

**Mountgrange Fund Management Limited**  
**Pillar 3 Disclosure**

July 2010

## Contents

1) Introduction	1
2) Scope and application of the requirements	1
3) Risk management	2
4) Regulatory capital	3

## 1) Introduction

The Capital Requirements Directive ('the Directive') of the European Union establishes 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 Directive has been implemented by the Financial Services Authority ('FSA') in its regulations through the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

The FSA 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. This involves the preparation of an Internal Capital Adequacy Assessment Process ("ICAAP") on at least an annual basis which is potentially subject to annual review by the FSA; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet our Pillar 3 obligations and the disclosures are provided below.

We are permitted to omit required disclosures on three grounds:

- i) 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; or
- ii) we believe that the information is regarded as proprietary. In our view, proprietary information is that which, if it were shared, would undermine our competitive position; and
- iii) we believe that the information is regarded as confidential. 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 it is immaterial, proprietary or confidential.

## 2) Scope and application of the requirements

Mountgrange Fund Management Limited ("the Firm") is authorised and regulated by the Financial Services Authority and as such is subject to minimum regulatory capital requirements. The Firm is categorised as a limited licence firm by the FSA for capital purposes. It is an investment management firm and as such has no trading book exposures.

The Firm provides authorised advice and discretionary investment management services as appropriate to Mountgrange Real Estate Opportunity Fund LP (“the Fund”) and a number of related entities.

The ultimate and immediate parent undertaking is Mountgrange Investment Management LLP, a Limited Liability Partnership, which is incorporated in the United Kingdom and registered in England and Wales. Copies of the Mountgrange Investment Management LLP financial statements are available from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

The Firm is not part of a consolidation group for prudential purposes and so is not required to prepare consolidated reporting for prudential purposes. All reporting is based on Mountgrange Fund Management Ltd.

### **3) Risk management framework**

The Firm is governed by its directors (“Principals”) who determine its business strategy and risk appetite. They are also responsible for establishing and maintaining the Firm’s governance arrangements along with designing and implementing a risk management framework that recognises the risks that the business faces. The directors are Partners of Mountgrange Investment Management LLP. Mountgrange has set up and implemented a Risk Management Process. This documents the objectives and principles of risk management, the risk management process and implementation strategy. Through this process the main risks impacting the Firm are assessed and mitigation arrangements considered.

The Investment Committee also acts as an oversight function to monitor, assess and review investment management activity of the Fund. The Investment Committee comprises the directors and three other Partners of Mountgrange Investment Management LLP.

The Principals determine how the risks our Firm face may be mitigated and assess on an ongoing basis the arrangements to manage those risks. The Principals meet both formally and informally on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, and business planning and risk management. The Principals manage the Firm’s risks through a framework of policy and procedures having regard to relevant laws, standards, principles and rules (including FSA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required.

The Principals have identified that business, operational, market, credit and interest rate risks are the main areas of risk to which the Firm is exposed. On a semi-annual basis the Principals formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness. Where the Principals identify material risks they consider the financial impact of these risks as part of our business planning and capital management and conclude whether the amount of regulatory capital is adequate.

An ICAAP is carried out at least annually. This identifies and seeks to mitigate the risks that the Firm is exposed to. Based on the ICAAP, the Principals do not feel that additional capital is required above the Tier 1 capital in relation to the risks identified.

#### 4) Regulatory capital requirements

The Firm is a Limited Company and its capital arrangements are established in its Articles of Association. The Firm's capital position at the last two financial year ends is summarised as follows:

	31/03/10	31/03/09
	£	£
<b>Capital and reserves</b>		
Called up share capital	62,000	62,000
Profit and loss reserve	11,573	(1,009)
<b>Shareholders' funds</b>	73,573	60,991

As noted above the firm is a limited licence firm and as such its capital requirements are the greater of:

- Its base capital requirement of €50,000; or
- The sum of its market and credit risk requirements; or
- Its Fixed Overhead Requirement (FOR).

Our Firm is small with a simple operational infrastructure. Its market risk is limited to foreign exchange risk on its accounts receivable in foreign currency, and credit risk from management fees receivable from the funds under its management. Under the FSA guidelines, the Firm follows the standardised approach to market risk and the simplified standard approach to credit risk. The Firm is subject to the Fixed Overhead Requirement and is not required to calculate an operational risk capital requirement (as it is a BIPRU limited licence firm) though it considers this as part of its process to identify the level of risk based capital required.

The main features of the Firm's capital resources for regulatory purposes at 31 March 2010 are as follows:

Capital item	£
Tier 1 capital less innovative tier 1 capital	60,991
Total tier 2, innovative tier 1 and tier 3 capital	0
Deductions from tier 1 and tier 2 capital	0
Total capital resources, net of deductions	60,991

We have identified limited credit risk capital requirement and no market risk capital requirement (as defined in GENPRU 2.1.51 and 2.1.52) and so these are considered to be less than the FOR. Therefore, it is the Firm's experience

that the FOR establishes its capital requirements and hence credit and market risks are considered not to be material.

At 31 March 2010, the FOR was £46,669. The audited capital resources at this time were £60,991. Hence, there were surplus capital resources. Following the audit of the year end 31 March 2010 financial statements, the FOR was updated to £50,382 and the audited capital resources £73,573. Therefore, there is now a larger capital resources surplus.