KKR Kohlberg Kravis Roberts

KKR Credit Advisors (EMEA) LLP

&

KKR Asset Management Ltd

Pillar 3 Disclosures

June 2022

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, KKR Asset Management 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. As at 31 December 2021, the Firm is authorised and regulated by the Financial Conduct Authority, is categorised as a BIPRU €50K limited licence firm, but is 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 European Union Capital Requirements Directive IV sets out the regulatory framework governing the amount of capital which must be maintained by credit institutions and investment firms. In the UK the directive has been adopted by the Financial Conduct Authority ("FCA") within the Prudential Sourcebook ("IFPRU") for management of investment firms. For 2021 Pillar 3 reporting, it is therefore these requirements which are applicable to the KCA Group (see section 11 for 2022 Pillar 3 reporting requirements).

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's immediate parent undertaking is KKR Asset Management Limited, a limited company incorporated in England and Wales. The LLP's ultimate controlling party is KKR & Co. Inc. ("KKR Group"), a corporation in the United States of America, which is listed on the NYSE.

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

The disclosures are published on the KKR corporate website, www.kkr.com.

2. Scope of Application

The KCA Group is regulated by the FCA as a consolidated UK Group for prudential purposes. KAM Ltd 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 KCA Group currently 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 Blaine MacDougald, Mr Michael Small, and Mr Varun Khanna. Certain matters are reserved for KAM Ltd, being the "Managing Member" of the KCA partnership. 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 Firm's business plan and establishing its risk appetite. The Executive Committee reviews its risk appetite determinations at least annually, including in connection with the Internal Capital Adequacy Assessment Process ("ICAAP").

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 the Firm. These meetings include the review and approval of certain risk management items, such as KCA Risk dashboards, risk registers, a quarterly risk report and the Firm's ICAAP.

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 wider KKR 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 control and implement risk management strategies, 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 (the KKR EMEA "ARC") which is chaired by the Chief Compliance Officer for International Markets.

5.3 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.

Should a risk appetite limit be reached, depending on the severity of it, the matter would also be escalated to other key KKR and KCA business and risk management heads and to the relevant KKR global governance bodies. Escalation is the responsibility of the CEO and the Executive Committee, and the Heads of the relevant KCA support and control functions as applicable.

5.4 Adequacy of risk management arrangements

The Executive Committee considers that it 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.

5.5 Significant risks

The following risks are considered to be the most significant risks to the Firm:

• **Political / Geopolitical Risk** - The risk arising from local or global political disruptions, decisions (including for example lockdowns imposed by governments in response to pandemics such as COVID 19), tensions or rivalry that may impact the firm's ability to generate revenues or do business in certain countries. This risk is monitored by the ExCo, which includes an active dialogue with the KKR Group's global Geopolitical Committee.

• **Business Strategy & Decision Risk** - The risk that the KKR strategic business plan fails or is disrupted by internal/external factors, impacting growth and long-term business viability. This risk is continually monitored by senior leadership. The Exco meets on a quarterly basis to review, discuss and approve business strategy and initiatives. The ExCo members have significant experience in public markets, are conscious of material risks presented by the firm's business and have sufficient experience to assess, manage and monitor relevant risks in an appropriate manner.

• **People Risk** - Risk of failure to attract or retain diverse and talented employees which would impact the Firm's ability to generate revenues over the long term. This risk is monitored by both the ExCo and Human capital team. KKR has historically been able to recruit and retain top talent based on its reputation, attractive compensation package and career opportunities. The firm also has a succession plan beyond the senior team members and has the ability to back fill from other KCA offices. This risk is also mitigated through inclusion and diversity initiatives.

• **Market and Macro risk -** The risk arising from macroeconomic factors, outside of KKR's control, which could impact KCA EMEA's ability to make suitable investment recommendations to funds sub-advised by KCA EMEA. This risk is mitigated by the long term nature of these funds and sub-advisor agreements. The ExCo members have sufficient experience to assess, manage and monitor relevant risks in an appropriate manner though various market and macro.

• **Portfolio Co. Management risk -** The risk that actions taken at level of portfolio companies or investments in the funds sub-advised by KCA EMEA result in an impact to KCA EMEA (e.g. reputational impact). This risk is mitigated by ongoing monitoring of recommended investments by the business and the ExCo including factors such as financial performance and ESG metrics.

• **Cash Management or Payment Error -** Risk that failures in processes or execution lead to a loss to the business as well as cash management or payment error and result in a loss for the business. This risk is monitored by the treasury and finance teams. The teams have key controls over liquidity and current accounts including segregation of duties, dual authorization of payments, daily reconciliations, management reporting and robust policies and procedures reduce the inherent risk of these activities.

• **Incorrect client / investor account –** The risk that complexity in the business leads to added pressure on processes and controls within the group, negatively impacting KCA EMEA. This risk is mitigated by experienced KKR group client services, operations and finance teams as well as use of external administrators and depositories.

• **Insider dealing / Market abuse & Noncompliance with environmental laws and Regulations Legal -** Risk that a failure to comply with applicable laws and regulations could impact the business, including a regulatory investigation, fines or limitations on license to operate. This risk is mitigated by the robustness of the KCA Group's current systems and processes. These risks are monitored by the compliance function. The firm has in place information controls to ensure that all confidential information or MNPI are protected in accordance with client confidentiality agreements, the information barriers established by the Firm to segregate its public and private side businesses, and the FCA's regulatory requirements and market practice guidelines. The Compliance Department conducts routine monitoring to detect potential breaches of its policies and controls and to detect potentially abusive conduct or transactions. The Compliance Department also periodically provides training and awareness updates to relevant staff and engages external advisors to assess internal controls as required.

• **Leaking Sensitive data or information via electronic means and inability to conduct business via electronic means -** The risk that a cyber-attack could affect the confidentiality, integrity or availability of KKR's data or systems, which might impact the firm's ability to operate or result in regulatory investigations and potential fines. This risk is monitored by the KKR Group's infosec/cybersecurity team who leverage various controls. The KKR Group's security program is built around the concept of defense in depth, with a mixture of skilled people, processes, and technology contributing to the security of the Firm.

5.6 Operational risk

Operational risk includes a risk of loss resulting from inadequate or failed internal processes, people, systems or external events including legal and regulatory, process and execution, business disruption, information security, employee practices, physical damage, and fraud risks. Additionally, there are risks associated with trading errors given KCA deals on behalf of certain funds managed by KCA US and KCAI, typically executing trades in European Loans, bonds, common stock and other credit related instruments. However, KCA has processes and controls in place to manage and mitigate operational risks.

5.7 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 in UK bank deposit accounts and liquidity funds with Barclays and JP Morgan which are A1 and Aa3 rated establishments per Moody's. Credit risk is managed through the ongoing monitoring of cash positions, credit ratings of banks and liquidity funds the LLP deposits cash with. Any credit provisions or impairments would be absorbed by the "cost plus" nature of KCA revenue to KCA US.

5.8 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 Firm. The Firm 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 Firm'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. The Firm has gross assets of £13.6m as of 31 December 2021 of which £13.2m relates to cash and cash equivalents. The Firm has implemented a policy to hold all material cash balances in GBP.

5.9 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 Funds results in underperformance 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 2021, the KCA Group's capital resources comprised of Tier 1 capital only, which is called up share capital and audited retained earnings. The KCA Group's capital position as of 31 December 2021 is shown below:

Own funds	£'000
Called up share capital	6,075
Audited retained earnings	6,444
Shareholders' funds per the 2021 financial statements	**12,519**
Own funds - Tier 1 Capital	**12,519**

Called up share capital consists of 6,075,000 ordinary shares at £1.

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 Requirements

The KCA Group's overall regulatory capital requirements are determined after performing Pillar 1 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 KCA 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 2021, the KCA Group maintained surplus capital resources at all times to satisfy its minimum capital requirements.

The KCA Group's Pillar 1 capital requirement at 31 December 2021, calculated in accordance with the guidance set under the Capital Requirements Directive, is detailed below.

December 2021: Pillar I and minimum capital requirement		£'000
Credit Risk	A	309
Market Risk	B	3
Sum of Credit and Market Risk	1	312
Fixed Overhead Requirement	2	2,591
Initial Capital Requirement	3	0
Pillar 1 – (higher of 1, 2 or 3)	**C**	**2,591**

<u>Credit risk</u>

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 £309k capital charge for 2021.

The Group's policy for assessing impaired balances is detailed in the 2021 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.

<u>Market (FX) risk</u>

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 results in a £3k charge for the KCA Group. The KCA Group has no market risk requirements, other than FX, as interest and model risk do not apply to the KCA Group's business model and hence are not associated with specific appetite statements.

Fixed Overhead Requirement ("FOR")

FOR is based on the 2021 full year audited financial statement total expenses less any variable costs, per GENPRU 2.1.53R, multiplied by 25%. This generates the £2,591k capital charge under Pillar 1.

Initial Capital Requirement

Although KCA is a BIPRU €50k limited licence firm this initial capital is not taken into account when reviewing the consolidated regulatory capital of the KCA Group.

7.2 Pillar 2 Capital Requirement

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 £5,340k (inclusive of Pillar 1 items above).

The Pillar 2 methodology is updated and reviewed by the Executive Committee at least once annually as part of the ICAAP process. Reports assessing of the capital resources that are relevant given the nature and level of risks and potential risks of the Group, are prepared for the Executive Committee. Each risk exposure is assessed using the most appropriate technique to determine how much capital is appropriate for that particular risk.

For those risks that have impact in the future, rather than causing an immediate depletion of the capital surplus, assessment has been made through stress testing of the impact on the financial forecasts. These scenarios are designed to cover severe but plausible circumstances.

8. Oversight

The Executive Committee monitors 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 KCA 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 KCA Group in the event that those risks were to crystallize. In addition, the economic environment and the impact of adverse economic conditions on the KCA 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 the KKR group remuneration policies, offers a fixed base salary to its employees and a variable remuneration, which is dependent on individual and business performance. 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 the Investment Management & Distribution Committee, with the assistance of Human Capital.

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 discretionary and is awarded based on performance against a number of financial and non-financial metrics, in each case taking appropriate consideration of all regulatory guidance, the function of the relevant employees and the impact of their actions on the risk profile of the Firm. Variable remuneration is paid in cash and in common units of KKR, which typically vest over a period of three to five years from the date of grant.

For the year ended 31 December 2021, the number of Senior Management staff who are involved in the KCA business and members of staff who have a material impact on the risk profile of the KCA business was 34.

For the year ended 31 December 2021, the aggregate remuneration awarded to Senior Management who spend the majority of their time involved in the KCA LLP business, along with LLP members and employees of KCA LLP who have a material impact on the risk profile of the KCA business (13 individuals in total) totalled £17.2m (£1.9m fixed and £15.3m variable). The value of variable remuneration can be broken down as cash payments in the year of £11.1m and share linked awards of £4.2m. The value of deferred remuneration awarded to these individuals during the year totalled £4.2m. There were five individuals who were remunerated greater than €1million in the financial year. The total aggregate value of remuneration for KCA members and employees is disclosed with the Firm's annual financial statements on Companies House.

11. New Investment Firm Prudential Regime (IFPR)

The Investment Firm Regulation (IFR) and the Investment Firm Directive (IFD) was published in the Official Journal of the European Union on 5 December 2019 and came into force in Europe on 26 June 2021. Based on European legislation, the FCA introduced a similar regime in the UK known as the Investment Firm Prudential Regime (IFPR) on 1 January 2022. KCA LLP is subject to the IFPR and will be classified as a non-SNI Firm from 1 January 2022. KCA LLP and the KAM Group continues to retain sufficient regulatory capital resources to satisfy these new requirements.