Davidson Kempner European Partners, LLP

Pillar 3 Disclosure

April 2022

Davidson Kempner European Partners, LLP

Contents

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

1. Introduction

Until 31 December 2021, the Firm was authorised and regulated by the Financial Conduct Authority ("**FCA**") as a limited licence firm under the FCA Prudential sourcebook for Banks, Building Societies and Investment Firms ("**BIPRU**") and was therefore subject to the prudential requirements of the BIPRU, as well as certain provisions of the FCA General Prudential sourcebook ("**GENPRU**"). From 1 January 2022, DKEP became subject to the UK Investment Firms Prudential Regime (the "**IFPR**").

Under the IFPR, DKEP, as a MIFIDPRU investment firm is required (among other things) to publish its first MIFIDPRU disclosures, covering (i) own funds, (ii) own funds requirements, (iii) governance, (iv) risk management, and (v) remuneration, on the same date (in 2023) that it will publish its annual financial statements for the 2022 financial year. These MIFIDPRU disclosures replace the Pillar 3 disclosure.

Nonetheless, the FCA has advised MIFIDPRU investment firms to comply with their reporting and other obligations under the BIPRU/GENPRU regime that ran up to the reference date of 31 December 2021, including the requirement to complete the Pillar 3 Disclosure. As such, this document serves as DKEP's final Pillar 3 disclosure, and relates to the Firm's 2021 financial year.

The remainder of this document focuses on the Firm's Pillar 3 disclosure for the 2021 financial year.

The FCA framework of the BIPRU/GENPRU regime consisted of three "Pillars":

- Pillar 1 set out the minimum capital amount that meets the Firm's credit, market and operational risks.
- Pillar 2 required 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 required 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 a MIFIDPRU investment firm authorised and regulated by the FCA, whose ultimate parent company is Davidson Kempner Capital Management LP ("**DKCM**") which is a U.S. based SEC registered Investment Advisor. DKEP acts as sub-Investment Advisor to DKCM. Until 31 December 2021, DKEP was authorised and regulated by the FCA as a BIPRU limited licence firm. The BIPRU regime ceased to apply on 1 January 2022, when it was replaced by the IFPR.

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, Brian Ratner, and Vince Ortiz. 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. 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.

Under the IFPR, DKEP, as a MIFIDPRU investment firm, is required (among other things) to establish, and review annually, an internal capital adequacy and risk assessment ("**ICARA**") process. The ICARA process is designed to supplement the Firm's own funds and liquidity requirements and allow the Firm to identify, monitor, and, if relevant, mitigate all material potential harms that could result from the ongoing operation or winding down of its business. The ICARA process replaced the Internal Capital Adequacy Assessment Process ("**ICAAP**") which applied to the Firm until 31 December 2021. Similarly, under IFPR, FSA001, FSA002 and FSA003 will be replaced by new reporting requirements that become effective from Q2 2022.

Nonetheless, the FCA has advised MIFIDPRU investment firms to comply with their reporting and other obligations under the BIPRU/GENPRU regime that ran up to the reference date of 31 December 2021, including the requirement to carry out an ICAAP. As such, DKEP's final ICAAP will be produced at the same time as this document and relates to the Firm's 2021 financial year. The FSA001, FSA002 and FSA003 will be completed in Q1 2022 before they are replaced by new reporting requirements under the IFPR in Q2 2022.

Up until 31 December 2021, the Governance Committee, on an annual basis, formally reviewed 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 ICAAP report. DKEP also continued to review and monitor its capital adequacy on a regular and continuous basis. To assist in this effort, DKEP monitored its capital and balance sheet strength when filing its semi-annual GABRIEL returns FSA001, FSA002 and FSA003, and also monitored its capital adequacy on a monthly basis when preparing month-end accounts.

Where the Governance Committee identified material risks, it considered the financial impact of these risks as part of its business planning and capital management and concluded whether the amount of regulatory capital was 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 2021 is as follows:

Capital item	£'000
Tier 1 capital less innovative tier 1 capital	£14,881
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	£14,881

6. Capital Requirements

As discussed above, the Firm was until 31 December 2021 a BIPRU firm and as such, its capital requirements was 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 exceeded 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 2021:

Credit Risk Capital Requirement	Rule	Pillar 1 Requirement (£)
Credit risk capital component	BIPRU 3.2	13,956,241
Counterparty risk capital component	BIPRU 13 & 14	-
Total		**13,956,241**

The following table sets forth DKEP's credit risk capital component calculation as of 31 December 2021:

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	3,140,076	20%	2,512,061
Banks – other	BIPRU 3.5.5G	13,936,711	100%	13,936,711
Other items	BIPRU 3.4.52	-	100%	-
Past due items	BIPRU 3.4.96	-	100%	-

Exposure Type	Rule	Exposure (£)	Weight	RWEA (£)
Fixed assets	BIPRU 3.4.127	1,912,538	100%	1,912,538
Prepayments and accrued income	BIPRU 3.4.128	152,591,623	100%	152,591,623
Collective investment undertakings	BIPRU 3.5.5G	3,500,080	100%	3,500,080
Total		**175,081,028**		**174,453,013**
Credit Risk Capital Component			**8% of risk weighted exposure**	**13,956,241**

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 2021:

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	2,051,802	8%	164,144
Option position risk	BIPRU 7.6	-	8%	-
CIU position risk	BIPRU 7.7	-	32%	-
Total		**2,051,802**		**164,144**

7. Remuneration Policy Disclosure: December 2021

The Firm had adopted a remuneration policy that complied 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 had concluded, on the basis of its size and the nature, scale and complexity of its legal structure and business that it did 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 set 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 fell 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 £104,637,595.

As DKEP became subject to the IFPR on 1st January 2022, it adopted a new Remuneration Policy in Q1 2022 as a MIFIDPRU investment firm that complies with Chapter 19G of the Senior Management Arrangements, Systems and Controls Sourcebook (SYSC 19G) of the

Financial Conduct Authority (FCA) handbook ("**MIFIDPRU Remuneration Code**").

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 were 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 rise to a significant counterparty risk requirement when compared with the Firm's total capital resources and total capital resources requirement. DKEP relied 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 were 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 were not applicable to it.

DKEP, as a BIPRU firm until 31 December 2021, was not subject to an operational risk requirement. Consequently, the operational risk disclosures in BIPRU 11.5.4R (5) and BIPRU 11.5.14R were not applicable to DKEP. Finally, DKEP does not engage in securitization activity. Consequently, the securitization disclosures in BIPRU 11.5.17R were 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 were immaterial (in accordance with BIPRU 11.3.5R).