31 December 2021

Chenavari Investment Managers

Pillar 3 Disclosures

Chenavari Credit Partners LLP

31 December 2021

Background

The 2006 Capital EU Requirements Directive ("CRD") came into effect on 01 January 2007 and created a revised regulatory framework across Europe based on the Basel II Accord. 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 sets out the review process to be used in order to determine whether additional capital should be held for risks not covered by Pillar 1; and

3. Pillar 3 requires firms to disclose certain details of risks and risk management process.

BIPRU 11 set out the provision for Pillar 3 disclosure and must be done in accordance with a formal disclosure document. This document meets this obligation and allows market participants to assess information on the risks Chenavari faces, its capital resources, and risk management procedures.

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

Chenavari's FCA firm reference number is 484392. It is classified as a BIPRU €50,000 limited licence firm and the minimum capital requirement of Chenavari is therefore €50,000. The variable capital requirement is computed as £3,069,000, and the total capital of Chenavari as of 31 December 2021 is £5,414,000 of Core Tier One Capital. There are no deductions from the total capital.

Total capital as at 31 December 2021 comprises:

- Subscribed capital of LLP members £391,000
- Retained profit reserves £5,023,000

Chenavari's solvency ratio is therefore £5,414,000 ÷ £3,069,000 = 176.4%, 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 Disclosure

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

Management Committee

The Management Committee (the "Committee") is responsible for the day to day management of the group, which includes all Chenavari 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 monthly 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. It has been established 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 but not limited 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 steps should be taken and assign 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

Although the Firm does not have a formal Remuneration Committee, the Management Committee acts as a quasi-remuneration committee promoting good corporate governance and effective risk management relating to staff remuneration. Chenavari has adopted this approach due to the nature, scale and complexity of the business activities undertaken. The combined expertise and experience of the Management Committee enables it to make effective and fair decisions regarding the Firm's Remuneration Policy.

The Management Committee is responsible for;

- Reviewing the Remuneration Policy's general principles and framework on an ongoing basis, ensuring effective implementation and checking 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;
- Formally validating the variable compensation pools applicable to the various activities within Chenavari before distribution;
- Ensuring the remuneration policy includes measures to avoid conflicts of interest;
- Conducting a risk analysis taking into account the current and potential risks in relation to the quantity of capital and liquidity required (ICAAP);

- Preparation of total remuneration, broken down between the Management Committee and Code Staff whose actions have a material risk impact on Chenavari; 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 non-financial factors.

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

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 capital retention. This formula is utilised 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 allocation of funds proportionate to its contribution to overall profits, representing the aggregate total compensation available to award to relevant staff within that business unit. The total remuneration awarded by Chenavari during the financial year ending 31 December 2021 was a total of £9,117,000, comprising fixed remuneration of £1,784,000 and variable remuneration of £7,333,000.

Financial Context

As of 31 December 2021, Chenavari had assets under management of approximately US$5.3 billion and recorded gross revenues of £26.1 million for the year-end, compared with £25.0 million for the year end 31 December 2020. Assets under management are split between different funds pursuing liquid and illiquid alternative investment strategies in addition to long-only mandates and managed funds.

Most risks managed on a daily basis are risks to the clients who invest in the funds managed by the Firm, rather than risks to the Firm itself. Client monies are custodied with external service providers as the Firm's FCA Part 4A permission does not permit it to hold client monies or deal in investment as principal, and Chenavari itself has no direct investment in its own managed vehicles. Risks related to poor performance, credit failure or other market/credit related issues related to markets, affect the funds and fund investors as opposed to the Firm.

The main risks that are faced by Chenavari and their mitigations (if required) are:

Market Risk – the reporting currencies of the funds to which Chenavari is investment manager, are EUR, USD, and GBP. As a result, the income due to the Firm is paid out by the funds in these currencies. The reporting currency of Chenavari 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 2021, Chenavari held foreign currencies equivalent to £6,135,000. FX risk is managed by proactively converting funds into GBP (including hedging revenues using foreign exchange forward contracts) and monitoring the size of the foreign currency receivable balance and the trend/market forecasts for exchange rate movements. FX risk is Chenavari's only significant market risk exposure.

Credit Risk – The majority of Chenavari's cash balances are deposited in instant access accounts with Barclays Bank Plc. 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 Chenavari's Liquidity Policy, monies not held with Barclays Bank Plc may be deployed across the Chenavari group via relationships with group companies who hold excess monies with other European banks. Other liquid assets are in the form of short-term trade debtors, which are spread across Europe and comprise various external financial parties, so exposure to individual debtors is low.

Operational Errors – The Firm manages a variety of strategies via multiple vehicles across several platforms. The complex operational infrastructure required to support these strategies renders the Firm vulnerable to operational error.

At a basic level, Chenavari'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.

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

Legal / Regulatory Risk – Chenavari is regulated by the FCA, the US Securities and Exchange Commission and the Commodities Futures Trading Commission. As an investment management business, Chenavari is potentially subject to legal or regulatory censure and fines if in breach of any legislation or regulation.

The Firm operates a compliance framework and conducts a compliance monitoring program which ensures 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 where necessary. The Firm's insurance policy provides a certain level of mitigation as a result of legal or regulatory incidents.

Sustained Market Downturn – A large part of Chenavari's income is derived 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 investor redemptions, if the assets under management were to generally track market movements downwards, then the Firm's fee income would also decrease.

In the event of a downturn, there are several options open to management that the Firm can take to remain profitable. These include reductions in variable compensation, withdrawal from markets or products that are no longer profitable, process re-engineering, staff reductions and office closure/downsizing. In the event of a downturn that reduces income to a level where it is impossible for Chenavari to continue as a going concern, the business would either be merged with a larger firm or, as a last resort, closed.

Loss of Major Client – Chenavari has clients that account for a large amounts 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 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 relevant steps are taken to assist in engaging in pertinent dialogue.

Chenavari 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
- Ensure regulatory compliance.

Base capital requirements for regulatory purposes are identified using Pillar 1 calculations plus an additional buffer to manage specific risks. The Pillar 2 risk capital is currently lower than the Pillar 1 figure and is not used to calculate the minimum capital required. These capital requirements have been assessed as part of the Internal Capital Adequacy Assessment Process (ICAAP), reviewed no less than annually.

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 buffer is a prudent amount which should allow for Chenavari to deal with most risks likely to crystallise, without needing to consume regulatory capital.

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

Internal Capital Adequacy Assessment Process

(ICAAP) Ownership of the ICAAP

The ICAAP is owned by the Management Committee, the CFO and the CCO in their respective capacity as the risk-related decision-making bodies of the Firm. They have discussed the ICAAP and 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, Risk, Legal and Compliance Departments. The Finance Department notifies Management and Compliance whenever there is a material change in the financial situation of the Firm to ensure that scenario planning, analysis and testing is current. The Compliance Department also assists in ICAAP preparation by highlighting any changes to the regulatory environment that have occurred.

Review and Challenge

During the development of the ICAAP, Finance and Compliance work 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, who are also board members of a parent company. These reviews allow for the Management Committee to challenge the business and management in their views on risk and any assumptions that have been made in the ICAAP process.

Adoption and Use of the ICAAP

The ICAAP is used to document the Firm's internal risk assessment. The process of developing and reviewing the ICAAP ensures the Management Committee is aware of major actual and potential risks the Firm faces and identify mitigating actions to enable the risk to be reduced or mitigated entirely.