KKR Credit Advisors (EMEA) LLP

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KKR Asset Management Ltd

Pillar 3 Disclosures

August 2018

1. Background

This document considers the risk management strategies, policies and processes, capital resources, capital requirements and the firm's approach to assessing capital adequacy faced by KKR Credit Advisors (EMEA) LLP and its immediate parent and corporate member, KAM Limited ("KAM Ltd", collectively the "Group" or "KCA Group"). KKR Credit Advisors (EMEA) LLP (the "Firm" or "KCA") (FRN 592969) is a UK registered Limited Liability Partnership, categorised as a BIPRU €50K limited licence firm. The Firm is authorised and regulated by the Financial Conduct Authority and is a non-CRDIV and non-ILAS firm. KAM Ltd has been included within this as a result of the consolidation rulings under BIPRU 2.2.5, BIPRU 2.2.6 and BIPRU 8 Annex 1 giving the effect of a United Kingdom consolidated group.

The regulatory framework comprises three Pillars:

- Pillar 1 sets out the minimum capital requirements that a firm is required to meet;
- Pillar 2 requires the firm to assess the amount of capital that would be adequate to cover the risks that the firm has or may be exposed to (Internal Capital Adequacy Assessment Process); and
- Pillar 3 requires the firm to disclose its risk management strategies, policies and processes, capital resources, capital requirements and the firm's approach to assessing capital adequacy.

The purpose of this document is to provide the Pillar 3 disclosures required by the directive. The requirements provide for the omission of one or more of the required disclosures if such information is considered to be immaterial, proprietary or confidential.

KCA is a direct subsidiary of KKR Asset Management Ltd ("KAML"), a UK entity and an indirect subsidiary of KKR Credit Advisors (US) LLC ("KCA US"). KKR is a US Securities and Exchange Commission ("SEC") registered investment advisor.

The principal activity of the Firm is to provide sub-advisory services to its indirect US Parent KCA US and KKR Credit Advisors Ireland ("KCAI").

2. Scope of Application

The KCA Group is regulated by the FCA as a consolidated UK Group for prudential purposes. KAML is the immediate parent company of KCA and no impediments exist to the proper transfer of capital between group entities should the need arise and there are no differences in the basis of consolidation for accounting and prudential purposes.

3. Frequency of Disclosure

The Group publishes Pillar 3 disclosures on at least an annual basis. Given the scale and range of its operations and complexity, the Group assesses that there is no need to publish some or all of its disclosures more frequently than annually.

4. The Executive Committee

4.1 The Executive Committee

As at the date of this report, KCA is managed by an Executive Committee which currently comprises of Mr Matthieu Boulanger (CEO), Mr Daniel Pietrzak, and Mr Mark Brown. Certain matters are reserved for KAM Ltd. (as "Managing Member"). Such reserved matters may be delegated to the Executive Committee in accordance with the Limited Liability Partnership.

4.2 Recruitment and diversity

In considering new appointments to the Executive Committee, KCA acknowledges the importance and benefits of diversity (including, without limitation, by reference to the experience, background, race, culture, age and gender of any prospective candidates). It is the policy of KCA that all appointments to the Executive Committee are based on merit against objective criteria and with due regard to the benefits of diversity.

5. Risk Management objective and policies

5.1 Risk management body

The KCA Executive Committee has ultimate responsibility for the wider risk management of the Firm. The Executive Committee are responsible for implementing the business plan and establishing its risk appetite. The Executive Committee reviews its risk appetite determinations at least annually, including in connection with the ICAAP process.

The Executive Committee meets on a quarterly basis and at such other times as may be necessary to review, discuss and approve matters relating to KCA such including risk management (quarterly risk report, KCA Risk dashboards and risk register/ICAAP review).

The KCA Risk Officer independently reports to the Executive Committee of KCA on a quarterly basis, including reporting the results of the Risk Appetite Statement measures.

5.2 Risk Management Framework

The KKR wider group operates an enterprise level risk governance framework and committee structure based on the three lines of defence model. This approach enables independent oversight of both (i) the primary risk takers in the business, as well as (ii) oversight of the risk and control functions that enable and advise the business on risk optimization:

- First line of defence: business owners are responsible for the identification and management of risks. Oversight of KKR's overall businesses and associated risks is executed by local and global committees for each business line. The KCA Executive Committee is the first line of defence for KCA.

- Second line of defence: KKR's control functions including Compliance, Finance and Risk advise on risk management strategies for the Group, monitor risk management practices for the Firm and their implementation, provide independent challenge and provide reporting to (i) the business, (ii) the relevant Global or Regional Head of their function and (iii) to the KKR Risk and Operations Committee (ROC).

- Third line of defence: Internal Audit provides independent testing and validation of business processes and risk management, reporting to the KKR Global Audit Committee. Internal Audit also shares its reports with the relevant business heads, the Executive Committee; the KKR ROC; and, for KCA, to the KKR EMEA Audit, Risk and Compliance Committee which is chaired by the Chief Compliance Officer – International Markets.

5.2 Risk appetite statement

Our risk management policies and processes are comprehensive and proportionate to the nature and scale of KCA's activities.

The risk appetite framework is discussed and agreed with the Executive Committee, and is reviewed and updated each year based on the development of the key risks / risk profile of the Firm.

The methodology for deriving these statements is as follows:

- Through the annual Risk Register review, the Firm identifies the material risks to achieving KCA's objectives and strategy
- For the material risks identified, KCA has developed a comprehensive set of risk appetite objectives and area-specific risks

Each quarter, the KCA Executive Committee receives a complete set of risk appetite statements as well as the KCA Risk Dashboards (which the statements feed into). These are discussed during the Executive Committee meeting and any necessary mitigating actions agreed and assigned. Any items requiring action are monitored and tracked by the relevant control functions and the Risk team. The Executive Committee is kept informed of meaningful developments as they arise and/or at the next Executive Committee meeting as appropriate.

5.3 Adequacy of risk management arrangements

The Executive Committee considers that is has in place adequate and appropriate systems and controls with regards to the Firm's strategy and that the Firm is properly resourced and skilled, to avoid or minimise loss.

5.4 Business risk

Senior Management have considered the main risks that the business is subject to. As the primary business activities relate to advising / arranging transactions for its group companies, and given the cost plus nature of its business model, many of the broader business risks do not apply. When considering this, the risks facing KCA include:

- **Business strategy risk:** The risk that strategic business decisions prove to be ill-founded or poorly executed (e.g. recommending investment opportunities, acquisitions; moves into new markets, products, or regions; changing the operating model),
- **Regulatory risk and Brexit:** The business strategy for the Group is dependent on the regulatory permissions and for their continued applicability across Europe. Given the proposed withdrawal of the United Kingdom from the European Union and Single Market there is a possibility that a Hard Brexit could occur which could impact the sourcing of deals which requires capital from the Fund's to which KCA is a sub-advisor through providing advice to KCA US. It is unclear what, if any, impact this will have upon KCA.

The nature of the KCA's income reduces the potential volatility of the Firms income, and hence its risk. As a result any performance or fundraising shortfall in the underlying funds that KCA advises is unlikely to have an impact on the capital position of the KCA Group.

5.5 Operational risk

Operational risk includes a risk of loss resulting from inadequate or failed internal processes relating to human resources, legal, compliance, IT systems, financial reporting, public affairs, tax and insurance. Additionally, there are risks associated with trading errors given KCA deals as a sub-advisor for KCA US and its Irish-based affiliate KKR Credit Advisors Ireland ("KCAI") in European markets. However, KCA has processes and controls in place to manage and mitigate operational risks. Additionally, operational risks are not considered to be a net material risks to the business given any operational loss charges would be absorbed by the "cost plus" nature of KCA revenue to KCA US.

5.6 Credit risk

The Group does not have material exposures to credit risk save for risk on cash balances deposited with banks and intercompany balances to KCA US. All cash balances are held with Barclays, which is an A2-rated bank per Moody's, and all balances are held in UK deposit accounts. Sterling, US Dollar, and Euro denominated currencies. Additionally, any credit provisions or impairments would be absorbed by the "cost plus" nature of KCA revenue to KCA US.

5.7 Market (Foreign exchange) risk

The risk that changes in the value of non-sterling denominated expenses, and assets or liabilities, will adversely impact the capital position of the KCA Group. The KCA Group may be exposed to risks associated with fluctuations in exchange rates due to the fact that its expenses may be denominated in different currencies. The Group's expenses are principally charged or incurred in GBP or Dollars. However, the Group is isolated from these risks to an extent, given the "cost plus" nature of KCA business model. The Group has no other market risk exposures.

Fund Performance

KCA aims to provide Investment Advice for which it will be compensated under a cost plus agreement.

Fund Performance Risk is the risk that investment advice given by KCA to the Fund's under-performs relative to benchmarks or peers.

While the cost plus nature of the remuneration received by KCA would not be directly impacted by any underperformance, continued underperformance may result in closure of Funds directly managed, or a reduction in the level of required advisory services and a consequent lower level of recharge.

The KCA Group believes that its risk appetite, as well as policies, processes and documented mandates provide sufficient mitigation against fund performance risk

6. Capital Resources and Capital Adequacy

The KCA Group obtained regulatory approval in 2013 and KKR Credit Advisors (EMEA) LLP is a BIPRU €50k limited investment firm.

As at 31 December 2017, the KCA Group capital resources comprised of Tier 1 capital only, which is called up share capital and audited retained earnings. The Group's capital position as of 31 December 2017 was £7,160k.

In addition to the Tier 1 Capital above, the KCA Group currently has access to additional capital resources through its direct parent company, KKR Credit Advisors (US) LLC, if required.

7. Capital requirements and ratios

7.1 Minimum Capital Requirement

The Group's overall regulatory capital requirements are determined after performing Pillar 1 and minimum capital calculations, assessing Pillar 2 capital requirements and taking into account any Individual Capital Guidance ("ICG") issued by the FCA.

The calculation of Pillar 1 and Pillar 2 capital requirements allows the Group to determine, and subsequently monitor, the appropriate amount of capital to be held based on its risk profile.

During the financial year ended 31 December 2017, the Group maintained surplus capital resources at all times to satisfy its minimum capital requirements.

December 2017: Pillar I and minimum capital requirement		£'000
Credit Risk	A	399
Market Risk	B	7
Sum of Credit and Market Risk	1	406
Fixed Overhead Requirement	2	4,105
Initial Capital Requirement	3	44
Pillar 1 – (higher of 1, 2 or 3)	**C**	**4,105**

Credit risk

Credit exposure is calculated using the standardised approach whereby a 1.6% charge is applied on cash assets and an 8% charge is applied on non-cash assets such as intercompany balances. This resulted in a £399k capital charge for the 2017.

The Group's policy for assessing impaired balances is detailed in the 2017 financial statements of KCA. Specifically the statement says that credit risk is managed through on-going monitoring of cash positions, holding deposits at banks with high credit ratings and from continuous reviews of the receivable and cash collection position.

Market risk

FX risk arises from foreign exchange exposures on non-sterling denominated balances held with institutions or due from corporates, a straight 8% charge is taken on these balances which result in a £7k charge for the Group.

Fixed Overhead Requirement ("FOR")

FOR is based on the 2016 full year audited financial statement total expenses less any variable costs, per GENPRU 2.1.53R, multiplied by 25%. This generates the £4,105k capital charge under Pillar 1.

7.2 Pillar 2

Pillar 2 requires firms to assess the amount of internal capital they consider adequate to cover all of the risks to which they are, or are likely to be, exposed to. It also requires firms to consider the costs associated with winding down the Firm (orderly wind down) and various stressed scenarios. The Firm's Pillar 2 requirement has been assessed as being **£4,125k** (inclusive of Pillar 1 items above).

8. Oversight

The Executive Committee monitor the on-going capital requirements of the KCA Group. This ensures that the Group maintains adequate capital to cover its credit, market and operational risks at all times.

9. Internal Capital Adequacy Assessment Process ("ICAAP")

The KCA Group conducts at least annually an internal assessment of the amount of capital that is considered adequate to cover the risks facing the Group's current and future activities.

Determination of the business strategy for the KCA Group includes the projection of financial profitability, capital resources and capital requirements. The key risks to which the business is or might be exposed are considered along with the amount of capital that would be considered adequate to cover the Group in the event that those risks were to crystallize. In addition, the economic environment and the impact of adverse economic conditions on the Group's profitability and capital position are considered, as well as the actions that management would take in those situations.

10. Remuneration Code

KCA is subject to the FCA's rules on remuneration. The rules are contained in the FCA's Remuneration Code located in the SYSC Sourcebook of the FCA's Handbook. The Remuneration Code ("the RemCode") covers an individual's total remuneration both fixed and variable. KCA in line with KKR group remuneration policies offers a fixed base salary to its employees and also a variable remuneration. The level of variable remuneration to be granted takes into account (i) KKR's overall profitability, (ii) the performance of the business in which the executive works and (iii) the executive's individual performance and contributions to the management, leadership, culture and values of KKR.

KCA's compensation policy is designed to ensure compliance with the RemCode and KCA's compensation arrangements:

- Do not encourage excessive risk taking;
- Are consistent with and promote effective risk management;
- Include measures to avoid conflict of interest; and
- Are in line with the Firm's business strategy, objectives and interests.

The RemCode requires authorised firms to apply principles of proportionality when establishing and applying their remuneration policies. The FCA applies the proportionality by categorising firms into three tiers. KCA falls into tier three and as such this disclosure is made in line with the requirement of a tier three firm.

The remuneration of the KCA Executive Committee is set by the Global Heads of KKR's Credit & Markets division and with the assistance of the human resource department, having regard to the principles laid out in KCA's Remuneration Policy Statement and the Firm's Conflict of Interest Policy. Similarly, remuneration for other KCA employees is overseen by the Executive Committee, in line with the strategic guidelines and decisions of the wider KKR Credit and Markets business and KKR Management Committee, with the assistance of human resources.

Appropriate measures are taken to ensure that Support and Control employees are not placed in a position where their activities could be directly linked to an increase in their variable Remuneration. In addition to reporting to KCA's Executive Committee, the Support and Control Employees have independent reporting lines to the Global Head of the relevant Support and Control function who also have input to Support and Control Employee remuneration.

Remuneration is made up of fixed and variable elements. Variable remuneration is paid in cash and in certain cases share based payment and profit sharing plans. Share based payments awarded to individuals vest over a 5 year period and require the individuals to be still employed by the firm at the time of vesting. Once vested the share based payment entitle the holder to common units of KKR stock. The parent company and its affiliates have implemented profit sharing arrangements for employees, across its different operations that are designed to align performance and compensation. Transactions with respect to the affiliates activity and future funds and co-investment vehicles that provide for carried interest will result in the allocation of carried interest to its principals. The affiliates currently allocate approximately 40% of the carry it earns from these funds and vehicles. KCA's employees are also entitled to other non-cash benefits such as healthcare and pension contributions from the legal entity although this should not be considered material for the purposes of this disclosure. Please note that management has decided not to disclose quantitative information in relation to remuneration on KCA due to confidentiality issues associated with this disclosure.