

KKR Capital Markets Partners LLP

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KKR Capital Markets Limited

Pillar 3 Disclosures

May 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 Capital Markets Partners LLP and its immediate parent and corporate member, KKR Capital Markets Limited ("KCML", collectively the "Group" or "KCM Group"). KKR Capital Markets Partners LLP (the "Firm" or "KCM LLP") (FRN 914144) is a UK registered Limited Liability Partnership. As at 31 December 2021, the Firm is authorised and regulated by the Financial Conduct Authority, and is categorised as an exempt full scope IFPRU investment firm, with CRDIV reporting, but is a non-ILAS firm. KCML has been included within this as a result of the consolidation rulings under IFPRU 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 KCM Group (See section 12 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.

KCM LLP's immediate parent undertaking is KKR Capital Markets 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 activities of the Firm are divided into two core lines of business:

- Capital Markets: KCM LLP supports KKR holding companies, portfolio companies and third party clients by providing tailored capital markets services, and developing and implementing both traditional and non-traditional capital solutions for investments and companies seeking financing; and
- Capital Raising (the Clients and Partners Group, "CPG"): KKR's CPG activities for the United Kingdom are located within KCM LLP for regulatory purposes. CPG assists KKR with investor relations and capital raising globally across a range of products and fund platforms. CPG is the name of a business function within KKR. CPG is not a legal entity.

This disclosure is published on the KKR corporate website, [www.kkr.com](http://www.kkr.com).

## 2. Scope of Application

The KCM Group is regulated by the FCA as a consolidated UK Group for prudential purposes. KCML is the immediate parent company of KCM LLP 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 KCM Group publishes Pillar 3 disclosures on at least an annual basis. Given the scale and range of its operations and complexity, the KCM 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, KCM LLP is managed by an Executive Committee, which currently comprises of Mr Mark Danzey (CEO) and Mr Jim Burns. Certain matters are reserved for KCML, being the "Managing Member" of the KCM LLP partnership. Such reserved matters may be delegated to the Executive Committee in accordance with the Limited Liability Partnership Agreement.

### **4.2 Recruitment and diversity**

In considering new appointments to the Executive Committee, the Firm 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 KCM LLP 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 KCM LLP Executive Committee have 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 KCM LLP Risk dashboards, risk registers, a quarterly risk report and the Firm's ICAAP.

The KCM LLP Risk Officer independently reports to the Executive Committee of KCM LLP 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 KCM LLP Executive Committee is the first line of defence for KCM LLP.
- 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) 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 KCM LLP, 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 KCM LLP'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 KCM LLP's objectives and strategy
- For the material risks identified, KCM LLP has developed a comprehensive set of risk appetite objectives and area-specific risks

Each quarter, the KCM LLP Executive Committee receives a complete set of risk appetite statements as well as the KCM LLP 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 KCM 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 KCM LLP 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 capital markets and fundraising, 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 KCM offices. This risk is also mitigated through inclusion and diversity initiatives.
- **Market & Macro risk (Inc. Underwriting risk)** - The risk arising from macroeconomic factors negatively impact KCM's deal flow as well as the way it operates. Market Risk though underwriting is inherent in KCM LLP's business model, although the vast majority of KCM LLP's business is conducted on a best efforts or arrangement basis (and therefore does not involve underwriting risk). When KCM LLP acts as the underwriter of record the underwriting risk is controlled and managed by the experience of the team and robustness of the processes embedded within the business, whereby all new underwriting transactions are approved by the KCM Europe Underwriting Committee and the KCM Capital Commitments Committee. For commitments above \$100m, a further approval by the KKR Balance Sheet Committee would be required. KCM LLP considers the risks in its business carefully and seeks to reduce and mitigate risks so as to ensure it maintains an appropriate capital position.
- **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.
- **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 KCM Group's current systems and processes. These risks is monitored by the compliance function. The firm has in

place information controls to ensure that all confidential information or MNPI is 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.

## 5.7 Credit risk

The KCM Group does not have material exposures to credit risk save for risk on cash balances deposited with banks, intercompany balances to KCM US and accounts receivables due from third parties. All cash balances are held in UK bank deposit accounts and liquidity funds with HSBC and JP Morgan which are Aaa/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, and also from continuous reviews of the LLP’s receivable position.

## 5.8 Foreign exchange risk

The risk that changes in the value of non-sterling denominated income and 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 revenues and expenses may be denominated in different currencies. The Firm’s revenues and expenses are principally charged or incurred in GBP, Euros or US Dollars. The Firm has no other market risk exposures. The Firm has gross assets of £122.2m as of 31 December 2021 of which £110.1m relates to cash and cash equivalents. The Firm has implemented a policy to hold all material cash balances in GBP.

## 6. Capital Resources and Capital Adequacy

For the reporting period, the Firm is a managed IFPRU investment firm and is bound by the Capital Requirements Directive (“CRD IV”).

As at 31 December 2021, the KCM Group’s capital resources were comprised of Tier 1 capital only, which included share capital, a capital contribution reserve and audited accumulated profits. The KCM Group’s capital position as of 31 December 2021 is shown below.

Own funds	£’000
Ordinary share capital	4,050
Accumulated reserves	114,068
<b>Shareholders’ funds per the 2021 financial statements</b>	<b>118,118</b>
<b>Own funds - Tier 1 Capital</b>	<b>118,118</b>

Ordinary share capital consists of 4,050,000 ordinary shares at £1.

In addition to the Tier 1 Capital above, KCM Group currently has access to additional capital resources through its direct parent company, KKR Capital Markets Holdings L.P, if required.

## 7. Capital requirements and ratios

### 7.1 Minimum Capital Requirements

The KCM 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 KCM 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 KCM Group maintained surplus capital resources at all times to satisfy its minimum capital requirements.

The KCM 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.

Pillar I capital requirement	£'000
Operational Risk	10,148
Credit Risk	2,106*
Market (FX) risk	264
<b>Total</b>	<b>12,518</b>

\*Arising from cash at banks and fee receivables. All assets are unencumbered.

## 7.2 Pillar 1 Capital requirements

### Operational risk

Operational risk is calculated using the basic indicator approach as 15% of average income over the last three years.

### Credit risk

Credit risk is calculated using the standardised approach whereby credit exposures in relation to institutions and corporates are assigned a risk weighting depending on the credit quality step they are allocated using External Credit Assessment Institutions (Moody's and Standard and Poor). KCM Group's credit risk capital requirements are summarised as follows:

£'000	Original exposure	Risk Weighted assets	Own funds requirement
<b>Institutions</b>	110,199	22,040	1,763
<b>Corporates</b>	4,369	4,281	343
<b>Public Sector</b>	8	-	-
<b>Total</b>	<b>114,576</b>	<b>26,321</b>	<b>2,106</b>

Credit risk by credit rating is summarised as follows:

£'000	Original exposure	Risk Weighted assets	Own funds requirement
Aaa to Aa3	110,108	22,021	1,762
A1 to A3	201	40	3
Baa1 to Baa3	-	-	-
B1 to B3	-	-	-
Caa1 and below	-	-	-
Unrated	4,267	4,260	341
<b>Total</b>	<b>114,576</b>	<b>26,321</b>	<b>2,106</b>

These credit ratings are based on Moody's ratings. Where Moody's ratings are not available the KCM Group used the Standard and Poor's ratings, where available. The KCM Group's policy for assessing impaired balances is detailed in the 2021 financial statements.

'Past due' assets are defined as receivables which are outstanding past their contractual payment date.

### Market (FX) 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. The KCM Group has no market risk requirements, other than FX, as it does not hold any capital market instruments.

## 7.2 Pillar 2 Capital Requirements

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 Pillar 2 methodology is updated and reviewed by the Executive Committee at least once annually as part of the ICAAP process. Reports assessing the capital resources that are relevant given the nature and level of risks and potential risks of the Firm, 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 an 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.

The ICAAP also considers the KCM Group's long-term capital outlook, along with a downside scenario, a process which is incorporated into the annual budgeting process and reviewed by the Executive Committee. In addition, it considers a wind-down analysis, which looks at whether the KCM Group would be required to hold additional capital over the period in order to be able to wind down the KCM Group, if needed.

### **7.3 Capital buffers**

Capital buffers include the countercyclical (CCyB) and capital conservation (CCoB) buffer and total £4.9m as at 31 December 2021. The CCyB arises as the KCM Group had credit exposures in Luxembourg and the United Kingdom where the CCyB rates were 0.5% and 1.0% respectively. The CCoB was set at 2.50% for the year ending 31 December 2021.

### **7.4 Capital ratios**

The KCM Group's capital ratios as at 31 December 2021 are as follows:

Ratio	
Common Equity tier 1 capital ratio	75.49%
Tier 1 capital ratio	75.49%
Total capital ratio	75.49%

## **8. Oversight**

The Executive Committee monitors the on-going compliance of the KCM Group with its capital requirements and assesses the impact on capital adequacy of each deal prior to approval. This ensures that the KCM Group maintains adequate capital to cover its credit, market and operational risks at all times.

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

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

Determination of the business strategy for the KCM 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 KCM Group in the event that those risks were to crystallize. In addition, the economic environment and the impact of adverse economic conditions on the KCM Group's profitability and capital position are considered, as well as the actions that management would take in those situations.

## **10. Leverage ratio**

The KCM Group's leverage ratio as at 31 December 2021 is 103.1% (Tier 1 capital of £118,118k as a percentage of total leverage ratio exposures of £114,575k).

The KCM Group does not use leverage as an integral part of its business model and does not consider the excess leverage to be a material risk.

## 11. Remuneration Code

KCM LLP 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. KCM LLP, in line with KKR group remuneration policies, offers a fixed base salary to its employees and a variable remuneration, which is dependent on individual and business performance. Certain KCM LLP representatives including the CPG group and certain support and control personnel are employed by affiliates of KCM LLP. In such cases, such affiliate is responsible for funding their remuneration. In certain cases, KCM LLP may reimburse certain affiliates for compensation costs.

KCM LLP's policy is designed to ensure compliance with the RemCode and the Firm'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. KCM LLP falls into tier three and as such, this disclosure is made in line with the requirement of a tier three firm.

The remuneration of KCM LLP's Executive Committee is set by the Global Heads of KKR Capital Markets and the Client Partner group, as appropriate, in conjunction with members of the KKR Management Committee and with the assistance of the human resource department, having regard to the principles laid out in the Firm's Remuneration Policy Statement and the Firm's Conflict of Interest Policy. Similarly, remuneration for other KCM LLP employees is overseen by the Executive Committee, in line with the strategic guidelines and decisions of the wider KKR Capital Markets business and the Investment, Management & Distribution Committee, with the assistance of the Human Capital team.

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 KCM LLP'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 & Co. Inc., which typically vest over a period of up 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 KCM LLP business and members of staff who have a material impact on the risk profile of the KCM LLP business was 30.

For the year ended 31 December 2021, the aggregate remuneration awarded to Senior Management who spend the majority of their time involved in the KCM LLP business, along with LLP members and employees of KCM LLP who have a material impact on the risk profile of the KCM LLP business (17 individuals in total), totalled £27.4m (£2.8m fixed and £24.6m variable). A portion of this remuneration is paid by affiliated entities. The value of variable remuneration can be broken down as cash payments in the year of £16.7m and share linked awards of £7.9m. The value of deferred remuneration awarded to these individuals during the year totalled £7.9m. There were ten individuals who were remunerated greater than €1million in the financial year. The total aggregate value of remuneration for KCM members and employees is disclosed with the Firm's annual financial statements on Companies House.

## 12. 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. KCM LLP is subject to the IFPR and will be classified as a non-SNI Firm from 1 January 2022. KCM LLP and the KCM Group continues to retain sufficient regulatory capital resources to satisfy these new requirements.

