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**CAPITAL ADEQUACY  
AND  
RISK MANAGEMENT REPORT  
(PILLAR III DISCLOSURES)**

**TRIENT ASSET MANAGEMENT AS**

**31. DECEMBER 2015**

## Introduction

Trient Asset Management AS ("Trient" or the "Company") is committed to maintaining public transparency with regard to its business, financial performance and risks. Further information is provided in the financial reports.

The Basel II framework of international regulation was implemented in the European Union (EU) through capital requirements directives from 2007 onwards, and translated into local law in member countries. In Norway, the Basel II framework has been in effect since 1 January 2007. The Basel II framework is based on the following three Pillars:

- Pillar 1 – Minimum capital requirement: defines the rules for the calculation of capital required to meet credit, market and operational risk;
- Pillar 2 – Supervisory review process: requires an asset manager to assess its individual capital adequacy assessment under Pillar 1 for other risks; and
- Pillar 3 – requires disclosure of specified financial information about the underlying risk management controls and the capital position.

This Pillar 3 disclosure document explains the basis for preparation of certain capital requirements and provides information about the management of specific risks.

### Pillar 1:

Trient Asset Management AS uses the "Standard Approach" when performing the capital adequacy Pillar 1 calculation. This calculation follows risk-weighted standards set by the Norwegian authorities and represents a risk-weighted aggregation across the Company's credit risk, market risk, and operational risk.

The Norwegian Capital Adequacy Regulations § 41-2 (Kapitalkravforskriften) specify a certain minimum capital requirement for asset management companies such as Trient Asset Management AS. Total equity capital needs to represent at least 25% of last financial year's fixed costs. Furthermore, the Company's capital requirement in relation to Pillar 1 must be the greater of:

- a) The mandated base capital requirement of Euros 125,000.
- b) 8% of the calculated base of credit risk, market risk and operational risk.
- c) 25% of last year's fixed costs.

Consolidated core capital:

<b>Amounts in 1,000 NOK</b>	<b>2015</b>	<b>2014</b>
Share capital	1 020	1 020
Share premium reserve	-	6 494
Net Other Equity	26 668	8 596
<b>Total core capital</b>	<b>27 688</b>	<b>16 111</b>
<b>Additional capital</b>	<b>-</b>	<b>-</b>
<b>Net core capital</b>	<b>27 688</b>	<b>16 111</b>

a) Start capital requirements:

<b>Amounts in 1,000 NOK</b>	<b>2015</b>	<b>2014</b>
Start capital requirement	2 395	2 960

b) Risk-weighted assets from the balance:

<b>Amounts in 1,000 NOK</b>	<b>2015</b>	<b>2014</b>
Institutions	6 602	9 830
Other engagements	14 043	16 462
Fund shares	24 535	11 293
<b>Risk-weighted assets</b>	<b>45 180</b>	<b>37 585</b>
<b>Capital requirement (8%).</b>	<b>3 614</b>	<b>3 007</b>

c) 25% of the Company's fixed costs:

<b>Amounts in 1,000 NOK</b>	<b>2015</b>	<b>2014</b>
25% of last year's fixed costs	11 853	5 227
<b>Surplus of core capital</b>	<b>15 835</b>	<b>10 884</b>

Based on the exception clause in the Norwegian Capital Adequacy Regulations § 41-2 under Pillar 1, 25% of the last year's fixed costs was the greater number and represent's the Company's minimum capital requirement.

### **Pillar 2:**

Pillar 2 is the objective self-assessment of the required capital and risk profile for the Company based on the Internal Capital Adequacy Assessment Process (ICAAP). This assessment is carried out annually.

Within the Company's internal governance framework, the ICAAP summarises Trient's risk management approach and assessment and ensures that the management body;

- adequately identifies, measures, aggregates and monitors the Company's risks;
- ensures that the institution holds adequate internal capital in relation to the institution's risk profile;
- uses sound risk management systems and develops them further.

The purpose of the exercise is to ascertain whether additional capital is required. Management relies on revenue projections and forecast profitability when completing the analysis. For 2015, it is the Company's opinion that no capital is required in excess of its Pillar 1 requirement.

### **Statement of risk appetite**

Trient manages and operates its business in a prudent manner. The Company therefore generally maintains capital in excess of the minimum regulatory capital requirement, and intends to maintain sufficient available risk capital above regulatory requirements.

Trient does not take any principal related risk on its own balance sheet other than investments in own fund products, and seeks to minimise risks that may arise from the Company's day-to-day operations.

### **Guidelines for Risk Management**

Trent has established a number of policies and procedures for dealing with its responsibilities as a regulated fund management company. It has always been the Company's goal to ensure industry best practice and the highest ethical standards throughout its operations. Government legislation, international directives and guidelines, as well as best industry standards have guided the drafting of the company's policies and administrative procedures.

### **Assessment of material risks**

The Company has defined material risk as a risk that is unlikely but not an impossible event that might have a material economic impact on the Company. The following risk categories have embedded risks that have been analysed and identified as material:

- Business risk; and
- Operational risk.

**Business risk:**

The main business related risk is poor investment performance/ failure to raise assets under management/fund closure. Trient is dependent upon maintaining sufficient assets under management to meet its costs base and the amount of capital that is necessary to maintain the Company's business into the future. Currently, recurring annual investment management fees more than cover the Company's costs, which are predominantly fixed.

Trient has an experienced member of staff who serves in a dedicated marketing and investor relations ("IR") role. The senior IR professional has over twelve years' experience in hedge fund capital raising and is well versed in ensuring investors receive a comprehensive service which includes regular communication.

**Operational Risk:**

Operational risk is one of the Company's key risk areas, and Trient devotes significant resources to avoid operational errors and ensure business continuity in the event of business continuity event or IT related events. The Company has established separate Operating, Valuation and Risk Committees, which are governed by separate terms of reference. The various committees meet regularly and have a standing agendas and action lists. The committee structure has strengthened the already established focus on operational excellence throughout the organisation.

In addition to these material risks, the firm's management has considered the following additional risks:

**Credit risk:**

Trient does not extend any form of credit to customers or other counterparties. The company will at times have varying degrees of outstanding balances with administrators concerning management fees and possible performance fees. These credit items will be listed on the Company's balance sheet.

The Company has no loans on the balance sheet at the end of December 2015.

**Market risk:**

Trient carries no direct market risk. The Company does not act as principal for its own account and does not take risk onto its balance sheet. The funds which Trient manages do have significant market exposure albeit no significant exposure to systematic market risk as 90% of the Company's assets under management follows absolute return mandates. The Company is exposed to performance and return developments across the mandates Trient manages, but this does not necessarily follow general market developments over time.

The company has exposure to currency risk as a significant portion of total revenues is paid in USD.

**Strategic risk:**

The company has growth ambitions within clearly defined market segments by offering competitive and innovative products. The company currently has sufficient numbers of staff to meet its operational and client growth ambitions.

### **Reputational risk:**

Reputation risk may arise on the back of other risks or events occurring. The damage related to the company's reputation often depends on the execution of media management. Internally, the company has very strong focus on complying with existing laws and regulations, with the Company and employees adhering to industry ethical standards.

### **Stress tests**

Trient has implemented stress tests and modeled its income stream with declining funds under management. The Company has processes and procedures in place to monitor these tests regularly, and to ensure that the Company is adequately capitalised under the regulatory requirement.

Trient has also conducted a stress test in which it assessed the impact of a 50% stock market decline. In such a scenario, the company is forecast to continue to have an ongoing positive operating result.

### **Maintaining capital levels**

The Company reports capital adequacy on a quarterly basis to the Norwegian FSA. Forward looking capital requirements are re-analysed at least twice a year, including during the annual ICAAP review. The company stress tests and the regulatory capital requirements are projected on a two years look forward basis.

### **Pillar 3:**

This document, together with the Company's Financial Statements, constitute the Pillar 3 disclosures. This document will normally be updated annually, unless circumstances occur that require a more frequent update. The figures in this document are as of December 31 2015 unless otherwise stated.