

Pillar III

PILLAR 3 DISCLOSURE

Stark Investments (UK) LLP ("Stark LLP") was incorporated as a Limited Liability Partnership in England and Wales on 4 November 2009 and from 1 February 2010 has been authorised and regulated by the Financial Services Authority (the "FSA"). Stark LLP acts as sub-adviser to certain of the private investment funds to which the company's US-based affiliates are either the general partner or investment manager.

Stark LLP is categorised as a limited licence firm by the FSA for capital purposes.

Pillar 3 disclosure fulfils Stark LLP's obligation to disclose to market participants key pieces of information on Stark LLP's capital, risk exposures, risk assessment processes and remuneration arrangements.

I. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Designated Members of Stark LLP, in conjunction with the Executive Committee, determine its business strategy and the risk appetite. The Group Corporate Accounting Department, working with the Compliance Officer and Members, has designed and implemented a risk management framework that recognizes the risks that the business faces. A determination is made how those risks are to be mitigated, an assessment made on the controls and procedures in place to manage those risks to remove or limit additional capital exposure. The Designated Members on a periodic basis discuss projections for profitability, liquidity, regulatory capital, business planning and risk management.

As an investment management firm, Stark LLP considers the following as key risks to its business:

Business risk – This risk represents a fall in assets under management allocated to Stark LLP, or the loss of key staff which may reduce the fee income earned by Stark LLP and hinder its ability to finance its operations and reimburse its expenses. Business risks are assessed and mitigated as part of the Internal Capital Adequacy Assessment Process ("ICAAP").

Operational risk – This risk covers a range of operational exposures from risk of trading errors to risk of breach of a Fund's investment objectives. Legal and reputational risks are also included within the category of operational risk. Operational risks and mitigants are assessed as part of the ICAAP.

Credit risk – This risk relates to the exposure to the Stark & Roth (UK) Limited ("Stark UK") for non-payment of management and performance fees pursuant to current transfer pricing arrangements and counterparty exposure relating to Stark LLP's bank balances and any other

debtors. This is monitored by the Stark Group Corporate Accounting Department and reported monthly to the Designated Members.

Market risk - This risk is the exposure to foreign exchange fluctuations where amounts receivable are denominated in currencies other than sterling. This risk is limited as amounts receivable from Stark UK are denominated in sterling.

II. CAPITAL RESOURCES

The **capital resources** of the business comprise Tier 1 capital with no deductions.

As a limited licence firm, **the capital resources requirement** is calculated as the total of Pillar 1 and Pillar 2 capital.

Pillar 1 capital is the greatest of:

1. a base capital requirement of Euro 50,000;
2. the sum of market and credit risk requirements; and
3. the Fixed Overhead Requirement ("FOR").

Pillar 2 capital is calculated by Stark LLP as representing any additional capital to be maintained against any risks not adequately covered under the requirement in Pillar 1 as part of its ICAAP.

It is Stark LLP's experience that its capital requirement normally consists of the FOR, although market and credit risks are reviewed monthly. Stark LLP applies a standardised approach to credit risk, applying 8% to Stark LLP's risk weighted exposure amounts, consisting mainly of amounts receivable but not paid, and bank balances. In Stark LLP's opinion the results of the ICAAP and related stress testing does not result in a requirement for additional capital required in excess of its Pillar 1 capital requirement.

III. MANAGEMENT OF THE ICAAP

The approach of Stark LLP to assessing the adequacy of its internal capital to support current and future activities is contained in the ICAAP. This process includes an assessment of the specific risks to Stark LLP and the internal controls in place to mitigate those risks. Finally, an assessment is made of the probability of occurrence and the potential impact, in order to arrive at a level of required capital, as relevant. Stress tests are applied to assess future impact by considering the Stark LLP's financial forecast for three years, its breakeven point, the estimated impact of the loss of support by the Group, and the costs to close.

Stark LLP's ICAAP is formally reviewed by the Designated Members at least once per annum but will be revised should there be any material changes to Stark LLP's business or risk profile.

IV. CAPITAL POSITION

As at 31 December 2010 Stark LLP's regulatory capital position is:

Capital item	£000
Tier 1 capital: Partnership Capital and Audited Reserves	750
Total Capital Resources Requirement	390
Surplus Capital	360

V. FSA REMUNERATION CODE DISCLOSURE FOR THE CALENDAR YEAR 2010

a. The Remuneration Code

The aim of the Remuneration Code (the “Code”) is to ensure that firms have risk focused remuneration policies which promote and are consistent with effective risk management, and do not expose firms to excessive risk.

Under the Code, the Firm is classified as a Tier Four Firm, the lowest risk category as the Firm does not manage or trade proprietary positions. This means that the Firm can dis-apply many of the technical requirements of the Code and proportionately apply the Code’s rules and principles.

The FSA has amended the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU), and specifically BIPRU 11, to include a requirement for disclosure of the Firm’s remuneration policy and practices, as well as aggregate quantitative disclosure for staff assessed as having a material impact on its risk profile, including senior management (“Code Staff”).

The disclosure obligations applicable to remuneration subject to the Code (“Remuneration”) includes all forms of fixed remuneration and variable remuneration but excludes any element of profit share awarded to such individuals as owners of the business.

b. Remuneration Policies

The Firm has adopted policies in relation to the Firm’s remuneration arrangements which address potential conflicts of interest arising from such arrangements by taking into account the controls in place to guard against the Firm’s authorised persons being rewarded for taking inappropriate levels of risk.

The Firm is satisfied that the policies in place are appropriate to its size, internal organization and the nature, scope and complexity of its activities.

c. The Decision Making Process

The Firm’s Policy is determined by the Remuneration Committee, operating pursuant to the partnership agreement, which consists of the Corporate Member representing the ultimate owners.

d. Link between Pay and Performance

Remuneration subject to the Code is based on an assessment of the profitability of the Stark Group (the “Group”) and the Firm, as well as the individual’s performance and their contribution to the Firm and ability to influence the business carried on by the Firm within the context of the Group.

In addition to salary, staff are incentivised with the opportunity of receiving discretionary bonus based on their individual performance subject to the discretion of the Remuneration Committee.

e. Quantitative Remuneration Data

The aggregate Remuneration for staff assessed as Code Staff by virtue of them having a material impact on the risk profile of the Firm for the performance year to 31 December 2010 was £909,484. This figure represents the aggregate Remuneration for four individuals. No more detailed breakdown of the data has been provided on the basis that the Firm's business model is relatively small and non-complex. No omissions have been made on the basis of data protection principles.

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Company No. OC349847
Incorporated in England & Wales
Authorised and regulated by the Financial Services Authority