



Capital Requirement Directive Pillar 3 Disclosure Statement

Rexiter Capital Management Limited

31 December 2009



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1. Scope of Application

This disclosure statement (the "Statement") reflects Rexiter Capital Management Limited ("RCML") and RCML's sole subsidiary, Rexiter Capital Management Singapore Pte Limited ("Rexiter Singapore"), on a consolidated basis, collectively referred to as "Rexiter", in compliance with the Pillar 3 requirements under the 2006 Capital Requirement Directive of Basel II ("Pillar 3"), as implemented by the Financial Services Authority ("FSA").

The Statement is intended to allow market participants to assess key information with respect to the risk exposure, risk assessment processes and capital adequacy of Rexiter. This Statement does not contain a discussion of all matters that may affect the capital adequacy of Rexiter. Rather, information has been omitted from this Statement on the basis of materiality, i.e. if in the opinion of the management of Rexiter such information would not change or influence the assessment or decision of a market participant or other user of this Statement.

The Statement will be updated annually following completion of the annual audit of the consolidated financial statements of Rexiter or more frequently following any significant change to the business strategy and /or its risk profile. The Statement is un-audited.

This Statement contains both qualitative and quantitative information. Rexiter has an accounting reference date of 31 December and, unless otherwise stated, all figures are as at 31 December 2009.

The Statement has been approved by the RCML Board of Directors and is published on the Rexiter corporate website (www.rexiter.com).

1.1. Application and Rexiter Structure

RCML is a limited company formed under the laws of England and Wales and is authorised and regulated by the FSA. RCML is also registered with the US Securities and Exchange Commission ("SEC") as an investment adviser. For regulatory capital purposes, the firm is classified by the FSA as a BIPRU Limited Licence €50k Firm and is subject to consolidated supervision by the FSA.

Rexiter's business is predominantly undertaken in the UK, with an office in Boston, Massachusetts, USA, a subsidiary operation in Singapore and a Rexiter Singapore representative office in Korea. The business, which is focused exclusively on institutional clients, provides investment management services to a number of large pension funds, endowments, foundations, corporate clients and collective investment schemes including US mutual funds.

RCML is majority owned by State Street Global Alliance, LLC, ("Global Alliance") with a minority ownership held by Rexiter employees. Global Alliance is beneficially owned indirectly by State Street Corporation and by Stichting Pensioenfond ABP, one of the world's largest pension funds.

Rexiter Singapore is a limited company formed under the laws of Singapore and is a wholly-owned subsidiary of RCML. Rexiter Singapore has an exempt fund manager and exempt financial adviser status from the Monetary Authority of Singapore, within the Singapore jurisdiction. Rexiter Singapore's principal activities relate to the provision of fund management services.

1.2. Operational and Organisational Structure

RCML's Board of Directors is responsible for overseeing the sound management of Rexiter and exercising its business judgment in what it believes to be in the best interests of Rexiter and its shareholders. To ensure that the business affairs of Rexiter are adequately monitored and controlled, specific responsibilities have been allocated by the Board amongst its members in accordance with the senior management arrangements required by the systems and controls ("SYSC") policy statement applicable to entities operating and regulated in the UK. The Board's primary function is to ensure that appropriate strategies, policies and guidelines are implemented across the business.

As part of the State Street organisation, Rexiter is subject to its risk management policies and procedures. Rexiter is also subject to the audit process, as part of the State Street Corporate Audit programme as well as to possible examination by the SEC, due to Rexiter's registration with the SEC as an investment adviser. There is a formal process for reporting on finance and compliance issues to the Board at each quarterly Board meeting. Corporate Audit findings are presented to Board members at the earliest Board meeting scheduled or to the RCML Management Committee meeting if this is scheduled earlier.

Members of Rexiter's senior management are responsible for the ongoing operations of Rexiter, including day-to-day management of risk within their respective areas of the business. RCML's Board is provided reports on the activities of Rexiter by the relevant senior manager responsible for certain areas of Rexiter's business. In addition, all State Street policies can be formally recognised within Rexiter's own policies or are recognised to the extent permitted by and consistent with the laws and regulations applicable to Rexiter.

1.3. Differences in Consolidation for Regulatory and Accounting Purposes

The differences in the basis of consolidation for accounting and regulatory purposes relate to inter-company transactions arising from transfer pricing. For accounting purposes inter-company transactions are eliminated in consolidation, whereas for regulatory purposes, inter-company transactions are not eliminated in the computation of the regulatory capital requirement. This results in a higher regulatory capital requirement.

1.4. Restrictions, or Other Significant Limits, on the Transfer of Funds or Regulatory Capital within Rexiter

RCML may transfer funds to or be the recipient of funds from its parent companies or subsidiary from time to time as the need arises or circumstances warrant. In any case, RCML's ability to transfer such funds or the ability of RCML's parent companies and subsidiary, as applicable, to transfer such funds to RCML may be limited by regulatory capital requirements or other legal obligations or restrictions imposed on RCML, its parent companies or subsidiary, as applicable.

2. Capital

2.1. Capital Structure and Capital Resources Calculation

The group calculates its capital resources in accordance with GENPRU 2 ANNEX 4 capital resources calculation for an investment firm deducting material holdings.

Rexiter's eligible capital held is as follows: As adjusted for dividend payment March 2010.

As at 31 December 2009	GBP thousands
Core capital – Tier 1	
Permanent share capital	2
Share premium	598
Profit and loss account	20,960
Dividend paid March 2010	(10,000)
Total eligible Tier 1 capital after dividend payment	11,560

The following chart sets forth the significant features and terms and conditions of the capital instruments of RCML:

Capital Structure	Main Features	Terms & Conditions
Tier 1		
Permanent share capital	750 "A" ordinary shares of £1 each 250 "B" ordinary shares of £5 each	<i>Rights and restrictions:</i> To the extent there are distributable profits, dividends are paid to the holders of "A" and "B" ordinary shares as if they constituted one class of share.
Share premium	750 "A" ordinary shares @ £599 each 250 "B" ordinary share @ £595 each	Not distributable
Profit and loss account	Retained earnings	Retained earnings form the majority of regulatory capital and will only be distributed to the extent that sufficient capital is held for strategic changes, ordinary business needs, market conditions and regulatory purposes.

2.2. Capital Adequacy

Management evaluated key metrics for both regulatory and economic capital to ensure that Rexiter's actual level of capital:

- i) is commensurate with its risk profile
- ii) is in compliance with all regulatory requirements
- iii) is sufficient to provide Rexiter with the financial flexibility to undertake future strategic business initiatives.

RCML's Board oversees the management of capital and is responsible for ensuring capital adequacy with respect to regulatory requirements, internal targets and the expectations of RCML's parent company and the FSA.

Rexiter aims to maintain a strong capital base in order to provide financial flexibility for Rexiter's business needs, including funding corporate growth. Rexiter looks to maintain an optimal level of capital, commensurate with its risk profile, on which a return to its parent company will be realised over both the short and long term, while satisfying Rexiter's regulatory requirements.

Rexiter maintains an Internal Capital Adequacy Assessment Process ("ICAAP") for measuring the risks to which Rexiter is exposed and for monitoring the adequacy of its capital. The ICAAP is intended to affirm Rexiter's capital adequacy by demonstrating the appropriateness of its risk management practices which are employed to manage all risks related to achieving Rexiter's business objectives. The ICAAP is reviewed and approved by RCML's Board at least annually as part of the business planning cycle or following any significant change to the business strategy and/or its risk profile.

As a BIPRU Limited Licence €50k firm, Rexiter's Pillar 1 capital requirement is the greater of:

- a) its base capital requirement of €50,000; or
- b) the sum of its market and credit risk requirements; or
- c) its Fixed Overhead Requirement (FOR)

Market risk resulting from foreign exchange is calculated in accordance with the standardised approach given in BIPRU 7.

Credit risk is calculated in accordance with the standardised approach given in BIPRU 3. Under BIPRU 11.5.4 firms using the standardised approach for calculating the credit risk component are required to disclose 8% of the risk-weighted exposure amounts for each of the standardised credit risk exposure classes. This information is not disclosed due to its immateriality.

FOR is based on three months of expenditure calculated in accordance with GENPRU 2.1.53.

Regulatory capital – Pillar 1

As at 31 December 2009	GBP thousands
Base capital requirement	44
Credit risk	629
Market risk	344
FOR – Pillar 1	3,064
Regulatory Capital Requirement – Pillar 1	3,064

Summary table of Tier 1 and total capital ratio – Pillar 1

As at 31 December 2009	GBP'000s	2008	2009
Tier 1 capital ratio (%)		660%	377%
Total capital ratio (%)		660%	377%

3. Overall Approach to Risk

As a provider of financial services, Rexiter incurs some level of risk. Rexiter places the highest priority on the prudent management of its overall risk profile, as well as business-specific risks. These risks are managed through broad-based operational controls and risk management programmes.

Rexiter has implemented risk management programmes by:

- Identifying key business performance metrics with acceptable levels of risk defined through established policies;
- Managing material risks and avoiding undue risk concentrations;
- Promoting a culture of risk awareness that extends across Rexiter and all of its activities, driving comprehensive risk mitigation techniques, and ensuring that the identification and escalation of potential risks represent a core responsibility at all levels;
- Maintaining reputational integrity that ensures Rexiter's ongoing position of trust as an investment manager;
- Complying fully with applicable laws, regulations, and policies; and
- Requiring all employees to adhere to the State Street Corporation's Standard of Conduct, and requiring all Rexiter employees to adhere to the Rexiter's Code of Ethics.

Rexiter is required to comply with its own and all applicable State Street Corporation corporate risk policies and guidelines, including those governing credit risk, operational risk, trading and market risk, and new business and new product approvals. These policies and guidelines assist Rexiter in the identification of material risks, including potential risks to which it may be exposed, and the implementation of strategies and controls to mitigate those risks.

3.1. Principal Risks

The principal risks faced by Rexiter are market/trading risk, operational risk, business risk and pension obligation risk which are discussed below. Rexiter's analysis of its exposure to liquidity risk, interest rate risk in the non-trading book, credit risk and transfer risk are also included below. Risks which have been identified but considered not relevant for Rexiter include residual risk, securitisation risk, settlement risk, underwriting risk and insurance risk.

3.2. Market / Trading Risk

Market or trading risk is the current or prospective risk to earnings arising from changes in interest rates, foreign exchange rates, commodity prices or equity prices, including indices relating to these. For the purposes of this definition, interest rate risk in the non-trading book is excluded. Market risk can arise from client portfolio positions, whether long or short, that expose the revenues of the firm to any of the above risk factors.

Funds under management ("FUM") currently consist almost wholly of emerging markets and Asian equities; these are not held on Rexiter's balance sheet, and all market price risk is borne directly by the client. However, Rexiter does have a secondary exposure to equity risk, as its management fees, both base and performance, are directly impacted by the value of FUM.

A decline in equity markets would result in reduced FUM and consequently lower management fees. The majority of fees are levied according to a standard 'base fee' calculation, with a proportion of current funds under management having a 'performance fee' component based upon funds 'outperforming' relative to a pre-determined benchmark.

Rexiter's exposure to foreign exchange rate risk arises from its exposure to non-sterling based revenues and predominantly, a sterling cost base. On the revenue side, management fees are earned as a percentage of a client's FUM, with Rexiter's key strategies composed of holdings in a range of currencies, and consequently resulting in non-sterling based fees. Some costs, such as those relating to Rexiter's overseas offices and local market transaction fees are also incurred in foreign currencies.

3.3. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. For operational risk measurement purposes, this definition includes legal/compliance risk, namely the risk of loss resulting from failure to comply with laws and contractual obligations, as well as prudent ethical standards, in addition to exposure to litigation from all aspects of Rexiter's activities. The definition also includes fiduciary risk, which arises when, in acting on behalf of its clients, Rexiter fails to properly exercise discretion or does not properly monitor or control the exercise of discretion delegated to a third party.

Operational risk has been identified as a critical risk to Rexiter. In general, Rexiter seeks to mitigate operational risk by implementing a strong control environment and managing risk proactively. Rexiter works within the framework of State Street's Operational Risk Policy and Guidelines.

Rexiter's Pillar 1 capital requirement is based on the Fixed Overhead Requirement methodology. When compared with the loss impact of Rexiter's most severe potential operational risk event, the firm is deemed to be adequately capitalised.

3.4. Business Risk

Business risk includes any risk to a firm arising from changes in its business, including the risk that the firm may not be able to carry out its business plan and its desired strategy. Rexiter considers that there are various manifestations of balance sheet risk that would result in the business being unable to carry out its business plan or envisaged strategy. Reputational risk, loss of key staff within a boutique environment, investment under-performance, reliance upon RCML's parent and affiliates for operational and administrative functions, geographical concentration of investments and the concentration of distribution channels have all been included and assessed within this risk area.

3.5. Pension Obligation Risk

Pension obligation risk arises from Rexiter's contractual obligations or other liabilities with respect to a pension scheme, whether established for its own employees or those of a related company or otherwise. Rexiter is part of the State Street UK pension scheme sponsored by State Street Bank and Trust Company, a wholly owned subsidiary of Rexiter's ultimate parent, State Street Corporation based in Boston, USA. The risk primarily arises from the defined benefit scheme in existence, but which is now closed to all members.

3.6. Liquidity Risk

Liquidity risk is the current or prospective risk to earnings and capital arising from an institution's inability to meet its liabilities when they fall due. Rexiter's liquidity requirements relate only to salary and operational costs, including rental expenses. Rexiter does not have borrowing obligations, and, as a result, its exposure to liquidity risk is minimal. Rexiter does not extend credit facilities to its clients.

Rexiter's liquidity management policy aims to ensure that Rexiter can meet its financial obligations in a timely and cost-effective manner and that Rexiter can maintain sufficient flexibility to fund strategic corporate initiatives as they arise.

3.7. Interest Rate Risk in the Non-Trading Book

This risk represents the potential impact of adverse movements in interest rates in the non-trading book and the impact these have on planned future cash flows. Rexiter is exposed to interest rate risk only as a result of cash deposits held with banks; however, interest income is not considered a key revenue driver or dependency for Rexiter.

3.8. Credit Risk

Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the institution or its failure to perform as agreed. As components of credit risk, Rexiter assesses counterparty credit risk, the risk of non-payment of fees by clients and the risk of cash deposits with banks. Rexiter does not extend credit to its clients. Rexiter's credit risk is managed through adherence to State Street's Credit and Counterparty Risk Policy Statement which adopts a conservative appetite towards counterparty credit risk.

Rexiter's Pillar 1 capital requirements are determined under the Fixed Overhead Requirement basis. Rexiter's exposure to credit risk is considered to be minimal and well managed and therefore no additional Pillar 2 capital add-on is deemed necessary.

3.9. Transfer Risk

Transfer risk reflects the inability of Rexiter to fulfill obligations due to government action (one of the most important drivers of country risk), for example government imposed prohibitive exchange restrictions, which may make it impossible for private agents to transfer payments.

Any queries relating to this Statement should be addressed to:

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