Davidson Kempner European Partners, LLP

Pillar 3 Disclosure

April 2021

Davidson Kempner European Partners, LLP

Contents

Pillar 3 Disclosure– Davidson Kempner European Partners, LLP (“DKEP” or the “Firm”)

1. Introduction

The Capital Requirements Directive (the "**Directive**") of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital that must be maintained by credit institutions and investment firms. In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority ("**FCA**") in its regulations through the General Prudential Sourcebook ("**GENPRU**") and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("**BIPRU**").

The FCA framework consists of three "Pillars":

- Pillar 1 sets out the minimum capital amount that meets the Firm's credit, market and operational risks.
- Pillar 2 requires the Firm to assess whether its Pillar 1 capital is adequate to meet its risks and is subject to annual review by the FCA.
- Pillar 3 requires disclosure of specified information about the Firm’s underlying risk management controls and capital position.

The rules in BIPRU 11 set out the provisions for Pillar 3 disclosure. This document is designed to meet our Pillar 3 obligations.

2. Scope and application of the requirements

DKEP is an FCA regulated entity that acts as a sub-adviser to Davidson Kempner Capital Management LP ("**DKCM**"), a controller of DKEP, which is based in the U.S. The Firm is subject to minimum regulatory capital requirements and is categorised as a BIPRU firm by the FCA for capital purposes.

The Firm is an investment management firm and as such, has no trading book exposure. DKEP's business consists of a staff whose primary responsibility is to conduct research related to non-U.S. issuers that results in investments in, or investment recommendations to DKCM for investment consideration by, certain private investment funds managed by DKCM. The Firm is not part of a consolidated group for prudential purposes.

3. Risk management process

The Firm is governed by its governance committee ("**Governance Committee**") which is comprised of the Firm's two senior partners: Michael Herzog and Jogeesvaran (Chris) Krishanthan, its Legal Counsel, Tom Domanski, Daniel Boehm, Jean Baptiste de Boissieu, Romain Ferron, Zach Gozali, Risto Koivula, Jeremy Lowe, Otaso Osayimwese and Brian Ratner. Additionally, James Gange who is DKCM's Chief Compliance Officer and Ms. Shulamit Leviant who is DKCM's General Counsel also attend as representatives of the Firm's corporate member and DKCM. The Governance Committee meets formally on a quarterly basis to discuss all aspects of the business, including, without limitation, credit, market and operational risks, budgets, business strategy, legal and regulatory matters, governance arrangements and risk management. In these meetings, the Governance Committee determines how best to mitigate the Firm's risks, and implement or adjust existing risk management processes, as necessary.

The Firm also has in place a monthly meeting with the senior managers of the Firm. This management team contributes to the Firm's business strategy, focusing on the Firm's overall activity and the markets in which it operates via this monthly meeting.

As DKEP acts as a sub-adviser to DKCM, any investment related risks are overseen by DKCM, as described below. For each portfolio, DKCM has a risk management committee that is comprised of the portfolio managers of the relevant portfolio (who are also partners), the head trader responsible for the relevant portfolio, a portfolio manager of another portfolio (who is also a partner) and the Executive Managing Member of DKCM. These committees oversee DKCM's investment/market risks. In addition, partners, portfolio managers, analysts and traders meet periodically to discuss current and potential investments in the funds, general market volatility, counterparty risks, etc. This is supplemented with regular oversight meetings with the Risk Department. DKCM has also invested considerably in systems development and the Firm is now able to monitor the status of each order and its P&L on a position by position basis via live system feeds.

In addition, on an annual basis, the Governance Committee formally reviews DKEP's risks (particularly with respect to business, operational, credit and market risk), controls and other risk mitigation arrangements to assess their effectiveness in preparing the Individual Capital Adequacy Assessment Process report ("**ICAAP**"). DKEP also continues to review and monitor its capital adequacy on a regular and continuous basis. To assist in this effort, DKEP monitors its capital and balance sheet strength when filing its semi-annual GABRIEL returns FSA001, FSA002 and FSA003, and also monitors its capital adequacy on a monthly basis when preparing month-end accounts.

Where the Governance Committee identifies material risks, it considers the financial impact of these risks as part of its business planning and capital management and concludes whether the amount of regulatory capital is adequate.

4. Specific Risks

a) Credit and Market Risk

The only credit risk with respect to the Firm relates to (i) any fees due to DKEP from DKCM pursuant to the sub-advisory agreement and (ii) the Firm's capital being maintained on deposit (at an internationally recognized and reputable bank). There is no market risk as all of the capital is held in cash or cash equivalents denominated in Pounds Sterling.

DKEP calculates its credit risk requirement (using the standardized approach (simplified method)) as a percentage of its risk weighted exposure amounts, as determined in accordance with the FCA's rules. Market risk is calculated by using the foreign currency position risk requirement ("**PRR**") method. See section 6 below for further information.

b) Operational Risks

DKEP has minimal operational risk as any trading or execution activities are performed on behalf of DKCM. Further, the sub-advisory arrangement between DKCM and DKEP provides that DKCM pays over amounts to DKEP in the event that DKEP incurs any liabilities and costs associated with operational risks.

5. Regulatory Capital

DKEP's capital resources for the period ending 31 December 2020 is as follows:

Capital item	**£'000**
Tier 1 capital less innovative tier 1 capital	£11,871
Total tier 2, innovative tier 1 and tier 3 capital	0
Deductions from tier 1 and tier 2 capital	0
Total capital resources, net of deductions	£11,871

6. Capital Requirements

As discussed above, the Firm is a BIPRU firm and as such, its capital requirements are the greater of: a) its base capital requirement of €50,000; b) the sum of its market and credit risk requirements (which combined provide the Firm's risk capital calculation); or c) its fixed overhead requirement. The Firm's capital requirements for market risk and credit risk exceeds the fixed overhead requirement and the base capital requirement.

Credit Risk

The following table sets forth DKEP's credit risk capital requirement calculation as of 31 December 2020:

Credit Risk Capital Requirement	Rule	Pillar 1 Requirement (£)
Credit risk capital component	BIPRU 3.2	10,484,783
Counterparty risk capital component	BIPRU 13 & 14	-
Total		**10,484,783**

The following table sets forth DKEP's credit risk capital component calculation as of 31 December 2020:

Exposure Type	Rule	Exposure (£)	Weight	RWEA (£)
National Government Bodies	BIPRU 3.5.5G	-	0%	-
Banks etc – long term	BIPRU 3.5.5G	-	50%	-
Banks etc – short term	BIPRU 3.5.5G	560,329	20%	448,263
Banks – other	BIPRU 3.5.5G	9,363,787	100%	9,363,787
Other items	BIPRU 3.4.52	-	100%	-
Past due items	BIPRU 3.4.96	-	100%	-
Fixed assets	BIPRU 3.4.127	2,430,551	100%	2,430,551
Prepayments and accrued income	BIPRU 3.4.128	115,402,552	100%	115,402,552

Collective investment undertakings	BIPRU 3.5.5G	3,414,631	100%	3,414,631
Total		**131,171,850**		**131,059,785**
Credit Risk Capital Component			**8% of risk weighted exposure**	**10,484,783**

DKEP is primarily exposed to credit risk from the risk of non-collection of sub-advisory fees from DKCM. It holds all cash balances with UK or US banks assigned with high credit ratings. Consequently, risk of past due or impaired exposures is minimal. DKEP does not, as at the accounting reference date, have any past due or impaired assets. A financial asset is past due when a counterparty has failed to make a payment when contractually due. Impairment is defined as a reduction in the carrying amount of an asset. Given the simple nature of its credit risk exposures (as described above), DKEP has not made the disclosures required under BIPRU 11.5.8R (3) to 6) on the grounds that it is permitted to exclude those disclosures from the Pillar 3 disclosures because they are immaterial (in accordance with BIPRU 11.3.5R).

Market Risk

DKEP only has non-trading book potential exposure (BIPRU 7.4 & 7.5). The following table sets forth DKEP's market risk capital requirement calculation as of 31 December 2020:

Exposure Type	Rule	Exposure (£)	Weight	RW (£)
Interest rate position risk	BIPRU 7.2	-	0%	-
Equity position risk	BIPRU 7.3	-	8%	-
Commodity position risk	BIPRU 7.4	-	8%	-
Foreign currency position risk	BIPRU 7.5	158,912	8%	12,713
Option position risk	BIPRU 7.6	-	8%	-
CIU position risk	BIPRU 7.7	-	32%	-
Total		**158,912**		**12,713**

7. Remuneration Policy Disclosure: December 2020

The Firm has adopted a remuneration policy that complies with the requirements of chapter 19A of the FCA's Senior Management Arrangements, Systems and Controls Sourcebook ("SYSC"), as interpreted in accordance with the FCA's guidance publication entitled "General Guidance on Proportionality: The Remuneration Code (SYSC 19A) & Pillar 3 Disclosures on Remuneration (BIPRU 11), the new MIFID II application of SYSC 19F.1 and subsequent items of guidance issued by the FCA, including its document entitled "Frequently Asked Questions on the Remuneration Code".

As a BIPRU firm, the Firm has concluded, on the basis of its size and the nature, scale and complexity of its legal structure and business that it does not need to appoint a remuneration committee. Instead, the Governance Committee sets, and oversees compliance with, the Firm's remuneration policy including reviewing the terms of the policy at least annually.

As at the accounting reference date, the Firm currently sets the variable remuneration of its staff in a manner which takes into account staff and firm performance, by reference to individual employee performance; performance of the individual's business unit or department and the overall results of the Firm. As permitted for BIPRU firms, the Firm takes into account the specific nature of its own activities (including the fee based nature of its revenues) in conducting any ex-ante risk adjustments to awards of variable remuneration and, given the nature of its business, has disapplied the requirement under the Remuneration Code to make ex-post risk adjustments.

The Firm only has one "business area", namely its investment management business. All of the Firm's Code Staff fall into the "senior management" category of Code Staff (rather than the "risk taker" category) for the purposes of the Remuneration Code. The aggregate "remuneration" (as defined in the FCA Rules) awarded to the Firm's Code Staff during the financial year ending on the accounting reference date was £76,351,907.

8. Omissions from these Pillar 3 disclosures

DKEP does not have any equity or retail exposures. Consequently, the disclosures in BIPRU 11.5.5R, 11.5.6R and 11.5.15R are not applicable to it. DKEP does have a very small counterparty risk requirement arising under its foreign exchange hedging arrangements. However, this does not give risk to a significant counterparty risk requirement when compared with the Firm's total capital resources and total capital resources requirement. DKEP relies on the standardized approach (simplified method) for calculating its credit risk requirement. Consequently, the disclosures in BIPRU 11.5.10R and 11.5.11R are not applicable to it.

DKEP does not use a VaR model to calculate its market risk capital requirement. Consequently, the disclosures in BIPRU 11.5.13R are not applicable to it. DKEP does not have exposure to interest rate risk in its non-trading book. Consequently, the disclosures required under BIPRU 11.5.16R are not applicable to it.

DKEP, as a BIPRU firm, is not subject to an operational risk requirement. Consequently, the operational risk disclosures in BIPRU 11.5.4R (5) and BIPRU 11.5.14R are not applicable to DKEP. Finally, DKEP does not engage in securitization activity. Consequently, the securitization disclosures in BIPRU 11.5.17R are not applicable to it.

DKEP has therefore concluded that it is permitted to exclude the disclosures described above from the Pillar 3 Disclosures on the grounds that they are immaterial (in accordance with BIPRU 11.3.5R).