

# Rose Grove Capital Management, LLC

## Part 2A of Form ADV

### The Brochure

June 2017

#### **Principal Office**

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This brochure provides information about the qualifications and business practices of Rose Grove Capital Management, LLC (“Rose Grove” or “the Company”). If you have any questions about the contents of this brochure, please contact Susan Petrovic at 781-304-1600.

Additional information about Rose Grove is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Rose Grove is registered as an investment adviser with the United States Securities and Exchange Commission (the “SEC”) under the Investment Advisers Act of 1940 (the “Advisers Act”). Registration as an investment adviser with the SEC does not imply a certain level of skill or training. In addition, the information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

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## Material Changes

As of December 31, 2016 there have been no material changes to Rose Grove’s business operations or to this Form ADV Part 2. However, this version of the Form has been updated to more accurately reflect changes made to the organizational structure of the firm as well as the addition and removal of funds under management.

## Advisory Business

Rose Grove is an independent private investment firm founded in 2006 and formed under the laws of the State of Delaware as a limited liability company. Rose Grove is owned and controlled by Rose Grove Capital Holdings, L.P. and its managing member, RGGP Inc. which is owned equally by R. Jeffrey Chandler, Hope Pascucci and Michael Pascucci (collectively, the “Principals”), each of whom brings a wealth of investment, operational and financial expertise and experience to Rose Grove.

Rose Grove sponsors and serves as an investment manager to investment related limited partnerships and an offshore investment company (“Funds”). Rose Grove also provides investment management services to separately managed accounts (“SMAs”, and collectively with Funds, “Clients”).

As the investment manager of the Funds, Rose Grove has overall responsibility to manage and control the business affairs of the Funds, including the exclusive authority to oversee and to

establish policies regarding the management, conduct and operation of the Fund's business. Rose Grove manages the Funds in accordance with the terms of the offering documents and other governing documents applicable to the Fund.

Currently, the Company provides these services to the following Funds:

- Rose Grove Partners I, LP, (“RGP I”) a Delaware limited partnership that seeks to maximize total return through a combination of current income and capital appreciation. Investments will be managed with the goal of maximizing risk-adjusted returns, and capital preservation will be a focus of the fund. The sole general partner of the fund is Rose Grove GP I, LLC, a Delaware limited liability company.
- Rose Grove Offshore Fund I, Ltd., (“RGO I”) a Cayman Islands exempted limited company that seeks to maximize total return through a combination of current income and capital appreciation. Investments will be managed with the goal of maximizing risk-adjusted returns, and capital preservation will be a focus of the fund.
- Rose Grove Focus Fund LLC (“RGFF”), a Delaware based limited liability company that has been formed for investment by clients of another investment adviser. The fund seeks to profit from an environment of higher interest rates through investment long and short in specific subsets of the preferred stock/hybrid capital market; including, for example, in long floating rate perpetual preferred stock and short fixed rate preferred stock, generally denominated in Euros.

For additional information about the investment strategies see discussion under “*Methods of Analysis, Investment Strategies and Risks of Loss.*” Also, details regarding the investment objective for each Fund can be found in the offering documents and other governing documents. Investments will be managed with the goal of maximizing risk-adjusted returns, and capital preservation will be a focus of the Company.

Shares or limited partnership interests in the Funds are not registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”); nor are the Funds registered under the Investment Company Act of 1940, as amended (the “Investment Company Act”). Accordingly, interests or shares in the Funds are offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements, either in private transactions within the United States or in offshore transactions.

For SMAs, Rose Grove manages the assets in accordance with the terms of the advisory agreement and any reasonable investment restrictions placed on the account. The investment strategy offered to SMAs are generally similar to the strategies pursued by the Funds.

As of December 31, 2016 the Company managed \$989million on a discretionary basis.

## **Fees and Compensation**

Fees charged to SMAs are negotiated and are paid in accordance with the provisions outlined in the specific agreement with the client. Fees are generally based on the value of the account(s) at the close of the applicable billing period. Fees may include a combination of management and incentive fees. Rose Grove invoices SMAs directly for services rendered. Rose Grove's services may be terminated by either party upon written notification in accordance with the applicable contractual notice of termination. Upon termination, the fees charged for advisory services will be pro-rated and a refund for any unearned fees will be issued. SMAs are responsible to pay for services rendered until the termination of the agreement. In addition to the Company's investment management fees, SMAs bear trading costs and custodial fees. For more information on brokerage transactions and costs, please see *Brokerage Practices*. In addition, to the extent that SMAs accounts are invested in mutual funds including money market funds, these funds pay a separate layer of management, trading, and administrative expenses.

Management fees charged to investors in the Funds are based on a percentage of assets under management and performance-based amounts. Detailed information regarding the fees charged to the Funds is provided in the Funds' offering documents and other governing documents. Fees are deducted from an investor's capital account(s) in the applicable Fund. Rose Grove or the general partner of the relevant Fund may, in its sole discretion, waive or reduce all or any portion of the above stated fees with respect to an investor.

In addition to the fees charged by Rose Grove, investors will bear indirectly other fees and expenses incurred by the Funds including, but not limited to, the following: brokerage and other transaction costs, legal fees; accounting fees; audit fees; custodian fees; costs of insurance; organizational and registration expenses; fund administration fees; and certain offering costs. In addition, investors in the offshore fund will also pay directors' fees. For more information on brokerage transactions and costs, please see *Brokerage Practices*. Investors should review all fees charged by Rose Grove and the expenses charged to the Funds to fully understand the total amount of fees to be paid by the Fund. Investors' ability to redeem from the Funds is subject to early redemption fees, formal notice requirements, and other restrictions. The Funds' offering documents provide a summary of the expenses charged to the Fund, and the terms investors are subject to when redeeming all or a portion of their investment.

## **Performance Based Fees and Side-by-Side Management**

Performance based or incentive fees are fees based on a share of capital gains on or capital appreciation of the assets of a client. An adviser charging performance fees to some accounts faces a variety of conflicts because the adviser can potentially receive greater fees from its accounts having a performance-based compensation structure versus those accounts it charges a fee unrelated to performance (e.g., an asset-based fee). As a result, the adviser may have an incentive to direct the best investment ideas to, or to allocate or sequence trades in favor of, the account that pays a performance fee.

Rose Grove charges performance based fees to all Clients but may, in its sole discretion, waive or reduce all or any portion of the performance fees with respect to an investor. The presence of a performance fee may create an incentive to favor Funds and accounts paying performance based fees over accounts that do not. In addition, the fact that Rose Grove is compensated based on the trading profits may create an incentive for Rose Grove to make investments on behalf of its Clients that are riskier or more speculative than would be the case in the absence of such compensation. In addition, the performance based fees received by Rose Grove and/or its affiliates are based primarily on realized and unrealized gains and losses. As a result, the performance based fee earned could be based on unrealized gains that clients may never realize.

## **Types of Clients**

Rose Grove provides advisory services to the Funds and SMAs, as described under “Advisory Business” above. The minimum capital required to open a SMA is \$50 million, but lower amounts may be accepted at Rose Grove’s discretion. Each Fund operates as a pooled investment vehicle, and the minimum capital commitment for an investor in the Fund is outlined in such Fund’s offering documents and governing documents.

In addition, the governing documents for the Funds grant Rose Grove or the general partner of the onshore funds and the directors of the offshore fund, exclusive and absolute discretion and authority in managing and controlling the business and affairs of each Fund, subject only to specific and express limitations in the governing documents. Rose Grove, the general partner, or the Directors of the relevant fund may exercise this discretion and authority conditionally or unconditionally, arbitrarily, or inconsistently in varying or similar circumstances, without accountability to the Fund or any investor. Rose Grove, the general partner, and the Directors of the funds provide certain investors more frequent or more detailed reports on portfolio holdings or performance, special fee and allocation arrangements and special withdrawal rights that it does not provide to other investors. Under certain circumstances, these agreements create preferences or priorities for such investors with respect to other investors.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

Rose Grove seeks to achieve its investment objectives by pursuing the preferred equities strategy. In addition, the SMAs may pursue a variation of the strategy outlined above, but will employ substantially similar methods of analysis and investment strategies.

Market inefficiencies exist due to the distinct goals of, and restrictions on, the population of issuers and investors active in preferred securities. The preferred equities strategy entails identifying and investing in opportunities within the preferred stock arena, in addition to exploiting pricing discrepancies that may exist between equity, preferred and debt securities. Many of the investments in this strategy will consist of the preferred stock of publicly traded companies in the U.S., Europe and Asia.

Preferred investments take a variety of forms, including perpetual, dated, fixed rate, floating rate (off numerous indices), callable and non-callable securities, and convertibles. Many institutional investors are precluded, either by charter or by inexperience, from participating in at least some of the investment opportunities described above. In addition to preferred, debt and equity securities, in carrying out the preferred equities strategy, Rose Grove may trade in contractual agreements, such as default and interest rate swaps, structured notes, such as credit linked securities and collateralized debt obligations (“CDOs”), as well as other types of derivative instruments. Rose Grove will determine which particular trades will best capture the potential investment returns while controlling for risk. Potential trades may involve one or more investments (both long and short) in the preferred stock, common stock, convertible bonds and other debt of a single issuer.

The strategy followed by Rose Grove is not generally subject to particular investment restrictions. However, Rose Grove may from time to time implement certain guidelines for the management of Client assets, subject to its discretion to modify or suspend the application of such guidelines if deemed appropriate. Examples of portfolio guidelines used for the Funds with the exception of RGFF include but are not limited to:

- Leverage is limited to 2.5x;
- It is expected that a substantial portion of each Fund’s preferred stock and debt investments carries investment grade debt ratings at the time of investment;
- No more than 15% of the net asset value of a Fund is lent to or invested in the securities of any one issuer;
- Each Fund will not acquire beneficial ownership of 10% or more of any class of securities of an issuer;
- Each Fund’s investments in any single position of common stock will not exceed 10 days average daily trading volume during the 90 days prior to the acquisition;
- Position sizes are dictated by conviction of trade, but also by the liquidity the secondary market has to offer; and
- Each Fund will not seek to take legal or management control of any issuer

The risk limits and portfolio guidelines for the RGFF were established on a collaborative basis by Rose Grove and the investors in the fund and are outlined in the offering document for RGFF.

The Funds permit Rose Grove to leverage portfolios through traditional means (such as by borrowing money through margin accounts, lines of credit with financial institutions, or other lending arrangements on a secured or unsecured basis) for any purpose. However, Rose Grove does not generally intend to borrow money for purposes of leveraging its investments in an aggregate amount that would exceed 250% of the account’s value.

Investing in any securities involves risk of loss that investors should be prepared to bear. A description of the material risks that relate to the investment strategy are described in this section, but the following is not intended to be all encompassing. The Funds’ offering documents provide a summary of additional risks investors face when investing in the Funds. Investors in the Funds should review the offering documents to fully understand the additional risks. SMAs should contact Rose Grove for additional information on other risks that may be present when opening an account with the Company.

Market conditions – the prices of, and the income generated by, the securities owned by Clients may decline due to market conditions and other factors, including those directly involving the issuers of securities held by Clients.

Security selection - the identification of securities representing high quality businesses and management teams is a difficult task, and there are no assurances that such opportunities will be successfully recognized over the long term. While such investments offer the opportunities for above-average capital appreciation, they also involve a high degree of financial risk and can result in substantial losses.

Limited Operating History; Reliance on Key Personnel - Although each of the Principals has substantial investment experience, past performance is not indicative of future results and no assurance can be given that investment objectives will be achieved or that Clients will receive a return of any of their investment. Rose Grove expects to rely heavily on the Principals' experience, and should any of them become incapacitated or in some way cease to participate during this period, performance could be adversely affected.

Frequent trading of securities increases costs - The portfolio turnover rate within Client accounts may be significant, potentially involving negative tax implications and substantial brokerage commissions and fees.

General Economic and Market Conditions - General economic or market conditions may adversely affect the investments made by Clients. In addition, a downturn or contraction in the economy or in the capital markets, or in certain industries or geographic regions thereof, may restrict the availability of suitable investment opportunities for the Clients and/or the opportunity to liquidate any such investments, each of which could prevent Clients from meeting its investment objectives.

Leverage - The Clients will be exposed to risks associated with the use of leverage, such as the risk that leverage could have a negative effect on returns and the risks of default and liquidation. In addition to use of leverage, certain entities in which Clients directly or indirectly invest may borrow money or use other financial techniques that would have the economic effect of using leverage.

## **Disciplinary Information**

While Rose Grove has not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company, there is a prior disciplinary event involving a Rose Grove employee, Steven Pascucci. Steven Pascucci joined Rose Grove in January 2010 and provides research assistance to Rose Grove's portfolio managers. He does not have any investment discretion and does not have trading authority. In March 2008, the SEC instituted proceedings alleging that Steven Pascucci and several other equity traders at FMR Co., Inc. (Fidelity) violated Section 17(e)(1) of the Investment Company Act by accepting travel, gifts and tickets to concerts and sporting events from securities brokerage firms with which Fidelity

conducted business on behalf of certain Fidelity mutual funds. On December 11, 2008, and without admitting or denying the SEC's findings, Steven Pascucci consented to the entry of an SEC order making findings and directing him to cease and desist from violating Section 17(e)(1) of the Investment Company Act and to pay \$44,339 in disgorgement, \$15,256.81 in prejudgment interest and a civil monetary penalty of \$30,000. Accordingly, the civil matter is resolved.

## **Other Financial Industry Activities and Affiliations**

As stated in Advisory Services above, the Company sponsors investment related limited partnerships and an offshore investment company. Investments in any Funds of which the Company or other related person is a general partner are conducted on a private placement basis and prospective investors are solicited by means of the offering documents of the relevant Fund.

## **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Pursuant to Rule 204A-1 of the Investment Advisers Act of 1940, as amended ("Advisers Act"), Rose Grove has adopted a written Code of Ethics (the "Code") predicated on the principal that the Company owes a fiduciary duty to the Clients and its Investors. The Code is designed to address and avoid potential conflicts of interest and is applicable to all officers, directors, members, partners or employees of Rose Grove (collectively the "Covered Persons"). The Company requires its Covered Persons to act in the Clients' best interests, abide by all applicable regulations and avoid any action that is, or could even appear to be, legally or ethically improper.

Rose Grove's Code prohibits Covered Persons from trading in certain securities, including preferreds. The Code also requires Covered Persons to: 1) pre-clear certain personal securities transactions, 2) report personal securities transactions on at least a quarterly basis, and 3) provide Rose Grove with a detailed summary of certain holdings (both initially upon commencement of employment and annually thereafter) over which such Covered Persons have a direct or indirect beneficial interest.

A copy of Rose Grove's Code shall be provided to any investor or prospective investor upon request.

Rose Grove, its Principals, and certain employees will generally have a material direct or indirect investment in the Funds. Therefore, Rose Grove may be considered to participate, indirectly, in transactions effected for the Funds. Investments made by Rose Grove, its Principals, and employees are generally made on the same terms as investors in the Funds. However, fees and investment minimums may be waived or reduced for Rose Grove, its Principals and employees. Rose Grove does not believe this arrangement presents any material conflicts of interest since its interest are aligned with the interest of Fund investors.



## Brokerage Practices

There are no restrictions as to the type or amount of securities to be bought or sold on behalf of Clients. Rose Grove is responsible for the placement of orders and the negotiation of any commissions paid on such orders. Purchases of securities through brokers involve a commission to the broker, or for dealers serving as market makers a spread between the bid and the ask price.

Securities transactions will be executed through brokers selected by Rose Grove in its sole discretion and will seek to obtain the best execution for Clients, taking into account the following factors: (i) the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); (ii) the operational efficiency with which transactions are effected (such as prompt and accurate confirmation and delivery), taking into account the size of order and difficulty of execution; (iii) the financial strength, integrity and stability of the broker-dealer; (iv) the quality, comprehensiveness, and frequency of available research services considered to be of value to Rose Grove and its Clients; (v) the value of brokerage services over and above trade execution provided to Rose Grove and its Clients; and (vi) the competitiveness of commission rates in comparison with other broker-dealers satisfying Rose Grove's other selection criteria.

Rose Grove need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. Accordingly, if the Company determines in good faith that the commissions charged by a broker are reasonable in relation to the value of the brokerage and research products or services provided by such broker, the Clients may pay commissions to such broker in an amount greater than the amount another broker might charge.

Brokerage and research products or services provided to Rose Grove may include research reports on particular industries and companies, economic surveys and analyses, recommendations as to specific securities and other services providing lawful and appropriate assistance to the Company in the performance of its investment decision-making responsibilities. Such research services are received primarily in the form of written reports, telephone contacts and personal meetings with security analysts. Rose Grove accepts only proprietary research from the brokers and does not enter into any soft dollar arrangements whereby it receives research or any other benefit from third parties. Rose Grove's acceptance of research from brokers is done in accordance with the provisions of Section 28(e) of the Securities Exchange Act of 1934, as amended.

The Clients' securities transactions can be expected to generate brokerage commissions and other compensation, all of which the Clients, not Rose Grove, will be obligated to pay. To the extent that broker-dealers executing transactions for Clients provide research services of value to Rose Grove, Rose Grove is relieved of expenses it may otherwise have to pay. Therefore, there is a conflict in that Rose Grove has an incentive to select a broker-dealer based on its interest in receiving research or other products or services, rather than broker-dealers providing lower execution costs. To mediate this potential conflict, Rose Grove has adopted a Best Execution policy and procedure which permits Rose Grove to generate credit to pay for research only where Rose Grove believes that it is achieving best execution of the transaction.

Investment opportunities identified by Rose Grove typically will be suitable for more than one Client. Whether or not an investment opportunity would be appropriate for a Client will be determined in the sole discretion of the Portfolio Managers for that Client. Where Rose Grove determines that an investment opportunity is suitable for more than one Client, Rose Grove will seek to allocate the investment opportunity among the applicable Clients on a fair and equitable basis, taking into account each Client's investment objective and strategy, investment restrictions and guidelines, cash position, liquidity requirements and applicable tax and regulatory considerations. Account performance or fee structures are not considered in determining the allocation of investment opportunities.

Generally at the beginning of each month (and at such other times as Rose Grove, in its discretion, may determine to be appropriate), Rose Grove establishes an allocation percentage for each Client based upon the estimated net asset value of such Client's account, as adjusted for expected subscriptions and redemptions (if any) for that month, and for such other factors as may be determined by Rose Grove from time to time (including leverage or a concentrated investment mandate). Notwithstanding the foregoing, Rose Grove may determine, in its discretion, to allocate an investment opportunity other than on the basis of each Client's allocation percentage, in which case Rose Grove will make the relevant allocation determination in advance of executing the trade.

In some instances a Client may not be eligible to invest in a particular opportunity even if it would otherwise be a suitable investment for such Client and certain investment opportunities may be allocated solely to certain types of Clients for tax or regulatory reasons. For example, Regulation S securities will be allocated to the Offshore Fund and other non-U.S. Clients only and, Rule 144A securities will be allocated to Clients that are QIBs.

## **Review of Accounts**

Rose Grove reviews any activity that occurs in Client accounts daily. The Principals along with other investment personnel continually supervise each Client account and assess the appropriateness of the investments in connection with each Client's investment objectives and the general economic environment. Particular attention is given to changes in company fundamentals, industry outlook, market outlook, and price levels.

Investors in the Funds receive monthly reports that include capital account balances, and annual audited financial statements within 120 days of the Fund's fiscal year end. In addition, Rose Grove may agree to provide certain investors more frequent or more detailed reports. With respect to SMAs, the nature and frequency of reports are determined primarily by the particular needs of each SMA. Generally, SMAs receive custodial statements of all transactions no less than quarterly. In addition, Rose Grove may provide quarterly reports that may include relevant account and/or market-related information such as an inventory of account holdings and account performance on a quarterly basis. SMAs should carefully review the statements provided by the custodian and compare it against statements that may be provided by Rose Grove.

## **Client Referrals and Other Compensation**

The Company has engaged with JP Morgan Securities LLC and its affiliates (“JPM”) to solicit for investors into the funds. In exchange for introducing new investors to Rose Grove, the Company pays a fee quarterly in arrears to JPM which consists of an agreed upon percentage of the management fee received by Rose Grove on the referred investors capital account for the life of the investment. Investors referred by JPM do not pay higher fees to Rose Grove as a result of the referral.

## **Custody**

All Client assets are held in custody by unaffiliated broker/dealers or banks, however a registered investment adviser who, directly or through an affiliate, acts as the general partner or managing member to a limited partnership or other comparable pooled investment vehicle is considered to have custody over client assets. Rule 206(4)-2 under the Investment Advisers Act of 1940 imposes a number of requirements on an SEC-registered investment adviser that is deemed to have custody of its clients’ funds and securities.

To comply with Rule 206(4)-2 and to provide meaningful protection to investors, each Fund is subject to an annual financial statement audit by an independent public account registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. The audited financial statements are prepared in accordance with generally accepted accounting principles, and are distributed to each investor within 120 days of the Client Fund’s fiscal year end.

## **Investment Discretion**

The Company typically manages Client accounts on a discretionary basis, subject to the restrictions (if any) that have been provided by Clients. For accounts handled on a discretionary basis, the Company typically has the authority to determine the securities to be bought and sold without obtaining Client consent to specific transactions. For the Funds the offering documents and governing document provides that the general partner or investment manager has exclusive and absolute discretion and authority in managing and controlling the business and affairs of Funds, subject only to specific and express limitations provided therein. For SMAs, an investment advisory agreement is executed authorizing Rose Grove to manage the account on a discretionary basis subject to any investment restrictions the SMA places on the account.

## **Voting Client Securities**

The Advisers Act requires investment advisers that have proxy voting authority to: (i) adopt policies and procedures for voting proxies in the best interest of the client; (ii) describe the

procedures to clients; and (iii) inform clients how they may obtain information about how the adviser has actually voted their proxies.

As a result of the investment strategy employed by Clients, Rose Grove does not anticipate receiving many proxy ballots. As a result, Rose Grove will generally vote proxies with management, or in a manner that Rose Grove believes is in the best interests of the applicable Client(s) and may take into consideration, among other things, whether the costs associated with exercising the proxy outweigh the benefits. In addition, Rose Grove will document and abide by any specific proxy voting instructions conveyed by a Client with respect to that Client's Securities. The CCO coordinates Rose Grove's proxy voting process.

The complete proxy voting policy and procedures have been memorialized in writing and are available for review. In addition, Rose Grove maintains a record of all of the proxy votes cast on behalf of the Clients and such records may be reviewed upon request.

## **Financial Information**

Rose Grove has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage Client accounts.