



31 December 2017

Chenavari Investment Managers

Pillar 3 Disclosures

Chenavari Credit Partners LLP



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The 2006 Capital Requirements Directive (“CRD”) of the European Union created a revised regulatory framework across Europe. This was implemented in the United Kingdom by the Financial Conduct Authority (“FCA”) through the creation of the General Prudential Sourcebook (“GENPRU”) and the Prudential Sourcebooks for Banks, Building Societies and Investment Firms (“BIPRU”).

The FCA framework consists of three pillars:

1. Pillar 1 sets out the minimum capital requirements for credit, market and operational risk;
2. Pillar 2 requires us and the FCA to take a view on whether additional capital needs to be held for risks not covered by Pillar 1; and
3. Pillar 3 requires us to publish certain details of our risks and risk management process.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This must be done in accordance with a formal disclosure document. This document meets that obligation.

Chenavari Credit Partners LLP (“CCP” or the “Firm”) is a subsidiary of the Chenavari Financial Group Limited (“CFG”) based in London, United Kingdom. CCP is a provider of investment solutions, principally investment advisory and discretionary portfolio management services. CFG is the parent company of CCP.

In this document, reference to the Chenavari Financial Group refers to the group comprising CFG and CCP firms jointly unless otherwise noted. Please note that CCP calculates its capital resources on a non-consolidated basis.

CCP’s FCA firm reference number is 484392. It is classified as a BIPRU €50,000 limited licence firm and the minimum capital requirement of CCP is therefore €50,000. The variable capital requirement is computed as £4,225,000, and the total capital of CCP as of 31 December 2017 is £6,881,000 of Core Tier One Capital. There are no deductions from the total capital.

Total capital as at 31 December 2017 comprises:

- Subscribed capital of LLP members £321,000
- Retained profit reserves £6,510,000

CCP’s solvency ratio is therefore $\frac{£6,881,000}{£4,225,000} = 162.85\%$, well in excess of the required amount and forming a significant capital buffer.

Chenavari Financial Group has a corporate governance structure in place to ensure that risk monitoring and management activities are managed at the correct organisational level and are proportionate to the likelihood and impact of each risk crystallising.

Scope of the Report

The amounts and disclosures herein relate wholly and exclusively to CCP. These are prepared on an unconsolidated basis without the inclusion of any amounts attributed to the Firm or to Chenavari Financial Group from other group entities.



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Management Committee

The Management Committee is responsible for the day to day management of the group, which includes all CCP and CFG activity. It takes decisions at a strategic level covering the group's activities in any region, and therefore implicitly manages risks that affect the business at a strategic level. The committee delegates explicit risk management responsibility to various business functions, which in themselves form sub-committees of the Management Committee. The committee meets weekly and more frequently if required.

The committee takes a leadership role in shaping the risk management practices of Chenavari Financial Group to facilitate achievement of the group's goals. The committee has been established as a means to oversee the operation of the business and to monitor and manage elements of the operational risks inherent in the Firm's business, which includes regulatory risk. The committee is tasked to:

- Set the Group-wide risk management strategy;
- Oversee the risk management and control assurance framework;
- Monitor the adequacy and effectiveness of risk management and implementation of the risk management strategy throughout the group;
- Make recommendations on risk appetite in relation to the achievement of group objectives.

The committee receives information in the form of a number of key risk indicators, which is produced by each department head. If the indicators show that systems and controls are being challenged, for example if there are more errors in a particular department or process than acceptable, the committee will discuss what actions should be taken and assign these actions to a committee member.

As the committee shares some of its membership with several other sub-committees, all information is fully available to each member. The committee meets approximately monthly or more frequently if necessary.

Remuneration Committee

The Remuneration Committee has been established to promote good corporate governance and effective risk management. The Remuneration Committee consists of Loic Fery (CEO/Co-CIO), Frederic Couderc (Co-CIO), and Vincent Laurencin (Deputy CEO). The Remuneration Committee has been selected based on the individuals holding directorships at the CFG level and their roles at CCP outlined above. The combined expertise and experience of the committee enables it to make effective and fair decisions regarding the Remuneration Policy.

The committee meets on an annual basis and is responsible for the following;

- Reviewing the Remuneration Policy's general principles and framework on an ongoing basis, ensuring effective implementation across Chenavari Financial Group and checking that the policy is in line with the business strategy, objectives, values and long-term interests of the Firm;
- Assessment of all staff that have a material impact on the risk profile of Chenavari Financial Group.
- Formally validating the variable compensation pools applicable to the various activities within the Chenavari Financial Group before distribution;
- Ensuring the remuneration policy includes measures to avoid conflicts of interest;
- Conducting a sophisticated risk analysis taking into account the current and potential risks in relation to the quantity of capital and liquidity required (ICAAP);
- Preparation of the total remuneration broken down between the Executive Committee and Code Staff whose actions have a material risk impact on the Chenavari Financial Group; and
- Performance assessments of all Code Staff based on the performance of: the individual, the business unit concerned and the overall results of the Firm. The assessment criteria include both financial and



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non-financial factors.

Total remuneration is divided into two components: Fixed and Variable. These are both subject to annual review and can be adjusted in accordance with the outcome of this review.

- Variable compensation is derived from a pool of available funds computed after deduction of all other expenses and overheads including fixed compensation, capital expenditure requirements, and working retention.
- This formula is utilized to ensure that the Firm retains sufficient funds to meet its commitments and expenditure plans while maintaining the risk management policies in place.
- Each business unit receives an individual allocation of funds in accordance with any surplus generated within that unit by applying the above formula.
- This allocation represents the aggregate total variable remuneration available to each business line to award to relevant staff within that business unit.
- The total remuneration awarded by CCP during the financial year ending 31 December 2017 was a total of £11,073,000, comprising fixed remuneration of £2,354,000 and variable remuneration of £8,719,000.

Financial Context

As of 31 December 2017, CCP had assets under management of approximately US\$5.3 billion and recorded gross revenues of £35.7 million for the year then ended, compared with £30.3 million for the year ended 31 December 2016. The assets under management is split between different funds pursuing liquid and illiquid alternative investment strategies as well as long-only mandates.

Most risks managed on a day-to-day basis by the business are risks to the clients who invest in the funds managed by the Firm, rather than risks to the Firm itself. Client funds are custodied with external service providers and CCP itself has no direct investment in its own funds. Risks related to poor performance, credit failure or other market / credit related issues related to markets are essentially faced by the funds and their shareholders, as opposed to by CCP as manager.

The main risks that are faced by CCP as a business, and their mitigations (if required) are:

Market Risk – the reporting currencies of the funds to which CCP is investment manager, are USD, EUR, GBP and CHF. As a result, the income due to the Firm is paid out by the funds in these currencies. The reporting currency of CCP is GBP. This can leave the income of the Firm exposed to exchange rate risk between the date of recognition of fee income in the Firm's accounts and the receipt and conversion into GBP of those monies. At 31 December 2017 the total exposure of CCP to foreign currencies was £6,150,000. FX risk is managed by proactively converting funds into GBP on receipt and monitoring the size of the foreign currency receivable balance and the trend/market forecasts for exchange rate movements. FX exposure is further hedged by determining liabilities in the corresponding currency, e.g. basing partners' profit shares on the currency in which fees are earned. FX risk is CCP's only significant market risk exposure.

Credit Risk – The majority of CCP's cash balances are deposited in instant access accounts with Barclays. The size and financial strength of Barclays mitigates against the risks of liquidity and default and its credit rating is monitored on an ongoing basis. Subject to CCP's liquidity policy, funds not held with Barclays may be deployed across the Chenavari group via relationships with group companies who hold excess funds with other European banks. Other liquid assets are in the form of short-term trade debtors, which are spread across Europe and comprise various different external financial parties, so exposure to individual debtors is low.



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Operational Errors – The occurrence of a large operational error is the most likely cause of an adverse financial impact to CCP. CCP is dependent on a small number of complex manual processes which are vulnerable to error, for example in the area of portfolio reconciliation.

At a basic level, CCP's control environment is established to minimise the risk of these errors occurring and any errors that do occur are reviewed to ensure that systemic problems are addressed. Insurance may be used to mitigate against extreme error events and budget is set aside at the start of each financial year to cover error compensation payments that are not covered by insurance due to small size or other business decision not to invoke insurance cover.

Interest Rate Risk Interest Rate Risk is not a material risk for the Chenavari Group due to its business model.

Legal / Regulatory Risk – CCP is regulated by the FCA, SEC and CFTC. As an investment management business, CCP is potentially subject to legal or regulatory censure and fines if it breaches legal agreements or regulatory standards.

CCP operates a compliance framework and conducts a monthly compliance monitoring program which ensures that the business remains compliant with all relevant regulations. The Firm has never been the subject of regulatory fines or sanctions. Legal risk is mitigated by in-house legal expertise, supplemented by external counsel if necessary.

The Chenavari Financial Group insurance program provides a certain level of mitigation in the event of large fines as a result of legal or regulatory incidents.

Sustained Market Downturn – A large part of CCP's income is from fees charged to funds, where the management fee is a fixed percentage of the assets under management. In the event of a market downturn, even without client departures if the assets under management were to generally track market movements downwards, then CCP's fee income would also decrease.

There is little that CCP can do to change the likelihood of this happening. However, in the event of a downturn there are several management actions that CCP can take to remain profitable. These include staff reductions, office closure/downsizing, process re-engineering and withdrawal from markets or products that are no longer profitable. In the event of a downturn that reduces income to a level that it is impossible for CCP to continue, the business would either be merged with a larger firm or, in the last resort, closed.

Loss of Major Client – CCP has large clients that account for a substantial amount of the Firm's annual revenue. The loss of one or more clients that represents a significant proportion of the Firm's revenue could have a severe negative impact on profitability.

Major clients are managed and monitored very closely by a dedicated team, and in the event that assets under management are in jeopardy, the team will notify the Management Committee to ensure every effort is made to protect the major sources of revenue.

CCP maintains sufficient capital to ensure that it has the resources to:

- Provide a sound basis for the continued operation of the business;
- Meet cash flow requirements;
- Provide a buffer in the event of unforeseen issues;
- Allow the business to wind up in an orderly fashion upon the Management Committee's instruction; and



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- Ensure regulatory compliance.

Base capital requirements, for regulatory purposes, are identified using Pillar 1 calculations plus an additional buffer to cope with specific risks. The Pillar 2 risk capital is currently lower than the Pillar 1 figure so is not used to calculate the minimum capital. These capital requirements have been assessed as part of the Internal Capital Adequacy Assessment Process (ICAAP).

In practice, the Variable Capital Requirement is largely driven by the Fixed Overhead Requirement (FOR) for the Firm, which is a proxy for business closure costs. The additional add on buffer is a prudent amount which should allow for CCP to deal with most risks likely to crystallise without consuming regulatory capital.

CCP expects to hold capital well in excess of its identified requirement in all but extreme circumstances.



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Internal Capital Adequacy Assessment Process

(ICAAP) Ownership of the ICAAP

The ICAAP is owned by the Management Committee, the CFO and the CCO, as the major risk-related decision-making bodies of the Firm. The Management Committee, the CFO and the CCO have discussed the ICAAP and the Board has agreed to its content.

Maintenance of the ICAAP is the responsibility of the Finance Department, with input for scenario calculations being provided by the Operations and Compliance Departments. The Finance Department notifies Management and Compliance whenever there is a material change in the financial situation of the company to ensure that scenario planning, analysis and testing is current. Compliance also assists in ICAAP preparation by highlighting any changes to the regulatory environment that occur.

Review and Challenge

During the development of the ICAAP, Finance and Compliance have worked individually with senior management to assess and understand the risks that they face in each of their business areas. Subsequent review takes place with the Management Committee of the Chenavari Financial Group board level. These reviews allow for the committee to challenge business leaders in their views on risk and allow management to challenge any assumptions that have been made in the ICAAP.

Adoption and Use of the ICAAP

The ICAAP is used to inform major decisions that are made by the Management Committee. The process of developing and reviewing the ICAAP ensures the Committee is aware of the major risks that the business faces and can identify any mitigating actions required.