

East Lodge Capital Partners LLP Pillar 3 Disclosure and Policy for a Full Scope UK AIFM (Collective Portfolio Management Investment Firm)

Introduction

Regulatory Context

The Pillar 3 disclosure of East Lodge Capital Partners LLP (“the Firm”) is set out below as required by the FCA’s “Prudential Sourcebook for Banks, Building Societies and Investment Firms” (BIPRU) specifically [BIPRU 11.3.3 R](#). This is a requirement which stems from the UK’s CRDIII implementing Regulations which represented the European Union’s application of the Basel Capital Accord. The Firm is no longer formally subject to CRD but remains subject to the UK’s implementation Regulations of CRD III. The regulatory aim of the disclosures is to improve market discipline.

Frequency

The Firm will be making Pillar 3 disclosures at least annually. The disclosures will be as at the close of the preceding financial year (March 31, 2018).

Media and Location

The disclosure is published on the Firm’s website and is also available from our registered office.

Verification

The information contained in this document has not been audited by the Firm’s external auditors as this is not a requirement and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Firm.

Materiality

The Firm regards 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 purpose of making economic decisions. If the Firm deems a certain disclosure to be immaterial, it may be omitted from this Statement.

Confidentiality

The Firm regards information as proprietary if sharing 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 investments therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

Summary

The CRD, to which the Firm remains subject as a consequence of the UK CRDIII implementing Regulations, have three pillars: Pillar 1 deals with minimum capital requirements, Pillar 2 deals with Internal Capital Adequacy Assessment Process (“ICAAP”)

undertaken by a firm and the Supervisory Review and Evaluation Process through which the Firm and Regulator satisfy themselves on the adequacy of capital held by the Firm in relation to the risks it faces, and Pillar 3 deals with public disclosure of risk management policies, capital resources and capital requirements.

The regulatory aim of the disclosure is to improve market discipline.

The Firm is a Full Scope UK AIFM of a non-EEA AIF and also may undertake additional activities which result in the Firm being a BIPRU firm. It acts solely as agent, so the main protection to our customers is provided through client money and asset arrangements. The Firm's greatest risks have been identified as business and operational risk. The Firm is required to disclose its risk management objectives and policies for each separate category of risk which include the strategies and processes to manage those risks; the structure and organisation of the relevant risk management function or other appropriate arrangement; the scope and nature of risk reporting and measurement systems; and the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

The Firm has assessed business and operational risks in its ICAAP and set out appropriate actions to manage them.

A number of key operations are outsourced by our clients, typically the AIFs we are an AIFM to, to third party providers such as administrators reducing our exposure to operational risk. The Firm has an operational risk framework (described below) in place to mitigate operational risk. The Firm's main exposure to credit risk is the risk that management and performance fees cannot be collected and, therefore, credit risk is considered low. The Firm holds all cash balances with banks assigned high credit ratings.

Market Risk exposure has been assessed by the Firm and is limited to the Firm's exposure to foreign currency exchange rate risk and hence to any assets held on the Firm's Balance Sheet denominated in a foreign currency. The Firm's Reporting Currency is GBP. The Firm's income is predominantly USD denominated and the expenses of the Firm are a mixture of GBP and USD expenses. The Firm converts its USD income into GBP on an ongoing basis to meet its GBP needs and may increase or decrease the amount of GBP held depending on its expected GBP outflows and view on FX rates.

Background to the Firm

Background

The Firm is incorporated in the UK and is authorised and regulated by the FCA as an AIFM of EEA/non-EEA AIFs. In addition, the Firm undertakes MiFID activities which give it the categorisation of a 'BIPRU Firm'.

The Firm is a Solo regulated entity and as such is the only entity covered by the ICAAP.

The Firm is a BIPRU Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under ([GENPRU 2 Annex 4](#)).

BIPRU 11.5.1

Disclosure: Risk Management Objectives and Policies

Risk Management Objective

The Firm has a risk management objective to develop systems and controls to mitigate risk to within its risk appetite.

Governance Framework

The Management Committee is the Governing Body of the Firm and has the daily management and oversight responsibility. It meets monthly and is composed of:

- Alistair Lumsden (CIO)
- Ken Towers (COO)
- Karyn Geringer (Head of Business Development)
- Mike Payne (CRO)
- Steve Swallow (Senior Portfolio Manager)
- Rhian Lloyd (GC/CCO)

The Management Committee is responsible for the entire process of risk management, as well as forming its own opinion on the effectiveness of the process. In addition, the Governing Body decides the Firm's risk appetite or tolerance for risk and ensures that the Firm has implemented an effective, ongoing process to identify risks, to measure its potential impact and then to ensure that such risks are actively managed. Senior Management is accountable to the Management Committee for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Firm.

Risk Framework

Risk within the Firm is managed by use of the following:

BIPRU 11.5.4

Disclosure: Compliance with BIPRU 3, BIPRU 4, BIPRU 7 and the Overall Pillar 2 Rule

BIPRU 3 (Credit Risk)

For its Pillar 1 regulatory capital calculation of Credit Risk, under the credit risk capital component, the Firm has adopted the Standardised approach ([BIPRU 3.4](#)) and the Simplified method of calculating risk weights ([BIPRU 3.5](#)).

Credit Risk Calculation

The credit risk capital requirement as at 31st March 2018 was £119,000. As this figure is not material in the calculation of our capital requirement (as the fixed overhead requirement is materially higher than the sum of credit risk and market risk requirements), no breakdown of the credit risk capital calculation is provided.

BIPRU 4 (Advanced Credit Risk Approach)

The Firm does not adopt the Internal Ratings Based approach and hence this is not applicable.

BIPRU 7 (Market Risk)

The Firm has Non-Trading Book potential exposure only ([BIPRU 7.4](#), [7.5](#)).

Overall Pillar 2 Rule

The Firm has adopted the "Pillar 1 plus" "Structured" approach to the calculation of its ICAAP Capital Resources Requirement as outlined in the Committee of European Banking Supervisors Paper, 25 January 2006.

The Management Committee reviews the capital and liquidity adequacy of the Firm on a quarterly basis and updates the ICAAP annually or more often in the event of a material change to the business.

BIPRU 11.5.8

Disclosure: Credit Risk and Dilution Risk

The Firm is primarily exposed to Credit Risk from the risk of non-collection of fees. It holds all cash with banks assigned high credit ratings. Consequently, risk of past due or impaired exposures is minimal. A financial asset is past due when a counterparty has failed to make a payment when contractually due. Impairment is defined as a reduction in the recoverable amount of a fixed asset or goodwill below its carrying amount.

BIPRU 11.5.12

Disclosure: Market Risk

The Firm has Non Trading Book potential exposure only ([BIPRU 7.4](#) & [7.5](#)).

The market risk capital requirement as at 31st March 2018 was £226,000. As this figure is not material in the calculation of our capital requirement (as the fixed overhead requirement is materially higher than the sum of credit risk and market risk requirements), no breakdown of the credit risk capital calculation is provided.

BIPRU 11.5.2

Disclosure: Scope of application of directive requirements

The Firm is subject to the disclosures under the UK CRDIII Implementing Regulations. However, it is not a member of a UK Consolidation Group and, consequently, does not report on a consolidated basis for accounting and prudential purposes.

BIPRU 11.5.3

Disclosure: Capital Resources

The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under ([GENPRU 2 Annex 4](#)). Tier 1 Capital comprises LLP Partners Capital and Audited Reserves/Losses.

As a Collective Portfolio Management Investment Firm, the Firm is subject to the capital requirements set out in IPRU(INV) Chapter 11 and also BIPRU/GENPRU. The Firm has the following capital resources:-

| | |
|---------------------------------------|-------------------|
| Tier 1 Capital/Initial Capital | £1,280,869 |
| Deductions | £0 |
| Tier 2 Capital | £0 |
| Deductions | £0 |
| Total Tier 1 & 2/Own Funds | £1,280,869 |
| Tier 3 Capital | £0 |
| Total Capital (GENPRU) | £1,280,869 |

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|---|
| BIPRU 11.5.5 |
| This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by BIPRU 11.5.4R (3) . |
| BIPRU 11.5.6 |
| This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by BIPRU 11.5.4R (3) . |
| BIPRU 11.5.7 |
| This disclosure is not required as the Firm does not have a Trading Book. |
| BIPRU 11.5.9 |
| This disclosure is not required as the Firm does not make Value Adjustments and Provisions for Impaired exposures that need to be disclosed under BIPRU 11.5.8R (9) . |
| BIPRU 11.5.10 |
| Disclosure: Firms calculating Risk Weighted Exposure Amounts in accordance with the Standardised Approach |
| This disclosure is not required as the Firm uses the Simplified method of calculating Risk Weights (BIPRU 3.5). |
| BIPRU 11.5.11 |
| Disclosure: Firms calculating Risk Weighted Exposure amounts using the IRB Approach |
| This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit and therefore is not affected by BIPRU 11.5.4R (3) . |
| BIPRU 11.5.15 |
| Disclosure: Non-Trading Book Exposures in Equities |
| This disclosure is not required as the Firm does not have a Non-Trading Book Exposure to Equities. |
| BIPRU 11.5.16 |
| Disclosures: Exposures to Interest Rate Risk in the Non-Trading Book |
| Although the Firm has substantial cash balances on its Balance Sheet, there is currently no significant exposure to Interest Rate fluctuations. |
| BIPRU 11.5.17 Disclosures: Securitisation |
| This disclosure is not required as the Firm does not Securitise its assets. |
| BIPRU 11.5.18 |

Disclosure: Remuneration

The Remuneration Committee is responsible for the Firm's remuneration policy. The Remuneration Committee consists of Alistair Lumsden, Karyn Geringer, Steve Swallow, and Ken Towers.

Variable remuneration will be adjusted if necessary to maintain capital and liquidity adequacy.

Remuneration Code Staff Remuneration by Business Area (BIPRU 11.5.18(6))

As a small company with 20 staff, to provide a breakdown of remuneration by business area would require us to identify the remuneration of individual members of staff which we believe would be detrimental to our business. As such this level of detail is not provided.

Aggregate Quantitative Remuneration by Senior Management and other Remuneration Code Staff (BIPRU 11.5.18(7))

| Type of Remuneration Code Staff | Total Remuneration |
|---------------------------------|--------------------|
| Senior Management (SIF) | £1,955,013 |
| Other Remuneration Code Staff | £3,569,160 |
| Totals | £5,524,173 |