Pillar 3 Disclosures

LJ Capital Limited
Capital Requirement Directive

Background

Following the implementation of the Alternative Investment Fund Managers Directive ("AIFMD"), LJ Capital is designated as a Collective Portfolio Management Investment ("CPMI") Firm. The designation applies because, in addition to carrying out collective portfolio management of Alternative Investment Funds ("AIFs"), it provides certain additional services to its clients which fall within the European Union's Markets in Financial Instruments Directive ("MiFID").

The practical effect of this is that LJ Capital's regulatory capital is calculated both with regard to the latest version of the Capital Requirements Directive and Regulation ("CRD IV") of the European Union and the AIFMD. In broad terms, LJ Capital must maintain own funds equal to the higher of the capital requirements calculated under the two regimes. As explained more fully below, in practice this is the capital requirement established by AIFMD.

In the United Kingdom, CRD IV has been implemented by the Financial Conduct Authority (FCA) in its regulations through the General Prudential Sourcebook (GENPRU) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU).

The GENPRU/BIPRU framework consists of three 'Pillars':

- Pillar 1 sets out the minimum capital amount that meets the firm's credit, market and operational risk;
- Pillar 2 requires the firm to assess whether its Pillar 1 capital is adequate to meet its risks; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls, capital position and remuneration arrangements.

LJ Capital is an investment manager, authorised and regulated by the Financial Conduct Authority. LJ Capital is categorised as a Full Scope UK CPMI Firm. It acts primarily as a discretionary investment manager, and does not hold client money or client assets. Although, LJ Capital is an AIFM and falls under the AIFMD Regime, it is also subject to CRD IV and the FCA's BIPRU Pillar 1, Pillar 2 and Pillar 3 requirements outlined above by virtue of the additional MiFID activities it undertakes in managing portfolios for separate account clients. In practice this means that in addition to meeting its minimum Pillar 1 capital adequacy requirements, LJ Capital is further required:

- To assess the adequacy of its capital to cover all of the risks to which it is or may be exposed. The results of this analysis is included in the Firm's Internal Capital Adequacy Assessment ("ICAAP"), which is undertaken on at least an annual basis (Pillar 2); and
- To publish certain details of its risks, capital and risk management process on an annual basis (Pillar 3).

Disclosure of our regulatory capital position and our risk management arrangements under Pillar 3 will be issued on an annual basis unless circumstances warrant a more frequent update.

Risk Appetite

LJ Capital seeks to take a conservative approach to risk and it has endeavoured to reflect this approach in the design of the business organisation, investment philosophy and strategy, and composition of the client base. The amount of capital retained is designed to cover regulatory capital requirements and provide for future business growth.

Risk Management Objectives and Policies

Risk management is the process of identifying the main risks, including regulatory compliance risks, to LJ Capital achieving its strategic objectives. Central to this process is establishing appropriate controls designed to manage those risks and to ensure that appropriate monitoring and reporting systems are in place. Risk management is an inherent part of LJ Capital's business activities. LJ Capital's risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of its major risks. LJ Capital exercises oversight through a Risk Committee. The Risk Committee meets regularly to review internal controls, risk management processes, regulatory compliance and relevant reports received from LJ Capital's advisors and auditors.

Amongst the risks inherent to the investment management process LJ Capital has identified the following risks as being most relevant.

Credit Risk

Credit risk arises from cash and deposits with banks and financial institutions, as well as credit exposure to clients, including outstanding receivables and committed transactions.

The risk arises due to the potential non-payment of receivables and default by the banks or money market funds with which LJ Capital may deposit surplus funds.

LJ Capital conducts due diligence on any potential counterparty before it enters into any formal arrangements. LJ Capital holds cash on deposit with global rated banks and other financial institutions pre-approved by the Risk Committee. Exposures to such institutions are reviewed by the Risk Committee.

Operational Risk

Operational risk includes those risks or events that could impact LJ Capital's people, processing and technology in such a way as to impact the achievement of LJ Capital's goals and objectives.

The adequacy of internal controls in relation to operational risk is periodically assessed across LJ Capital. Independent evaluation and testing of controls central to the investment process is undertaken on an annual basis and results are reviewed by the Risk Committee.

Systems, internal controls and human resources are in place to mitigate exposure to operational risk.

Market Risk

Market risk is defined as the risk of adverse movements of global securities markets, exchange rates, or interest rates.

LJ Capital is exposed to market movements through the impact a market downturn may have on the value of funds under management and the consequent impact on management and performance fees.

Scenario stress-testing has been conducted as part of the Internal Capital Adequacy Assessment Process (ICAAP) and LJ Capital believes that the firm holds sufficient capital to manage this risk.

LJ Capital has de minimis exposure to foreign exchange risk because its liabilities and income are matched by currency.

LJ Capital does not rely on interest from banks for operating purposes.

Liquidity Risk

Prudent risk management requires the maintenance of sufficient cash balances to ensure the operational expenses of LJ Capital can be met.

LJ Capital has in place a Liquidity Risk Management Policy, which sets out the processes used to manage and control liquidity risk. LJ Capital has established risk tolerance levels against which the liquidity position is monitored. Cash flow forecasts are the principle management information tool employed to monitor liquidity on a day to day basis.

LJ Capital has concluded no additional capital is required in order to manage this risk.

Capital Resources

We are required to disclose certain information regarding our capital resources and our capital resource requirement. As stated earlier the capital resource requirement is the higher of the capital required under CRD IV contained in the FCA's GENPRU/BIPRU and that of the AIFMD included in the FCA's Interim Prudential sourcebook for Investment Businesses ("IPPRUINV").

The capital resources of the business comprise Tier 1 capital after required deductions. As a limited licence firm the capital resources requirement is calculated as the total of Pillar 1 and Pillar 2 capital.

LJ Capital's Pillar 1 CRDIV GENPRU/BIPRU capital requirement is the greatest of:

- a base capital requirement of € 50,000;
- the sum of market and credit risk requirements; and
- the Fixed Overhead Requirement (FOR).

It is LJ Capital's experience that its GENPRU/BIPRU capital requirement normally consists of the FOR, although market and credit risks are reviewed periodically. LJ Capital applies a standardised approach to credit risk, applying 8% to LJ Capital's risk weighted exposure amounts, consisting mainly of management fees due but not paid, and bank balances.

LJ Capital's Pillar 1 AIFMD IPRUINV requires it to meet both an Own Funds and a Liquid Assets capital requirement.

The Own Funds capital requirement is based upon a combination of the funds under management capital requirement, which represents the higher of:

- its base own funds requirement of € 125,000 plus its funds under management requirement of 0.02% of relevant funds under management exceeding € 250m; and
- its own funds based upon fixed overhead (Article 97 of the EU Capital Requirements Directive)

and its professional negligence capital requirement of 0.01% of relevant funds under management.

In practice LJ Capital's own funds capital requirement represents its own funds based upon fixed overhead which significantly exceeds its funds under management requirement.

For its Liquid Assets Capital requirement LJ Capital is required to hold liquid assets which exceed its own funds based upon fixed overhead plus its professional negligence capital requirement of 0.01% of relevant funds under management. Liquid Capital represents assets that are readily convertible to cash within one month and have not been invested in speculative positions.

Pillar 2 capital is calculated by LJ Capital 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.

Having performed the ICAAP it is LJ Capital's opinion that no additional capital is required.

As at 31 December 2015 LJ Capital's audited regulatory capital position was:

	Capital Items	
Own Funds Test		
	Total Tier 1 Capital after Deductions	£657,338
	Pillar 1 Requirement	£579,422
	Pillar 2 Requirement	£0
	Capital in excess of Requirement	£77,916
Liquid Assets Test		
	Liquid assets held	£6,238,312
	Liquid assets Requirement	£624,422
	Surplus of Liquid Assets	£5,613,890

There is a surplus of reserves above the capital resource requirement deemed necessary to cover the risks identified.

Remuneration Arrangements and Policy

We are required by the FCA to provide information on our remuneration arrangements. LJ Capital has been categorised by the FCA as a 'Level 3 Firm' and is therefore subject to the minimum prescribed levels of remuneration disclosure.

The Remuneration Committee (the 'Committee') of LJ Partnership, the group of which LJ Capital forms a part, meets periodically to consider terms and conditions of employment, global head count requirements and remuneration policy. The Committee includes the Chief Executive Officer, the Chief

Operating Officer, who is also Compliance Oversight Officer, the Head of Investments, and the Head of Trust & Fiduciary. The Committee is responsible for recommending individual remuneration awards to the Directors of LJ GP Partnership Limited, which is the Governing Body of the group, and for the implementation of the approved remuneration policy.

LJ Capital's remuneration arrangements represent a combination of salary, bonuses and long term incentive schemes that are designed to ensure the sustainability of LJ Capital and to align the interest of LJ Capital and its employees and partners with those of its clients. Remuneration includes a variable discretionary component, based on LJ Capital's profitability, individual performance, and product performance. Individual performance includes a consideration of financial and non-financial measures. Financial measures are generally reviewed over a multi-year time horizon.

Breakdown of Remuneration for the financial year ended 31 Dec 2015:

Breakdown of aggregate remuneration of staff in respect of whom disclosure is required by Business Area (i) and by Senior Management and Other Staff whose actions have a material impact on LJ Capital's risk profile (ii)		
(i) Business Area		**Total Remuneration**
Investment Management		£1,429,121
(ii) Senior Management (£'000)	**(ii) Other Staff (material impact) (£'000)**	**Total Remuneration**
£1,429,121	£0	£1,429,121

In some cases, the directors and employees of LJ Capital may have equity stakes in the LJ Partnership and/or have co-invested in funds managed by LJ Capital or other entities within the LJ Partnership. Earnings from these sources are not included in the above breakdown of Remuneration. A significant proportion of the total staff remuneration above is recharged to group.

Authorised and Regulated by the Financial Conduct Authority.