Lumyna Investments Limited
(formerly CM Investment Solutions Limited)

Pillar 3 Disclosures

As at 31 December 2019

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Overview

Pillar 3 Disclosures

This document sets out the Pillar 3 disclosures for Lumyna Investments Limited ("Lumyna", or the "Company") as at 31 December 2019 as required under the Capital Requirements Regulation (CRR) and the Capital Requirements Directive ("CRD") referred to collectively as CRD IV. The Pillar 3 disclosures document has been prepared in accordance with the requirements of BIPRU 11 and is verified by the Board.

The Pillar 3 disclosures are issued on an annual basis after the financial year-end and published as soon as practical with the Annual Report and Accounts.

The disclosures are published on Lumynas' website: https://www.lumyna.com/#. Unless otherwise stated, all figures are as at 31 December 2019 financial year-end.

Company Overview

The Company's principal activity is acting as a Management Company to Lumyna Funds ("Luxembourg Funds"), a Luxembourg-domiciled Société d'investissement à Capital Variable (SICAV) complying with the applicable undertakings for the collective investment in transferable securities ("UCITS") rules. The Company also provides Portfolio Manager services to Lumyna Specialised Fund, a role delegated by MDO Management Company SA, Luxembourg (which acts as Alternative Investment Fund Manager ("AIFM") to Lumyna Specialised Funds FCP-SIF, a specialised investment fund ("SIF").

The Company specialises in Liquid Alternatives, identifying and originating best-of-breed alternative investment managers, creating UCITS fund structures based on managers' core investment strategies and distributing those products globally. The asset management platform combines a robust, institutional funds infrastructure with an established and proven distribution capability.

Lumyna Investments is authorised and regulated by the Financial Conduct Authority ("FCA") and as such is subject to minimum regulatory capital requirements. The company is categorised as a BIPRU Firm, Collective Portfolio Management Investment Firm ("CPMI") by the FCA for capital purposes.

Company Structure

Assicurazioni Generali S.p.A. ("Generali") purchased Lumyna Investments Limited from Bank of America Corporation ("BAC") on 30 November 2018, following approval from United Kingdom and Italian regulators.

The Company's is wholly owned subsidiary of Generali Investments Holding S.p.A., a company registered in Italy. The ultimate parent is Assicurazioni Generali S.p.A., an Italian corporation with its head office in Trieste, Italy.

Although part of a group, the Company operates on a "stand-alone" basis for accounting and liquidity purposes and does not hold shares in other entities that may be consolidated for accounting purposes.

Regulatory Framework

The Capital Requirements Directive ("CRD") and Alternative Investment Fund Management Directive ("AIFMD") of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital that investment firms must maintain.

In the United Kingdom, the CRD and AIFMD have been implemented by the FCA in its regulations through the General Prudential Sourcebook ("GENPRU"), the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") and the Interim Prudential Sourcebook for Investment Business ("IPRU (INV)").

The CRD consists of three 'Pillars':

- Pillar 1 sets out the minimum capital amount that meets the firm's credit, market and operational risk capital requirement;

- Pillar 2 requires the Company to assess whether its capital reserves, processes, strategies and systems are adequate to meet pillar 1 requirements and further determine whether it should apply additional capital, processes, strategies or systems to cover any other risks that it may be exposed to; and

- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position to encourage market discipline.

The AIFMD adds further capital requirements based on the Alternative Investment Fund ("AIF") assets under management and professional liability risks.

Risk Management

The Company promotes a strong culture of risk awareness, which is an essential element for an effective risk management function, has established a risk management process to ensure that it has operational systems and controls in place to identify, monitor and manage risks arising in the business.

The Board has overall accountability for the risk management process and for ensuring that the Risk Management function is carried out both efficiently and independently. The Head of Risk, along with Senior Management, have responsibility for the implementation and enforcement of the risk management process. Senior management engage in company risk through a set of policies and procedures. Appropriate action is taken where risks are identified which fall outside of the Company's tolerance levels or where the need for remedial action is required in respect of identified weaknesses in the Company's mitigating controls.

The Company is organised in accordance with the standard "three lines of defence" control model. That is, responsibility for the majority of day-to-day risk management sits with function owners in the first line of defence; oversight and challenge which is independent of the first line is provided by second line risk, compliance and legal functions, whilst third line internal audit is a group function providing assurance on the adequacy of both first and second line arrangements.

Lumynas' risks are typical for an investment manager that does not undertake trading on its own account. There are three key types of risk faced by the Company, which are investment risks (including market, credit and liquidity risk), operational, and other risks (including reputational and strategic risks).

Annually, Senior Management review the Company's risks, controls and other risk mitigation arrangements and assess their effectiveness. A formal update on operational matters is provided to the Senior Management team on a regular basis.

Set out below is a summary of the Company's approach to each of these risk types:

Investment Risks

Market risk

Market risk includes risks deriving from unexpected market movements that may adversely impact the value of assets and liabilities or otherwise negatively impact earnings. The Company has exposure to management fees arising in currencies different from the reporting currency. Market risk exists in the underlying funds, where an adverse market event can impact the performance and the value of Assets under Management ("AuM"). This has a direct impact on the Company revenue streams through a reduction in management fees which may be compounded by redemptions from investors. The Company looks to manage its market risk by diversifying the portfolio of its sub-funds.

In addition to the above revenue consideration, the Company is exposed to foreign exchange risk in respect of its expenses in currencies other than the reporting currency (USD). Hedging strategies may be used from time to time to mitigate against potential foreign exchange losses and these are monitored by the Chief Financial Officer. Losses arising from fluctuations in foreign exchange rates are monitored on a regular basis and reported to Senior Management via the monthly management accounts.

Credit risk

Credit risk refers to possible losses arising from the inability or failure of a borrower or counterparty to meet its payment obligations. Lumyna is exposed to credit risk in respect of its debtor's fees and cash held on deposit. As fees are accrued and settled monthly by the funds, the risk of default is very low. All bank accounts are held with large international credit institutions having strong credit profiles. In summary, given the nature of the credit exposures, no specific policy for hedging and mitigating credit risk is in place.

Liquidity risk

Liquidity risk is the inability to meet expected or unexpected cash flow and/or collateral needs while continuing to support the businesses and customers under a range of economic decisions.

Lumyna Investments actively monitors its cash management process to ensure:

i. The company adheres to regulatory liquidity requirements which requires that the ring-fenced funds (for regulatory capital requirements) are:
(a) Readily convertible to cash within one month
(b) Not invested in speculative positions

ii. Funds are made readily available in the required currency to meet all liabilities as they fall due.

The Company has sufficient liquidity to meet its liabilities as they fall due. However, should the need arise, management do not foresee any impediments to the prompt transfer of additional liquidity between group entities.

Operational Risks

This is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes compliance and legal risk, which is the risk of loss (including litigation costs, settlements, and regulatory fines) resulting from the failure of the Company to comply with laws, regulations, prudent ethical standards, and contractual obligations in any aspect of the Company's business. Although operational risk excludes strategic and reputational risks, operational risk may impact or be impacted by these risks.

Operational risk is managed by all employees of the Company as part of day-to-day activities, including third-party outsourced activities, with preventive and detective controls. The front line units are first and foremost responsible for managing all aspects of their business functions, including their operational risk. The second line risk, legal and compliance functions are responsible for monitoring, assessing and testing the effectiveness of these controls. In order to actively manage and mitigate operational risks, the second line control functions provide oversight and challenge to the business through quality assurance and identification of any control gaps and weaknesses.

In addition to the established operational procedures and controls, Lumyna has professional indemnity insurance which mitigates some of the operational risk.

Other Risks

Strategic risk

Strategic risk is the risk that results from incorrect assumptions about external and/or internal factors, inappropriate business plans, ineffective business strategy, or failure to respond in a timely manner to changes in the regulatory, macroeconomic and competitive environments.

Risk mitigation techniques include constant monitoring of the regulatory environment, its competitors' performance and continued assessment of its operating model for efficiencies and opportunities to enhance the value proposition. Other techniques include fund diversification, application of new technology solutions and a competitive remuneration approach to attract top talent.

In addition to these risk mitigation techniques, Lumyna continues to be cash generative and has historically maintained a strong capital base. Finally, should the need arise, management do not foresee any impediments to the prompt transfer of capital between group entities.

Reputational risk

Reputational risk can impact Lumyna by adversely affecting the company's profitability or operations through an inability to attract or retain investors in sub-funds or retaining the investment manager on existing platforms. The Company evaluates potential reputational risk through its risk management process.

Reputational risk is mitigated and managed across all business activity via awareness and integration into the overall governance process, as well as being incorporated into the roles and responsibilities of its employees.

Capital Resources

Capital resources represent the amount of regulatory capital available to an entity in order to cover all risks. Defined under GENPRU, capital resources are designated into 3 tiers, Tier 1, Tier 2 and Tier 3.

Tier 1 capital consists of Core Tier 1 ("CT1") and hybrid capital. CT1 is the highest quality of capital and typically represents equity and audited reserves; hybrid capital usually represents contingent convertible bonds. Tier 2 capital typically consists of subordinated debt and preference shares, whilst Tier 3 usually represents short term subordinated debt.

Tier 1 capital is the only component of Lumynas' Capital Resources. This includes the brought forward prior year profits plus the audited profits for 2019.

Table 1 Capital Resources as at 31 December 2019

Capital Resources	2019 $000s	2018 $000s
Ordinary Share Capital[1]	5,000	18,855
Profit & Loss Account	10,735	54,066
Total Tier 1 Capital before deductions	**15,735**	**72,921**
Less: share repurchase [1]	-	(13,855)
Less: dividends paid [2]	-	(52,077)
Total Tier 1 Capital after deductions	**15,735**	**6,989**

1 Company repurchased 8,082,932 £1 ordinary shares from BAML EMEA Holdings 1 Ltd (immediate parent until 30 Nov 2019)

2 Dividend paid to former group company (former ultimate parent: BAC) prior to sale (30 Nov 2019) of Lumyna to Assicurazioni Generali S.p.A (ultimate parent)

There are no differences between the accounting balance sheet values and the regulatory capital values of the items included in Table 1 Capital resources.

Capital Adequacy

Lumyna calculates its minimum capital requirements as per FCA Handbook guidelines. The minimum capital requirement is the amount of capital that GENPRU and IPRU (INV) require Lumyna to hold at all times.

The Company is a Collective Portfolio Management Investment Firm ("CPMI") and as such its capital requirements are calculated based on the higher of:

a) €125,000 + 0.02% of AIF AUM > €250m; and
b) The sum of the market & credit risk requirements; or
c) The fixed overheads requirement ("FOR") which is essentially 25% of the firm's operating expenses less certain variable costs.

In addition, to cover professional liability risks, the professional indemnity insurance (“PII”) excess is also included in the capital requirement.

Table 2 Minimum Capital Requirement as at 31 December 2019

Description	2019 $000s	2018 $000s
Fixed overhead requirement (“FOR”)	5,665	3,891
Pillar 1 Capital requirement	**5,665**	**3,891**
Professional indemnity insurance ("PII") requirement	100	100
Pillar 1 Capital requirement including professional liability risks	**5,765**	**3,991**

It is the Companys’ experience that the FOR establishes its capital requirements plus the PII annual excess.

The FOR is based on annual expenses net of variable costs deducted, which include discretionary bonuses paid to staff and allowable variable fees. Lumyna monitors its expenditure on a monthly basis and considers any material fluctuations in order to determine whether the FOR remains appropriate to the size and nature of the business or whether any adjustment needs to be made intra-year.

As at 31 December 2019, Lumynas’ capital resources amounted to $15.7m, which is $10.0m surplus to the minimum capital requirement. This is monitored by the Chief Financial Officer and reported to Senior Management on a regular basis.

Internal Capital Adequacy Assessment Process ("ICAAP")

Lumyna is subject to a comprehensive annual ICAAP process that assesses the entity's capital positions both under normal and stress conditions. The process is managed by the Finance and Risk functions with involvement of front line units. The process is complemented by a strong governance structure that supports the review and challenge of the ICAAP, with the Lumyna Board owning and approving the ICAAP.

Remuneration Disclosure

Disclosures of remuneration policies required under Directive 'REGULATION (EU) No 575/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, Article 450' are separately published on Lumynas' website https://www.lumyna.com/#. It is considered that they cover the requirements under BIPRU 11.5 and should be deemed part of the Pillar 3 Disclosures for Lumyna.