the full amount of the holding is a material holding, or

b) the firm's holdings of shares and any other interest in the capital of a financial institution, whether in the firm's non-trading book or trading book or both, not

[4] The FCA, General Prudential Sourcebook (GENPRU) and Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU)

deducted under (a) if the total amount of such holdings exceeds 10% of the firm's capital resources (Total tier one capital plus tier two capital after deductions); only the excess amount is a material holding (as determined under GENPRU 2.2.209 R).

At 30 September 2019 the firm had six seed investments that met the criteria above and a total material holdings deduction of £36.8 million has been made in the firm's CRR.

5.2 Operational Risk

As a limited license Firm we are not required to calculate an operational risk capital requirement under Pillar 1. However, operational activities are fundamental to the successful running of the Firm and we can clearly state that our main risk is operational risk.

The Basel Committee on Banking Supervision has suggested that operational risk is 'the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events'. Polar Capital customises this broad definition to encompass any unexpected or undesired events or actions that could have a negative effect on the financial position or the reputation of the Group. The Group has designed a risk mitigation plan that includes an analysis of the operational risks that it faces and sets out the controls in place to avoid or detect any lapses in the operational environment.

5.3 Market Risk

In calculating the Market Risk Capital Requirement the following types of Position Risk Requirements ("PRR") form the total risk:

(a) The interest rate PRR (including the basic interest rate PRR for equity derivatives set out in BIPRU 7.3;
(b) the equity PRR;
(c) the commodity PRR;
(d) the foreign currency PRR;
(e) the option PRR; and
(f) the collective investment undertaking PRR.

As a Group we hedge currency risk and therefore have exposure in the form of foreign currency PRR.

As at 30 September 2019, Polar Capital maintained eight open FX positions with a total open position on hedging of £1,398,000 as calculated under BIPRU 7.5.3R and which results in a market risk capital requirement of £112k due to the foreign currency PRR. This figure is adequately covered under Pillar 1 and therefore no capital requirement is due under Pillar 2.

5.4 Liquidity Risk

The Group maintains a high liquidity level by adhering to budgets and producing monthly financial management information to identify cash deposits, monitor balance sheet items and budget variances where any planned or non budgeted expenditure has to be approved by the Executive Committee first. We therefore do not keep any additional capital for liquidity risk as we have a strong cash position, no borrowings and the controls in place are sufficient to mitigate the risk.

5.5 Insurance Risk

The Group has a substantial policy which covers two categories of insurance:

i. Investment adviser / manager professional civil liability – covering the insured (the Group, its subsidiaries and Polar Capital LLP and their Directors, officers and employees) against all civil liability and defense costs following a written demand or any proceeding against an Investment Manager for any actual or alleged act, error or omission arising out of or connected with their professional services as an Investment Manager or Fund. This policy has an initial period of no less than one year and cannot be cancelled for any reason other than by the Insurer for non-payment of the premium.

ii. Investment advisor / manager and fund crime protection - covering loss sustained by the Group, its subsidiaries, Polar Capital LLP or funds for a loss arising from any dishonest, fraudulent or malicious act committed by any Employee or any other natural person with the intent to obtain improper financial gain which is first discovered by the Insured and is notified to Insurers during the Policy Period.

This arrangement has been in place since 2001 and there have been no arrears in the payment of premiums. It is our view that we have more than adequate cover, meeting CRD and AIFMD requirements[5] and the insurer is a good credit risk. We therefore do not keep any additional capital for insurance risk.

5.6 Residual Risk

We are aware that our systems and controls cannot fully mitigate all risks and that there will undoubtedly be some levels of residual risk where it is not viable or considered necessary to commit the time and resources to nullify them. Given the management structure, Directors' direct involvement in running the business, the experience of business unit managers, and the reporting and control structure in place, we feel that the level of risk is acceptable. Moreover, capital resources far exceed the required capital calculated under Pillar 1. Residual risks are

[5] AIFMs that choose to cover professional liability risks through professional indemnity insurance rather than through the holding of additional own funds are required to ensure that their professional indemnity insurance policy:

(1) Has an initial term of no less than one year;
(2) Has a notice period for cancellation of at least 90 days;
(3) Covers at least those professional liability risks defined above;
(4) Is taken out with an EU or non-EU undertaking authorised to provide professional indemnity insurance, in accordance with EU law or national law; and
(5) Is provided by a third-party entity.

Any excess on the insurance policy must be fully covered by own funds (i.e., in addition to the own funds requirements set forth above), with the AIFM maintaining additional own funds representing the insurance policy excess on a pound for pound basis over and above the AIFM's own funds requirement.

reviewed on a continual basis and as part of our review, new and more robust systems are developed as appropriate. Finally, as set out above, we have in place substantial insurance to protect the company in the unlikely event of legal action, disaster and fraud.

5.7 Securitisation

This risk isn't applicable to the Group as we do not undertake any securitisation in our business activities.

5.8 Business Risk

Part of GENPRU 1.2.31(4) describes business risk as any risk arising from changes in its business, including the risk that the Group may not be able to carry out its business plan and its desired strategy.

As a Group we are very pro-active in seeking knowledge on changes to the business environment which may impact on the Group. As members of trade bodies and associations we attend various initiatives and review publications to get the latest information from professionals in the field. We also utilise a number of law firms and compliance consultants which enables us to have access to their expertise to implement and understand the impact of new directives and legal implications of compliance along with general business principles.

The Polar Capital senior management team consists of members professionally qualified with extensive experience and expertise of the business, fund management, sales and marketing, operational and regulatory environment to effectively deal with the day to day management and control of the business.

Our Board consists of a number of members that bring a wealth of exceptional experience and knowledge of the business environment. They provide expertise and challenge to ensure the Group is pro-active in addressing business risks.

Along with gaining as much insight into the business environment as possible we produce monthly management reports/accounts and quarterly compliance reports to ensure we are functioning financially and commercially as well as possible, in line with the business plan and strategy of the Group and in a compliant manner. Due to these regular reporting functions we are able to make any necessary changes if needed to adhere to the plans of the company and achieve our objectives.

We have carried out a number of scenarios to stress test our capital position, including a wind-down scenario. We continue to maintain adequate capital under each scenario after mitigating actions (which include among other steps: a reduction in the dividends, managing working capital cash flows and reducing the seeding portfolio). In light of this we feel that, as a Group, we are able to adapt to changes in the business and continue operating effectively and efficiently to overcome potential obstacles successfully. Therefore in terms of applying risk levels to this area we currently think the capital resources requirement calculated under Pillar 1 is sufficient, but as the business changes, we will continue to assess the need to hold additional capital to mitigate this risk.

5.9 Interest Rate Risk

BIPRU 2.2.30 details interest rate risk arising from non-trading book activities that are not captured by the CRR. We have assessed the Group's exposure to changes in interest rates to determine the impact of a change in market conditions on the Group's balance sheet. Therefore in terms of applying risk levels to this area we currently think the capital resources requirement calculated under Pillar 1 is sufficient, but as the business changes, we will continue to assess the need to hold additional capital to mitigate this risk.

5.10 Pension Obligation Risk

As the Group runs a defined contribution pension scheme there cannot be any deficit of payments, thus the only obligation is to make the salary apportioned payments as set down in the pension policy.

Therefore, in terms of applying risk levels to this area, we currently think the Capital Resources Requirement calculated under Pillar 1 is sufficient, but as the business changes, we will continue to assess the need to hold additional capital to mitigate this risk.

5.11 Disaster Recovery

The Group has an extensive business continuity plan that is tested at least once a year. In addition to this, the plan, disaster recovery site, and systems are reviewed and tested during the year whenever changes are made to the live environment. As part of the Polar Capital Risk Monitoring Programme, the business continuity plan and controls were subject to a comprehensive review to ensure they are appropriate, sufficient and comprehensive. In response to increased regulatory focus on cyber security the Group has established a Cybersecurity Committee, increased controls and monitoring and increased risk scores.

The Board is satisfied that the plan will allow the Group to continue to function under a wider range of disaster scenarios and therefore we currently think the capital resources calculated under Pillar 1 are sufficient, but as the business changes, we will continue to assess the need to hold additional capital to mitigate this risk.

5.12 Group Risk

The Group's risk monitoring programme and its control environment are designed to mitigate against the risk that the financial position of a Polar Capital entity may be adversely affected by its relationships (financial or non- financial) with other entities in the Polar Capital Group or by risks which may affect the financial position of the whole group, for example reputational contagion. The monitoring programme encompasses risks to all aspects of Polar Capital's Group Companies with investment management as its core business.

The Board is satisfied that the risk monitoring programme sufficiently mitigates against group risk. Therefore, we currently think the capital resources requirement calculated under Pillar 1 is sufficient, but as the business changes, we will continue to assess the need to hold additional capital to mitigate this risk.

6. Remuneration Code Disclosure

6.1 Introduction

For remuneration purposes Polar Capital is currently authorised:

A) As an AIFM firm subject to the FCA's AIFM remuneration code set out in SYSC 19B (the "**19B Code**") in relation to the alternative investment funds ("**AIFs**") which it manages. These are Polar's Investment Trusts and its Cayman Funds ("**AIF business**").

B) To manage UCITS subject to the FCA remuneration code for UCITS firms (the "**19E Code**") set out in SYSC 19E. This is in relation to Polar's UCITS and its managed accounts ("**non-AIF business**").

FCA SYSC 19C.1.1A provides that a full-scope UK AIFM that complies with SYSC 19B will also comply with SYSC 19C. ESMA's guidelines of 31 March 2016 (ESMA/2016//411) paragraph 30 provide that where staff are subject to different sectoral principles they may be remunerated by applying the sectoral remuneration principles which are deemed more effective for achieving the outcomes of discouraging inappropriate risk taking and aligning the interest of the relevant individuals with those of investors in the funds or other portfolios they manage.

On this basis Polar has determined to apply the AIFMD remuneration rules to its business generally, with such adjustments as it may consider appropriate in the event of any inconsistency between the different sectorial provisions.

6.2 Polar Capital's Remuneration Committee

Polar Capital has an independent Remuneration Committee comprising of a number of Non-Executive Directors. The Committee has general oversight of all remuneration arrangements for all staff and it considers all material elements of remuneration policy, remuneration itself and incentives with reference to independent remuneration research and professional advice.

Among its duties, the Committee is responsible for all elements of the remuneration of its executive Directors and Chairman and is responsible for determining the firm's policy relating to the payment and deferral of any bonus, compensation payment, equity options or other discretionary sum to any partner or employee of the Group. In making remuneration decisions, the Remuneration Committee has regard to all aspects of performance including any potentially excessive risk taking.

6.3 Code Staff & Link Between Pay and Performance

The Group currently has 135 staff of which 47 are Code staff. Code staff in the Polar Group are made up of both employees of the Group and members of Polar Capital LLP. Employees generally participate in an annual discretionary bonus scheme. The purpose of this scheme is to reward employees for their contributions to the business during the year. The level of bonus payments are determined by reference to the profits of the Group and the personal performance of the individual employee and the performance of the particular area in which the employee works. Where profits are reduced, the amount available for distribution as annual discretionary bonuses is reduced.

Some employees who are part of fund management teams do not participate in the annual discretionary bonus scheme. They (along with members of their teams who are LLP members) are instead eligible for bonuses (or profit allocations in the case of LLP members) which are assessed by reference to the economic success of their particular business unit. These bonuses are based on realised profit and have an inbuilt risk adjustment mechanism. Where the economic success of a particular business unit is depressed or reduced no bonus payments will be made.

Furthermore, the firm's long-term equity incentive plans (including its preference share scheme) deliver rewards in shares in Polar Capital Holdings PLC. In this way, reward is linked to the viability of the group as a whole and is consistent with sound and effective risk management.

The firm also reviews its fund managers on a regular basis to ensure that there is no style drift and it is careful to ensure that variable remuneration payments are based on actual payments received from their products, i.e. management and performance fees physically received, adjusted for costs.

6.4 Polar Remuneration Deferral Policy

In relation to the financial year ended March 2019 the Remuneration Committee applied the deferral policy to Code Staff whose variable compensation forms a significant proportion of total compensation and exceeds set thresholds. The quantum of deferral for variable compensation in excess of set thresholds will be 40% to 60% spread over three years. The deferral may be into a fund or Polar stock at the discretion of the Remuneration Committee.

The following table sets out total remuneration for the 31 March 2019 financial year end for all Code staff in two categories, senior management and all other staff. The total remuneration figures include fixed and variable elements of remuneration as well as profit shares awarded to such individuals in response of their partnership shares.

Code Staff	**Total compensation**
Senior Management	**£4,177,000**

Other	**£55,587,600**

From the financial year ending 31 March 2019, Polar has also elected to apply a discrete remuneration deferral policy (the “deferral policy”) tailored to Polar’s particular business circumstances and codified in the “Rules of the Polar Capital Deferred Remuneration Plan of April 2019 (the “Rules”).