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**PILLAR 3 REGULATORY DISCLOSURES REPORT  
– AS AT 30 NOVEMBER 2016**

LEUCADIA INVESTMENT MANAGEMENT LIMITED

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# 1 OVERVIEW AND BASIS OF PREPARATION OF THE PILLAR 3 DISCLOSURES

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## 1.1 BUSINESS BACKGROUND

Leucadia Investment Management Limited ('LIML' or 'the Firm') is a UK-incorporated fund manager, regulated by the Financial Conduct Authority ('FCA') as a BIPRU<sup>1</sup> €50K firm. LIML's parent is the US incorporated LAM Holding LLC ('LAM') which is wholly owned by Leucadia National Corporation.

## 1.2 REGULATORY FRAMEWORK: BIPRU AND PURPOSE OF THE PILLAR 3 DISCLOSURES

The BIPRU framework sets out minimum capital requirements for firms to ensure they are adequately capitalised against the risks they face and are able to withstand losses during periods of stress conditions. The framework consists of three pillars:

- **Pillar 1** sets out the minimum capital requirements that firms must meet for credit and counterparty, market and operational risk. LIML is subject to the base capital resources requirements: credit risk and market risk capital requirements and fixed overhead requirement;
- **Pillar 2** covers the review process by firms and supervisors to assess the appropriateness of the Pillar 1 level of capital and concludes on any additional capital to be held for risks not captured or not adequately captured by Pillar 1; and
- **Pillar 3** encourages market discipline and transparency through appropriate disclosures on capital adequacy and risk management processes.

This Pillar 3 Disclosures Report ('the Report') is prepared in accordance with the requirements in BIPRU 11 and focuses on capital adequacy measures and disclosures of the Firm's risk and capital management processes.

## 1.3 SCOPE OF THE PILLAR 3 DISCLOSURES

This Report relates to LIML's activities and financial position as at 30 November 2016. LIML is a solo UK regulated entity for FCA purposes; at a group level the consolidation basis and scope used for statutory accounting reporting and regulatory reporting are the same.

## 1.4 PILLAR 3 DISCLOSURES POLICY, FREQUENCY AND VERIFICATION

**Policy** - LIML has a policy in place to assess the appropriateness of its Pillar 3 disclosures, including their verification and frequency of review and publication. The Pillar 3 Policy, in line with BIPRU requirements, also requires that LIML's external disclosures present the Firm's profile comprehensively, subject to the information being material and not proprietary or confidential. Any information omitted on this basis is declared in this Report.

**Frequency** - LIML's policy is to publish this Report at least annually as at the accounting reference date and, if appropriate, more frequently if there is a significant change to the Firm's risk profile.

**Verification** - The 2016 disclosures were validated and approved internally by senior management, including the LIML Board of Directors, in line with the Pillar 3 Disclosures Policy. Consistency checks and reconciliations are performed within the Controllers function to ensure consistency in disclosures. The internal validation process included data validation by Senior Management in Controllers, Risk, Regulatory Reporting, Human Resources and Legal, with final approval by the Board of Directors.

## 1.5 PRESENTATION OF RISK EXPOSURES AND ACCOUNTING PRINCIPLES

The calculation methodologies underlying the measurement of the risk exposures in this Report are those required in BIPRU. In general, the measurement of exposures for regulatory risk reporting purposes is based on a supervisory formula method. Therefore, these exposure measures may be different from those used by LIML for risk management internally and those used for other external risk disclosures. Except for the application of the exposure measurement methodology described above, these disclosures have been prepared in accordance with UK Generally Accepted Accounting Principles ('UK GAAP').

## 1.6 OTHER DISCLOSURES

This document does not constitute a set of financial statements. Financial statements for LIML are prepared in accordance with applicable UK company law and accounting standards. These disclosures should also be read in conjunction with other public disclosures by Leucadia which can be found at: <http://www.leucadia.com/>.

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<sup>1</sup> The FCA's Prudential Sourcebook for Banks, Building Societies and Investment Firms

## 2 RISK MANAGEMENT APPROACH AND CAPITAL RESOURCES

### 2.1 GOVERNANCE STRUCTURE

LIML's Board of Directors ('the Board') is responsible for the long term success of the Firm by creating sustainable value for the Firm's sole shareholder, Leucadia. The Board sets strategy, in line with delegated authority from the shareholder, and oversees its implementation through the Board-approved Business Plans. The Board is ultimately responsible for the governance and oversight of risk management and for ensuring that adequate systems and controls are maintained to enable risks to be appropriately identified, measured, managed and monitored.

The LIML Board interacts effectively with the executive team which has been charged with delivering the Firm's agreed strategy. Given the size and complexity of LIML, the Board does not require the delegation of responsibilities and oversight through a committee structure. However, the Firm has a Support Committee which has the day-to-day oversight of the primary business activities with the objective of enabling effective information flows. The committee members include departmental heads and other key staff members including representatives from Business Support, Operations and Product Control.

### 2.2 PRINCIPAL RISK MANAGEMENT

The Board identifies three Principal Risks: Capital Risk; Operational Risk; and Reputational Risk.

#### 2.2.1 CAPITAL RISK MANAGEMENT

The Firm's capital management policy is to maintain a strong capital base that is comfortably above the minimum regulatory own funds requirements in order to support all material risks inherent in the Firm's business and market environment. Capital resources and requirements are monitored and reported to Senior Management and are subject to minimum thresholds as set out in the capital management processes and are approved by the Board at least annually.

Figure 1 shows the Firm's capital resources as at 30 November 2016. The value of share capital and audited reserves is £2.6m; the capital resources comprise Common Equity Tier 1 capital only.

Figure 1: Capital Resources

Capital Resources as at 30 November 2016	£'000
<b>Common Equity Tier 1 Capital</b>	
Ordinary Shares	2,708
Reserves	(73)
of which: 2016 P&L	860
<b>Total CET1 Capital</b>	<b>2,635</b>
Capital Deductions	0
<b>Total Capital Resources</b>	<b>2,635</b>

#### 2.2.1.1 CAPITAL REQUIREMENTS

##### Application of the Pillar 1 Framework

As a limited licence BIPRU €50K firm, LIML's regulatory own funds requirements for each risk factor are calculated on the basis of the most conservative approaches as set out in the FCA GENPRU<sup>2</sup> and BIPRU<sup>3</sup> rulebooks. As per GENPRU 2.1.45, the variable capital requirements (Pillar 1) are calculated as the higher of:

- The sum of the market risk and credit risk capital requirements as calculated under the standardised approaches according to BIPRU; and
- The fixed overheads requirement ('FOR') calculated as one quarter of the Firm's relevant fixed expenditure as per GENPRU 2.1.54.

As at 30 November 2016, LIML's Pillar 1 capital requirement was £546k based on the fixed overheads requirement. Credit and market risk exposures are minimal<sup>4</sup>:

- *Credit risk:* As a fund manager (and sub adviser) LIML's only exposures to credit risk are limited and arise as a result of receivables and operational bank balances. As at 30 November 2016, the Pillar 1 requirement was £123k. There are no counterparty risk exposures. LIML uses external ratings provided by Moody's to risk weight exposures under each of standardized credit risk exposure classes. The Firm does not have a non-trading book or makes use of internal rating methodologies for corporate clients and as such is not required to make disclosures on these points. Figure 2 provides a breakdown of credit exposures by credit quality step.

<sup>2</sup> General Prudential Sourcebook ('GENPRU')

<sup>3</sup> Prudential sourcebook for Banks, Building Societies and Investment Firms ('BIPRU')

<sup>4</sup> As such LIML has no exposures referred to in BIPRU 11.5.5-11.5.9; and 11.5.11-11.5.17.

Figure 2: Exposures by Credit Quality Step

Credit Quality Step	£'000
CQS 1	-
CQS 2	3,083
CQS 3	-
CQS 4	-
CQS 5	-
CQS 6	-
Unrated	-

- **Market risk:** LIML's only exposure to market risk is in the form of FX risk as a result of fee receivables and bank balances denominated in dollars; this was calculated as £169k as at 30 November 2016. The Firm has no trading book activity and has zero appetite for any other market risk; as such it has no other trading book activity or securitisation activity. Appetite for market risk is reviewed at least annually and is approved by the Board.

The Firm does not make use of internal methodologies for the calculation of Pillar 1 requirements such as Value-at-Risk and the Internal Ratings Based approach and therefore does not make specific disclosures on these methodologies.

The Firm does not have Interest Rate Risk in the Non-Trading Book or equity investments in the Non-Trading Book such as investments in subsidiaries. As such the Firm does not make required disclosures on these items.

#### Application of the Pillar 2 Framework

The level of Pillar 2 capital held by LIML reflects the risks inherent in the business model and the governance, control and risk management infrastructure. The Board ensures that LIML has adequate capital to support all material risks inherent in LIML's business activities and market environment. Additional capital is held under Pillar 2 where a risk is not adequately capitalised under Pillar 1.

The minimum regulatory own funds requirement is the sum of the Pillar 1 and the Pillar 2 requirement where an amount in excess of that covered by the FOR is set by the FCA. It is the Firm's policy to ensure it holds capital in excess of the amount determined to be held under the Internal Capital Adequacy Assessment Process. A Red/Amber/Green status is monitored by the Regulatory Reporting Team to ensure the Firm holds sufficient capital at all times.

#### 2.2.2 OPERATIONAL RISK

This is managed under the Operational Risk Management Framework which includes the following:

- **Risk Self-Assessment ('RSA') Process** – Carried out by each division at least annually with oversight from the Operational Risk Team.
- **Risk Register** – All risks identified by the RSA process are aggregated and assessed for financial impact and likelihood. They are then documented in the Risk Register.
- **Incident Reporting** – Instances of operational risk events are investigated by the Operational Risk Team and remediation actions established to introduce or enhance controls to mitigate against future events.
- **Internal Capital Adequacy Assessment Process ('ICAAP')** – As part of the Firm's ICAAP, operational risk is considered as a principal risk and the amount of capital held against it is assessed.

The Basel taxonomy is used to define operational risks within the Firm. For a fund manager such as LIML, this risk predominantly arises in the form of professional liability risk. As per industry practice, LIML has professional indemnity insurance ('PII') in place and also reviews operational risk as part of the Pillar 2 framework.

#### 2.2.3 REPUTATIONAL RISK

LIML's reputational risk could arise from poor performance affecting its ability to generate profits; the effect on its financial position should it lose some of its largest investors; the effect of poor customer services on its financial positions; and the effect on its financial position should one or more of its key portfolio managers leave the Firm. This is assessed and monitored as part of the Firm's Pillar 2 framework.

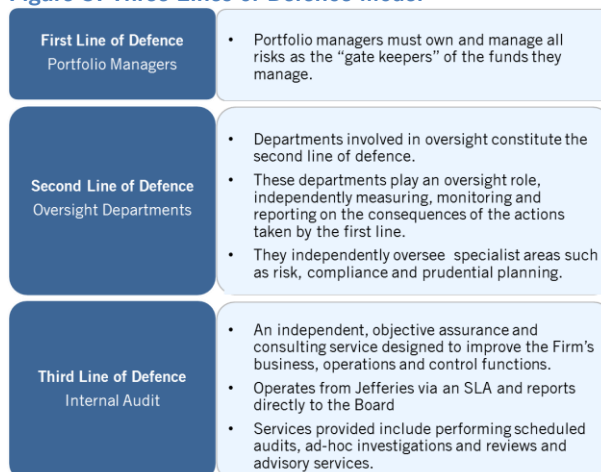
## 2.3 RISK MANAGEMENT APPROACH

### Three Lines of Defence

LIML has adopted a “three lines of defence” approach to managing risk. This ensures segregation of duties and allows the Firm to demonstrate and structure roles, responsibilities and accountabilities for risk, control and decision making.

- **First Line** - Those responsible for initiating and directly identifying and managing LIML’s risk.
- **Second Line** - Oversight and independent control.
- **Third Line** - Provide independent challenge and assurance.

Figure 3: Three Lines of Defence Model



### Risk Management Department

Operationally, risk management is performed by the independent Risk Management Department (‘Risk Department’), provided by the EMEA Jefferies Risk Department through Service Level Agreements (‘SLAs’). This includes the monitoring, management and reporting of risk exposures against applicable internal thresholds. Risk Management consists of the following teams: Market and Liquidity Risk, Credit Risk, Operational Risk, Strategic Risk and Prudential Planning, Model Validation, Risk and Model Control, and Risk Operations. The heads of the teams report to the Chief Risk Officer (‘CRO’).

### Policy Framework

As part of risk management, the Firm adopts and follows various policies and frameworks in the risk management process including the:

- *Operational Risk Management Policy* – This sets out roles, responsibilities, processes and escalation procedures regarding operational risk management.
- *Liquidity Risk Management Framework* – This states how the limited liquidity risk is mitigated in the Firm and sets out contingency arrangements.
- *Capital Management Framework* – This states the key components for the management of regulatory capital including the application of the Pillar 1 and Pillar 2 frameworks, risk appetite and thresholds, governance.
- *Internal Capital Adequacy Assessment Process (‘ICAAP’)* – This assesses any additional capital the Firm needs to hold against the risks inherent in its business that are not adequately capitalised by the Pillar 1 framework.

### Limit Monitoring

There are independent limits set for the investment structures which are monitored on a daily basis. Stress testing is also used to analyse the potential impact on the fees for the Firm from specific events and moderate or extreme market moves on the portfolios. The stress scenarios comprise both forward looking scenarios based on historic market movements and hypothetical market movements which include simultaneous changes to multiple risk factors.

### 3 REMUNERATION

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The following disclosures are made in accordance with BIPRU 11.5.18R for the financial year ended 30 November 2016, considering the FCA's Remuneration Code, 'the Code' and guidance on proportionality, set out in the Sourcebook for Senior Management Arrangements, Systems and Controls (SYSC19C). LIML is classified as a proportionality Level Three firm.

#### Remuneration Policy and the Decision-Making Process

The business strategy for LIML is to provide quality services to its clients, to increase revenues, and to provide a return to shareholders and other stakeholders. As such the Firm's remuneration policies and practices are designed to be flexible to:

- Align with these objectives in a highly competitive market by improving individual and corporate performance and contribution, while managing risk effectively in recognition of the Firm's employees being critical to executing the business strategy successfully; and
- Meet high standards of governance and compliance with all regulatory requirements by encouraging behavior that supports the long term financial soundness and risk management framework.

#### Governance

LIML's remuneration policy is reviewed and approved by the Board annually. The International Chief Financial Officer, supported by the Chief Operating Officer, have general oversight of the financial performance of all business units, and the Board reviews business performance and compensation costs for each business unit.

#### Design Characteristics of the Remuneration System

The performance targets and budgets are set at least annually and are reviewed regularly throughout the financial year (at least quarterly). Business performance and remuneration costs are reviewed by the Boards. In the event of the Firm's performance being weak, bonus pool and any distributions will be reduced accordingly at the discretion of senior management.

The Firm monitors the ratio of fixed to variable compensation for Code Staff to ensure adherence with the general requirements of the Code. The Firm will consider as special cases buying out deferred variable remuneration for prospective hires where the hire is of a particular importance to the Firm for achieving its business objectives. This is subject to senior management approval on a case by case basis.

#### Link between Pay and Performance

Remuneration practices are directly linked to both short term and long term performance goals. LIML operates a discretionary year-end bonus scheme, the purpose of which is to reward and incentivize employees, including Code Staff. All employees are eligible to participate in this scheme; there are no bonus schemes specific to Code Staff. Year-end performance awards are made from annual bonus pools for the financial year. The discretionary nature of the bonus scheme enables management to review performance and to take appropriate action to reduce or otherwise extinguish any entitlement to bonus on the grounds of failure to comply with risk and/or compliance policies even where performance against financial targets would otherwise have led to a bonus being awarded. When determining employee performance awards, the factors considered include, but are not limited to:

- Employee's performance during the year against financial and non-financial metrics, with specific attention to stand-out performance, active contribution and adherence to expected risk and compliance requirements;
- Performance and profitability of the business, the relevant legal entity, and the wider group;
- Overall contribution of the individual to the business unit performance;
- Importance of the sector / business unit and the need to retain the individual; and
- Competitive market data and performance of the financial markets in general.

*Vesting:* The performance award is paid in the fiscal quarter immediately following the end of the fiscal year to which the bonus relates, provided the individual is an employee of the Firm on the date that the award is made and is not under notice, whether given by LIML or the employee, to terminate their employment. Depending on the level of an employee's total compensation, performance awards in 2016 were paid in either restricted or unrestricted cash in accordance with the Remuneration Policy. Restricted awards where applicable have a one year or greater vesting requirement to encourage employees to take a multi-year perspective.

Due to the small number of staff, the Firm does not disclose quantitative information on remuneration in order to maintain confidentiality under discretions allowed as per the BIPRU Pillar 3 disclosure requirements.