# Calamos Investments LLP
# Pillar 3 disclosure
# 31 December 2013

Calamos Investments LLP (the "Firm") is authorised and regulated by the Financial Conduct Authority ("FCA") and is required by law and regulation to make specified disclosures of our risk management objectives and policies, our capital resources as well as our disclosure of information about specified risks. This disclosure has been prepared to meet our obligations. You can find additional information about the Firm at http://www.fsa.gov.uk/register/home.do

The Capital Requirements Directive (the "Directive") of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions which investment firms must maintain.

In the United Kingdom, the Directive has been implemented by the FCA in its regulations through the General Prudential Sourcebook ("GENPRU") and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU").

The FCA framework consists of three "Pillars":

- Pillar 1 sets out the minimum capital amount that meets a firm's credit, market and operational risk capital requirement;
- Pillar 2 requires a firm 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 rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet our Pillar 3 obligations and is verified by the Members of the Firm. Unless otherwise stated, all figures are as at the 2013 financial year-end.

Pillar 3 disclosures will be issued on an annual basis after the year end and published as soon as practical when the audited annual accounts are finalized and will be published on the Firm's website.

We are permitted to omit required disclosures if we believe that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions about the Firm.

In addition, we may omit required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties.

Unless otherwise noted, we have made no omissions on the grounds that it is immaterial, proprietary or confidential.

## Scope and Application of the Requirements

The Firm is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. The Firm is categorised as a BIPRU Firm by the FCA for capital purposes. The Firm is an investment management firm and as such has no trading book exposures.

Although part of a group, the Firm is managed on a "stand-alone" basis for liquidity purposes and we do not foresee any impediments to the prompt transfer of capital between group entities should the need arise. There are no differences in the basis of consolidation for accounting and prudential purposes.

**Risk Management**

The risk management process is overseen by the Senior Management team. The Senior Management team takes overall responsibility for this process and the fundamental risk appetite of the Firm.

The members of the Firm and its senior personnel meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, business planning and risk management. Senior Management oversee the Firm's risks through a framework of policies and procedures having regard to the relevant laws, standards, principles and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required.

The members have identified that business-related risks are where the Firm is exposed. Annually, the Senior Management team formally reviews their risks, controls and other risk mitigation arrangements and assess their effectiveness.

A formal update on operational matters is provided to the members on a quarterly basis. Management accounts demonstrate continued adequacy of the Firm's regulatory capital and are reviewed on a regular basis in conjunction with the Firm's auditors.

Appropriate action is taken where risks are identified, which fall outside of the Firm's tolerance levels or where the need for remedial action is required in respect of identified weaknesses in the Firm's mitigating controls.

**Business Risks**

The Firm's business is dependent upon undertaking sufficient commercial activity to meet its cost base and the amount of capital it is prepared to spend on maintaining the business. If for any reason the business became unviable, the Firm would carefully consider its business strategy and model to determine if there were activities it should stop, costs it should cut, or other opportunities that it should take advantage of. In the event that there were not credible opportunities to turn the business around, Senior Management of the business would make a conscious decision to cease our current business activity while the Firm still had sufficient capital to cease regulated activity and resign its FCA authorisation in a controlled fashion without causing detriment to its customers.

A specific risk to the Firm relates to the failure to obtain distribution fees from the UCITS funds being distributed and investment advisory fees from the accounts being managed. Such a situation could be caused by failings in investment management decisions, overall market shocks and movements, or investor redemptions for whatever reason. If the income does not maintain sufficient levels the Firm may be faced with expenses in excess of its revenue and surplus capital base. This risk is mitigated by the continued support of the Firm by its US parent.

An additional risk to the Firm relates to running out of cash to meet commitments as they fall due. Despite the business being highly liquid, like any business, the Firm is dependent upon receiving the fees due. The Firm is able to substantially mitigate this risk as the fees are due from the Funds it distributes. Notwithstanding this, if the Firm were to not receive fees for an extended period of time its cash would eventually erode.

**Credit Risk**

The Firm is a small, limited licence firm with a simple operation structure. The Firm follows the simplified standard approach to credit risk whereby the Firm uses generic risk weights assigned to each particular exposure class to calculate overall credit risk of the Firm. We have not identified credit risk exposure classes as we believe they are immaterial.

**Market Risk**

The Firm's only market risk is related to its foreign currency balances. The Firm has not identified minimum capital requirements for market risk as we believe that they are immaterial.

**Operational Risk**

We must disclose the approaches for the assessment of the operational risk capital requirement for which the Firm qualifies. We list Operational risk in our ICAAP as $339,000, the full amount of our Fixed Overhead Requirement ("FOR").

The Firm places strong reliance on the operational procedures and controls it has in place in order to mitigate risks and seeks to ensure that all personnel are aware of their responsibilities in this respect.

The Firm has identified a number of key operational risks to manage. The Firm's management believes that each operational risk identified in Appendix 1 of the Firm's ICAAP is well-controlled. The Firm does not have any history of operational losses that would give rise to the suggestion that further capital should be held.

**Regulatory Capital**

The Firm is a Limited Liability Partnership and its capital arrangements are established in its Partnership deed. Its capital is summarised as follows:

| | **31/12/2013** |
|---|---|
| Tier 1 capital* | £1,045,329.07 |
| Tier 2 capital | Nil |
| Tier 3 capital** | Nil |
| Deductions from Tiers 1 and 2 | Nil |
| **Total capital resources** | **£1,045,329.07** |
| *No hybrid tier one capital is held<br>**Note: Tier 3 capital is to be removed under the CRD IV | |

Our Firm is small with a simple operational infrastructure. The FOR is calculated, in accordance with FCA rules, based on the Firm's previous years audited expenditure. The Firm has adopted the standardised approach to credit and market risk and the above figures have been produced on that basis. The Firm is not subject to an operational risk requirement. It is the Firm's experience that the FOR establishes its capital requirements. As such, its capital requirements are:

- €50,000; and
- The sum of the market & credit risk requirements; or
- The FOR which is essentially 13/52 of the Firm's annual operating expenses less certain variable costs.

**Capital Requirement**

The Firm's Pillar 1 capital requirement has been determined by reference to the Firm's FOR and calculated in accordance with the FCA's General Prudential Sourcebook ("GENPRU") at GENPRU 2.1.53. The capital requirement is based on the FOR since this exceeds the total of the Firm's credit and market risk capital requirements it faces and also exceeds its base capital requirement of €50,000.

The FOR is based on annual expenses net of variable costs deducted. The Firm monitors its expenses on a monthly basis and takes into account any material fluctuations in order to determine whether the FOR remains appropriate for the size and nature of the business or whether any adjustment needs to be made intra-year.

**UK Financial Reporting Council's Stewardship Code**

FCA COBS Rule 2.2.3R requires FCA authorised firms to disclose whether they conform to the requirements of the UK Financial Reporting Council's Stewardship Code (the "Code"). Adherence to the Code is voluntary. The Firm provides marketing services to Calamos Advisors LLC ("CAL"), the Firm's US affiliate, in the UK and Europe by promoting the advisor's advisory and management services to professional and institutional investors. The Firm also act as the "lead manager" for its UK and European institutional clients on a discretionary basis, but delegates investment management and dealing functions to CAL**.** Therefore, while the Firm supports the principles of the Code, it does not consider it appropriate to conform to the Code at this time.

**Remuneration Code Disclosure**

The Firm is authorised and regulated by the FCA as a limited licence firm and is subject to FCA Rules on remuneration. These are contained in the FCA's Remuneration Code located in Chapter 19C of the SYSC Sourcebook of the FCA's Handbook. The Remuneration Code (the "RemCode") covers an individual's total remuneration, fixed and variable. The Firm incentivises staff through a combination of the two.

The Firm provides marketing services to Calamos Advisors LLC ("CAL"), the Firm's US affiliate, in the UK and Europe by promoting CAL's advisory and management services to professional and institutional investors. The Firm also acts as the "lead manager" for its UK and European institutional clients on a discretionary basis, but delegates investment management and dealing functions to CAL**.**

Our policy is designed to ensure that we comply with the RemCode and our compensation arrangements:

1. are consistent with and promote sound and effective risk management;
2. do not encourage excessive risk taking;
3. include measures to avoid conflicts of interest; and
4. are in line with the Firm's business strategy, objectives, values and long-term interests.

**Proportionality**

Enshrined in the European remuneration provisions is the principle of proportionality. The FCA have sought to apply proportionality in the first instance by categorising firms into three proportionality levels. The Firm falls within the FCA's third proportionality level and as such this disclosure is made in line with the requirements for a proportionality level three Firm.

**Application of the requirements**

We are required to disclose certain information on at least an annual basis regarding our Remuneration policy and practices for those staff whose professional activities have a material impact on the risk profile of the firm. Our disclosure is made in accordance with our size, internal organisation and the nature, scope and complexity of our activities.

1. Summary of information on the decision-making process used for determining the Firm's remuneration policy including use of external benchmarking consultants where relevant.

- The Firm's policy has been agreed by the Senior Management in line with the RemCode principles set out by the SYSC 19C of the FCA Handbook.
- Due to the size, nature and complexity of the Firm, we are not required to appoint an independent remuneration committee.
- The Firm has consulted with Dechert LLP, a law firm, to assist in developing and determining the Firm's Remuneration Policy.
- The Firm's Remuneration Policy was adopted by Written Resolution of the Members of Calamos Investments LLP on 22 May 2012. The role of relevant Code Staff in approving the Code was limited.
- The Firm's policy will be reviewed as part of annual process and procedures, or following a significant change to the business requiring an update to its internal capital adequacy assessment.

2. Summary of how the Firm links pay and performance.
   - The Firm's ability to pay bonuses is based on the performance of the Firm overall.
   - Any variable remuneration to Code Staff is entirely discretionary. In awarding it, Calamos' Designated Members will take into account, where appropriate, the performance of the individual Code Staff, the Firm's overall results, and appropriate financial and non-financial aspects of Code Staff performance, including :
     - Contribution to the overall strategy of the business
     - Investment Generation
     - Sales & Marketing
   - Other factors such as performance, reliability, effectiveness of controls, business development and contribution to the business are taken into account when assessing the performance of the senior staff responsible for the infrastructure of the Firm.
3. Aggregate quantitative information on remuneration broken down by significant business division
   - In 2013 the firm only had one significant business division, sales and marketing.
4. Aggregate quantitative information on remuneration, for staff whose actions have a material impact on the risk profile of the Firm.

| **Code Staff** | **Aggregate compensation expense in 2013** |
|---|---|
| Senior Management: | Omitted* |
| Others (If applicable) | N/A |

*We may omit required disclosures where we believe that the information could be regarded as prejudicial to the UK or other national transposition of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data. We have made omissions on the grounds of data protection.

**A note on Materiality**

A firm must regard information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions.

A firm must regard information as proprietary information if the sharing of that information with the public would undermine its competitive position.

Proprietary information may include information on products or systems which, if shared with competitors would render the firm's investment in them less valuable.

A firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the firm to confidentiality.

The Committee of European Banking Supervisors has stated that it is unlikely that the disclosure of information relating to remuneration would be confidential or proprietary for firms that have been allowed to aggregate the information due to proportionality. Where there is a limited number of Code Staff then the firm may consider such omissions.