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LINDENGROVE CAPITAL

LindenGrove Capital LLP
(the "Firm")

Pillar 3 Disclosures

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

In the United Kingdom, the CRD and AIFMD have been implemented by the Financial Conduct Authority ("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 requirements;
- Pillar 2 requires the 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 AIFMD adds further capital requirements based on the Alternative Investment Fund ("AIF") assets under management and professional liability risks.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet the Firm's Pillar 3 obligations.

This Pillar 3 disclosure document has been prepared by the Firm in accordance with the requirements of BIPRU 11 and is verified by senior management. Unless otherwise stated, all figures are as of the most recent financial year-end.

Pillar 3 disclosures will be issued on an annual basis after the year end and published when the audited annual accounts are finalized.

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.

We have made no omissions on the grounds that they are 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 Collective Portfolio Management Investment Firm ("CPMI") by the FCA for capital purposes.

The Firm's business model is to provide investment management and advisory services to alternative investment funds and separately managed accounts whose clients are sophisticated, institutional investors. As a result, it is an investment management firm and as such has no trading book exposures.

The Firm is not a member of a group and so is not required to prepare consolidated reporting for prudential purposes.

Risk management

The Firm has established a risk management process in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. The risk management process is overseen by the Chief Risk Officer via the Operating Committee and the Management Body, with senior management taking overall responsibility for this process and the fundamental risk appetite of the firm. The Chief Compliance Officer has joint responsibility for the implementation, monitoring and enforcement of the Firm's risk principles.

Senior management meets on a regular basis and discusses current projections for profitability, cash flow, regulatory capital management, business planning and risk management. Senior management engages in the Firm's risks though a framework of policy and procedures having regard to the relevant laws, standards, principles and rules (including FCA principles and rules) with the aim of operating a defined and transparent risk management framework. These policies and procedures are updated as required.

Senior management has identified business and operational risks as the main areas of risk to which the Firm is exposed. No less than annually, senior management formally reviews the Firm's risks, controls and other risk mitigation arrangements and assesses their effectiveness.

Formal updates on operational matters are provided to senior management by the Operating Committee on at least a bi-annual basis. Further, management accounts are reviewed on a monthly basis to ensure continued adequacy of the Firm's regulatory capital.

Appropriate and immediate 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.

<u>Business Risk</u>

The Firm's revenue is reliant on the performance of existing funds under management and its ability to raise assets, launch new funds and/or obtain new mandates. As such, the risk posed to the Firm relates to fund underperformance, which can result in a decline in revenue, and adverse market conditions, which can hinder capital-raising and the launch of new funds and ultimately increase the risk of redemptions from funds managed by the Firm.

However, in the Firm's opinion, the aforementioned risks could be mitigated by:

- Maintaining a strict and disciplined approach to cost control so that profitability can be sustained in the event of lower revenues;

- Holding a sufficient level of capital to weather adverse downturns in market conditions; and
- Continuing to increase and diversify the Firm's client base so that the risk and impact of a significant redemption is lessened.

Operational Risk

The Firm places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk 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. These relate to loss of key staff, internal technology and system failures, compliance breaches, trade dealing errors and failures of primary service providers/counterparties.

Appropriate policies and risk mitigating procedures are in place, including:

- Loss of key staff: cross training of key members, personal investments in the Firm, notice periods and restrictive covenants, profit sharing and equity incentives
- Internal technology/systems failures: backup systems in place where possible, business continuity and disaster recovery plans in place and periodically reviewed/tested, continual dialogues with our key technology partners
- Compliance breaches: dedicated Chief Compliance Officer in place to monitor and enforce compliance policies, periodic staff training on various compliance topics, ongoing support from external consultants and legal counsels
- Trade dealing errors: robust reconciliation processes with administrator and prime brokers, professional indemnity insurance
- Failures of primary service providers/counterparties: thorough selection process of service providers/counterparties before service commences, continual dialogues throughout the service relationship, backup and redundant options in place where possible (i.e. multiple prime brokers)

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:

The main features of the Firm's capital resources for regulatory purposes are as follows:

	31/03/18 £000
Tier 1 capital *	2,378
Tier 2 capital	-
Tier 3 capital **	-
Deductions from Tiers 1 and 2	-
Total capital resources	2,378
* No hybrid tier one capital is held ** Tier 3 capital is to be removed under CRD IV	

The Firm is small with a simple operational infrastructure. Its market risk is limited to foreign exchange risk on its accounts receivables and cash positions held in a foreign currency, while credit risk is limited to management and performance fees receivables from the funds and accounts under management, cash positions held at banks, prepayments and certain fixed assets. The Firm follows the standardized approach to market risk and the simplified standard approach to credit risk.

Limited License - The Firm is subject to the Fixed Overhead Requirement and is not required to calculate an operational risk capital charge though it considers this as part of its process to identify the level of risk based capital required.

As outlined above, the Firm is a full scope BIPRU and CPMI firm and as such its capital requirements are the HIGHER OF:

(1) The higher of:

- €125,000 + 0.02% of Firm's AIF FUM above €250,000,000 ("FUM Requirement"); or
- The Fixed Overhead Requirement ("FOR") which is essentially 25% of the Firm's operating expenses less certain variable costs.

Plus

- Either the Professional Negligence Capital Requirement or the PII Capital Requirement, whichever is applicable;

OR (2)

- The sum of the market & credit risk requirements

0.02% is taken on the absolute value of all assets of all AIFs managed by the Firm, including assets acquired through the use of leverage, whereby derivative instruments shall be valued at their market value, including AIFs where the Firm has delegated the management function but excluding AIFs that it is managing as a delegate.

FOR is calculated, in accordance with FCA rules, based on the Firm's previous year's audited expenditure.

Professional Negligence Capital Requirement is calculated as at least equal to 0.01% of Firm's AIF FUM. PII Capital Requirement is calculated as the amount equal to the defined excess of the Firm's eligible professional indemnity insurance.

The Firm has adopted the standardized approach to credit and market risk and the below figures have been produced on that basis.

The Firm is not subject to an operational risk requirement.

The Firm's Pillar 1 capital requirement is £805,000 and was determined by reference to the Firm's FUM requirement and PII Capital Requirement.

Verification

The information contained in this document has not been audited by the LLP's external auditors and does not constitute any form of financial statement.