CAPITAL INTERNATIONAL

# Investor Protection

## Investment Services

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## Introduction

This document details the regulatory and operational arrangements that Capital International Limited (Capital) has in order to provide the highest level of protection we can achieve for the cash and assets we hold on behalf of our clients.

## Capital Requirements

All licensed investment businesses in the Isle of Man are required to maintain certain minimum capital amounts in relation to the type and scale of the business undertaken. These capital requirements include minimum net tangible asset requirements and minimum liquid capital requirements.

We are required to monitor our capital adequacy continuously and notify the Isle of Man Financial Services Authority (FSA) immediately if the minimum requirements are breached or indeed if we have reason to believe they may be breached in the future.

We are further required to formally report our capital levels to the FSA regularly.

# Client Cash & Assets

## Asset Segregation

Unlike a typical bank or prime broking relationship, the assets and cash of all our investment clients are never exposed to the balance sheets of Capital.

Perhaps the most important principle of the Isle of Man Financial Service Authority's client money and asset regulations is that at no time can client money (or assets) be mixed with company money or assets.

All client monies and assets are held in segregated accounts in our legally separate nominee company, Capital International (Nominees) Limited (CINL). Our nominee company is not permitted to do anything other than simply hold cash and assets for clients.

This means in practical terms that in the unlikely event that Capital were to go into liquidation, all client money and assets held by CINL would remain ring fenced within CINL and would not form part of the Insolvent Estate of Capital.

## Asset Ownership

Client cash and assets are never exposed to the credit of another client.

In order to protect each client's assets and cash from the credit risk of another client, we are not allowed to offset one client's debts against other clients' assets.

If one of our clients is late in settling a transaction or defaults on an obligation, then we are required to fund the difference to ensure that there is never a shortfall in CINL.

Consequently, your cash and assets cannot be used to fund another client's market exposure or cover their losses.

## Account Segregation

Client money is not exposed to either Capital or our custodians.

Client cash, including cash held at our custodians, is held in segregated client money accounts or in accounts in the name of CINL.

These accounts are 100% protected from the balance sheets of Capital or our custodians in the event of liquidation.

## Counterparty Risk

Client money is held in a diversified pool of underlying bank accounts and this exposure is actively managed on a daily basis to mitigate the risk of a bank default.

Client cash held at BNY Pershing is typically spread across twenty to thirty different institutions with a minimum rating of A-1/P-1 from Moody's, Standard & Poor's or Fitch.

# Custodians

## BNY Pershing

Capital uses BNY Pershing Securities Limited (BNY Pershing) as its primary custodian and clearing agent for all listed securities.

BNY Pershing operates a similar nominee structure to that in place at Capital, to ensure client assets are fully segregated from its balance sheet.

BNY Pershing is one of the world's largest clearing agents and is part of the Bank of New York Mellon Group. BNY Pershing does not originate, underwrite or proprietarily trade sub-prime securities, collateralised debt obligations or mortgage-backed securities, and they are not a retail mortgage underwriter or residential lender.

Capital has no market counterparty risk.

Capital operates a Model 'B' clearing agreement with BNY Pershing under which Capital passes all market counterparty risk to BNY Pershing each time Capital enters into a market transaction on behalf of a client.

This means that Capital and more particularly its clients, are never directly exposed to market counterparty risk (such as the collapse of Lehman Brothers and Bear Stearns in the US) and as such, Capital has no market counterparty exposure in listed securities whatsoever.

*"All client assets including cash are segregated, held in a ring-fenced nominee structure"*

## Clearstream

Capital uses Clearstream Banking SA (CBL) as its primary provider of dealing, administration, and custody in respect of the non-exchange traded investment funds.

CBL is an international central securities depository, incorporated in Luxembourg, and regulated by the Commission de Surveillance du Secteur Financier (CSSF) for the provision of custody and related services.

CBL is part of the Deutsche Börse Group, a publicly listed company which has assets under custody worth around EUR 14 trillion

CBL operates a similar nominee structure to that in place at Capital to ensure clients assets are fully segregated from its balance sheet

Capital may from time to time hold investment funds registered directly in the name of CINL. In this event clients are not exposed to any counterparty other than the fund itself.

# Verification of Asset Records

Capital is required to perform regular checks to verify that investor cash and assets are accurately recorded and comply with the Client Money and Client Investment regulations.

We are required to continuously reconcile both asset and cash positions against client accounts.

# Audit & Regulatory Oversight

We are required to perform regular and rigorous checks to verify that investor assets and cash held are accurately recorded.

All the underlying companies within Capital are subjected to rigorous independent audit on an annual basis.

# Assurance Report

Capital on a regular basis, undertakes full internal and external review of its control procedures in accordance with the AAF 01/20 (previously AA 01/06) industry benchmark, culminating in independent testing of these controls by its auditors.

Capital was the first investment business in the Isle of Man to undertake the AAF 01/06 and it is the intention of the Directors to maintain this standard going forward, and to independently test the company's controls against it periodically.

# Professional Indemnity Insurance

In accordance with regulatory requirements Capital, BNY Pershing and Deutsche Börse maintain adequate professional indemnity insurance cover together with additional insurance polices which provide cover for financial loss caused directly by events such as:

- Forgery or fraudulent alteration
- Extortion
- Physical loss or damage to property
- Public & product liability
- Professional liability
- Employer's liability
- Directors' & officers' liability

# Compensation Schemes

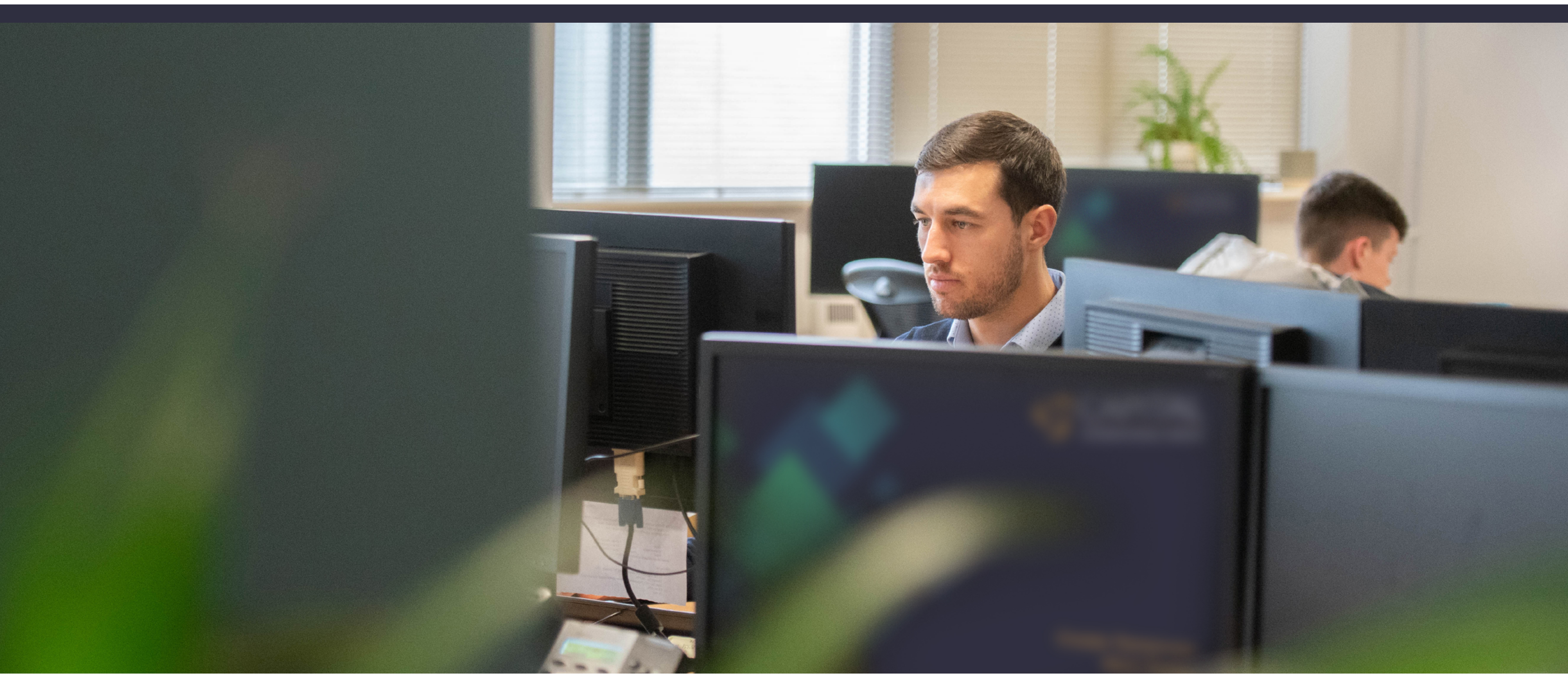
## Isle of Man

The Isle of Man Government has established three compensation schemes, the Policyholder Compensation Scheme, the Depositors' Compensation Scheme, and the Authorised Collective Investment Scheme's Compensation Scheme, full details of which can be found on the Isle of Man Government's website: **www.gov.im.** There is no specific compensation scheme in the Isle of Man in relation to general investment business.

## UK & Luxembourg

Client monies or client assets held by the underlying companies within the Group are subject to the protections offered by the jurisdiction in which the monies or assets are held. For example, monies held on deposit in the UK are subject to the UK's Financial Services Compensation Scheme (FSCS), which may offer protection. Similarly, assets or monies held through our principal custodian, BNY Pershing, are also subject to the UK's FSCS. Assets held with CBL may benefit from investor protection schemes offered in Luxembourg.

Further information regarding claim amounts and investor eligibility can be obtained from **www.fscs.org.uk** and **www.cssf.lu** respectively.



## The Financial Services Ombudsman Scheme (FSOS)

The FSOS is a free, independent dispute resolution service for customers with a complaint against an Isle of Man financial firm, and is operated by the Isle of Man Office of Fair Trading.

The role of the FSOS is to settle disputes impartially and to make a fair and balanced decision based on the facts of each individual case.

The FSOS is available to personal customers, and companies in some circumstances, of the financial firm. The FSOS has no geographical restrictions. Customers of Isle of Man financial firms anywhere in the world can avail themselves of the FSOS. Further details can be obtained from the FSOS website: **www.gov.im/about-the-government/statutory-boards/isle-of-man-office-of-fair-trading/financial-services-ombudsman-scheme/**

## Investor Protection Summary

The strength of our investor protection is one of the reasons why Capital International Group is trusted by so many major institutions including the Isle of Man Government and many of the Isle of Man's life insurance companies. We manage or administer total client assets in excess of US$4 billion for a wide range of financial institutions and individual customers, including a range of institutional pension funds, fiduciaries, the funds industry, professional intermediaries and the gaming, shipping and aircraft industries.

Full details of the Isle of Man investment business regulations, depositor compensation schemes and insurance policies can be provided on request. If you have any questions or would like any further information, please contact: **clientservices@capital-iom.com**

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