



# **GROUP PROCEDURES**

INVESTOR PROTECTION

## **Our Vision**

The Capital International Group exists to improve lifestyles through increased prosperity.

## **Our Values**

We seek to achieve this through the enduring values of innovation, integrity and excellence.



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



# Investor Protection

## Introduction

This document details the stringent regulatory and structural arrangements that operate within the Capital International Group (the Group), and the underlying companies therein, in order to provide the highest level of protection we can achieve for the assets we hold on behalf of our clients.



# Client Assets

## Asset Segregation

### **Client assets are never exposed to the Group.**

Unlike a typical bank or Prime Broking relationship, the assets and cash of all our clients are never exposed to the balance sheets of any Company within the Group or the Group itself.

Perhaps the most important principle of the Isle of Man Government'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 on trust 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 any Company within the Group or the Group itself were to go into liquidation, all client money and assets would remain ring fenced within CINL and could not be touched by creditors of the Companies, the group or a liquidator.**



## **Client Assets** Asset Ownership

**One client's 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. This is again significantly different from a typical banking relationship. 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 assets cannot be used to fund another client's market exposure or cover their losses.**

## **Client Money** Account Segregation

**Client money is not exposed to either Capital International Group or Pershing Securities Limited.**

Client cash, including cash held at Pershing Securities Limited, is held in either segregated client money accounts or in accounts in the name of CINL.

These accounts carry segregated trust status and are 100% protected from the balance sheets of the underlying Companies within the Group, the Group itself and Pershing in the event of liquidation.



## **Client Money** Counterparty Risk

**Client money is held in a diversified spread 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 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.**

**Client money held directly through CINL is actively managed on a daily basis with capital preservation being the primary objective. Client money is spread across multiple counterparties.**

In addition, Standard & Poor's Ratings Services has assigned its 'AAAF' fund credit quality rating and 'S1+' volatility rating, every year since inception in 2007, to the underlying managed accounts which form the underlying pool of assets supporting the Capital Liquidity Account (CLA).

- The 'AAAF' ratings assigned signify the extremely strong protection the three underlying portfolios of assets provide against losses from credit defaults.
- The 'S1+' volatility ratings recognise that the three underlying portfolios of assets will demonstrate extremely low sensitivity to changing market conditions.



Pershing is the world's  
largest clearing agent,  
part of the Bank of New  
York Mellon Group



# Capital International Group

## Counterparties & Sub-Custodians

The Group via Capital International Limited (CIL) uses Pershing as its primary custodian and clearing agent for all listed securities. Pershing operates the same nominee structure in force at CIL to ensure client assets are also fully segregated from its balance sheet.

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



### **We have no Market Counterparty Risk**

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

This means that CIL 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, CIL has no market counterparty exposure in traded securities whatsoever.

Funds and collective investment vehicles are registered directly in the name of CINL and are therefore not exposed to any counterparty other than the fund itself.



# Capital International Group

## Professional Indemnity Insurance

In accordance with regulatory requirements both the Group and Pershing maintain professional indemnity insurance cover together with additional insurance policies 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
- Public & product liability
- Employer's liability
- Directors' & officers' liability



## Verification of Asset Records

Companies within the Group are required to perform regular checks to verify that investor assets held in trust 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.



## 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.



We are the first  
investment business  
in the Isle of Man to  
undertake the AAF01/06





## **Audit &** Regulatory Oversight

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

**All the underlying Companies within the Group are subjected to rigorous independent audit on an annual basis.**



## **Assurance Report** AAF 01/06

In 2011 CIL on behalf of the Group undertook a full internal and external review of its control procedures in accordance with the AAF 01/06 industry benchmark, culminating in independent testing of these control by PricewaterhouseCoopers LLC in Q1 2012.

CIL is the first investment business in the Isle of Man to undertake the AAF 01/06 and it is the intention of the Director's to maintain this standard going forward and to independently test the Firm's controls against it periodically.



## **Compensation Schemes** UK & Isle of Man

The Isle of Man Government operates two compensation schemes, 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](http://www.gov.im). There is no specific compensation scheme in the Isle of Man in relation to general investment business.

Clients monies held by the underlying Companies within the Group are subject to the protections offered by the jurisdiction in which the monies 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 sub-custodian, Pershing Securities Limited, are also subject to the UK's FSCS. Further information regarding claim amounts and investor eligibility can be obtained from [fscs.org.uk](http://fscs.org.uk).

# **Investor Protection** Summary

The strength of our investor protection is one of the reasons why the Capital International Group is trusted by so many major institutions including the Isle of Man Government and the principal Isle of Man Life Companies. We manage total client assets in excess of US\$4.5 billion for a wide range of financial institutions and private customers, including a range of institutional pension funds, fiduciaries, the funds industry, professional intermediaries and the gaming, shipping and aircraft industries.

**To conclude, we appreciate the trust and confidence you place in us and look forward to developing our relationships with you for many years to come. 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 do not hesitate to contact any member of the Group.**



Please note that this document is provided for information purposes only and does not change the contractual arrangement or terms of business that exist between us and our clients. The information herein may change without notice and should only be considered accurate only as at the date of issue below. We are not obliged to notify you of changes. From time to time we may issue updates of this document which will be published on our website and are available on request.

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The regulated activities are carried out on behalf of the Capital International Group by its licensed member companies  
Capital International Limited and Capital Treasury Services Limited are both licensed by the Isle of Man Financial Services Authority  
Capital International (Nominees) Limited is a wholly owned subsidiary of Capital International Limited  
Capital International Limited is a member of the London Stock Exchange  
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