KKR Credit Advisors (EMEA) LLP

MIFIDPRU 8 Disclosures

September 2023

## Definitions

| | |
|---|---|
| ARC | Audit and Risk Committee of KKR Europe |
| CEO | Chief Executive Officer |
| EU CRR | Capital Requirements Regulation of the European Parliament |
| DEI | Diversity, Equality and Inclusion |
| ExCo | Executive Committee of KKR Credit Advisors (EMEA) LLP |
| FCA | Financial Conduct Authority |
| FOR | Fixed Overhead Requirement |
| ICARA | Internal Capital Adequacy and Risk Assessment |
| IFPR | Investment Firm Prudential Regime |
| KCAI | KKR Credit Advisors (Ireland) Unlimited Company |
| KKR Group | KKR Group of Companies |
| KKR Europe | Includes all KKR affiliates located in Europe |
| KAML | KKR Asset Management Ltd |
| KCA LLP | KKR Credit Advisors (EMEA) LLP |
| KCA US | KKR Credit Advisors (US) LLC |
| OFR | Own Funds Requirements |
| OFAR | Overall Financial Adequacy Rule |
| OpCo | Operations Committee of KKR Credit Advisors (EMEA) LLP |
| Non-SNI | Non-Small and non-Interconnected Firm |
| RMF | Risk Management Framework |

Certain other technical terms are defined within this document where considered appropriate.

## Introduction

KCA LLP is a UK registered Limited Liability Partnership. As an investment firm, KCA LLP is subject to IFPR and authorised as a MIFIDPRU investment firm by the Financial Conduct Authority. MIFIDPRU is the regulatory sourcebook for all firms subject to IFPR, which became effective from 1 January 2022, replacing EU CRR. Within MIFIDPRU, KCA LLP is further classified as a Non-Small and Non-Interconnected Firm ("non-SNI") with a Permanent Minimum Capital Requirement of £75,000.

The main objective of IFPR is to ensure that regulated firms have adequate financial resources (i.e. both capital and liquidity) in relation to the business they undertake and have appropriate systems and controls in place to identify, monitor, and, where proportionate, reduce all potential material harms that may result from the ongoing operation of their business or winding down their business. The Firm assesses the risks that they not only pose to themselves, but to their clients and markets, and their mitigation in order to determine an appropriate level of capital to hold.

## Basis of Disclosure

The purpose of this document is to provide the disclosures required by MIFIDPRU 8. As a non-SNI, KCA LLP is required to disclose risk management objectives and policies, governance arrangements, capital and remuneration policies and practices. KCA LLP meets the conditions of MIFIDPRU 7.1.4R(1) and is accordingly exempt from MIFIDPRU 8.6.8R(6) disclosures relating to remuneration and MIFIDPRU 8.7 disclosures relating to investment policy.

## Frequency of Disclosures and Location

MIFIDPRU 8 disclosures are prepared at least annually on a firm's accounting reference date. 31st December 2022 is, therefore, the accounting reference date for this disclosure. Given the scale and range of its operations and complexity, the KKR Group currently assesses that there is no need to publish some or all of its disclosures more frequently than annually. The disclosure is published on KKR.com.

## Disclosure Governance

The ExCo is responsible for ensuring that this document complies with the disclosure obligations in relation to MIFIDPRU 8. It has been prepared by staff of KKR Group with sufficient knowledge and experience of the business, operations and risk management practices of KCA LLP. It has primarily been prepared by the KKR EMEA Finance department with input from other KKR Group functional areas including Risk Management, Legal Counsel, Compliance and Human Capital. PwC has also consulted on the document.

## Scope of Application

KCA LLP is also part of a UK consolidated investment group for the purposes of IFPR, which includes one affiliated entity: KAML. KAML is the immediate parent company of KCA LLP. KAML's sole purpose is to act as the managing member of the LLP. 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. However, as there is no requirement to publish this disclosure on a consolidated basis, the below information is provided on a solo basis for KCA LLP, unless otherwise stated.

## KCA LLP Activities and Background

KCA LLP is part of the KKR Group, which is a global investment firm that offers alternative asset management, capital markets and insurance solutions. Its corporate structure includes KKR & Co. Inc. (Delaware), which is listed on the NYSE (NYSE: KKR) and KCA US. The indirect parent of KCA LLP is KCA US.

The current business activities consist of the following:

- Advising KCA US and KCAI, the Firm's sole clients, with respect to new investment opportunities, monitoring existing investment, and the management of existing investments.
- Providing a trade execution service and dealing on behalf of KCA US and KCAI in European markets.

In order to provide services mentioned above, KCA LLP has the following FCA permissions: advising on investments (except on Pension Transfers and Pension Opt Outs), arranging (bringing about) deals in investments, arranging safeguarding and administration of assets, dealing in investments as agent, making arrangements with a view to transactions in investments, and managing investments.

KCA LLP earns revenue through charging KCA US and KCAI a 10% mark-up on operating expenses in relation to the services referred to above.

## Governance Arrangements

KCA LLP is managed by its CEO and its ExCo. The ExCo is responsible for implementing KCA LLP's business plan and establishing its risk appetite. The ExCo is supported in its objectives by the Audit, Risk and Compliance Committee and the Operations Committee. The responsibilities of each are described below:

| Committee | Responsibilities |
|---|---|
| **Executive Committee** | > Governing body responsible for the management and supervision of KCA LLP and reviews its risk appetite determinations at least annually.<br><br>> Chaired by the CEO.<br><br>> Meets on a quarterly basis and at such other times as may be necessary to review, discuss and approve the following matters relating to KKR LLP:<br>• Apportionment, organisation, and reporting structures,<br>• Business strategy and initiatives,<br>• Accounting, financial reporting and the review of statutory accounts,<br>• Risk management (including quarterly risk report, Risk Dashboards and Risk Register/ICARA review),<br>• Legal and compliance matters and reports, including the annual Compliance Officer and Financial Crime Report,<br>• Relevant internal audit reports, and<br>• Other operational matters. |
| **Audit, Risk and Compliance Committee** | > Responsible for overseeing risk management at a regional level and is tasked with monitoring and making recommendations to the Board of Directors and ExCo in relation to risk, financial reporting, external audit, internal controls and select regulatory and compliance matters.<br><br>> Chaired by Chief Compliance Officer.<br><br>> Meets on a quarterly basis<br><br>> Members include KKR Group's General Counsel for Europe, Risk Officer for Europe, Global Head of Internal Audit, CFO Europe, IT Manager, Human Capital Management Director Europe, Director of European Corporate Affairs, Director of Operations and European Head of Tax. |
| **Operations Committee** | > Responsible for implementation of operational priorities, including the management of policies, processes and regulations, monitoring of projects and the roll-out of culture and DEI initiatives within EMEA.<br><br>> Chaired by a UK employee of an affiliated entity |

**Directorships**

The below table provides the number of external directorships (both exec and non-exec) held by each member of the ExCo as at 31 December 2022.

| ExCo Member | Directorships Held |
|---|---:|
| Matthieu Boulanger* | - |
| Michael Small | - |
| Varun Khanna | 16 |
| Blaine MacDougald | 3 |

* Resigned on 26 May 2023

**Commitment to Diversity, Equality and Inclusion**

KCA LLP strives to be a more diverse, inclusive organization – one that is reflective of the investors we serve, the companies and other stakeholders with whom we partner, and the communities in which we live and conduct business.

The ExCo recognizes that leveraging differences across gender, ethnicity, sexual orientation, background, skills and experiences, will drive performance and create better outcomes for our clients and key stakeholders.

It is, for this reason, the ExCo monitors and enhances efforts to recruit, invest in, develop and retain the best and most diverse talent. Diversity goals are set and initiatives by which they mean to advance broader representation on their teams are articulated across the Firm. Progress against stated goals are reviewed regularly in ExCo meetings.

KKR Group has an established Inclusion & Diversity Council ("IDC"). This council, led by our senior-most executives, including KKR's Chief Diversity Officer and Head of Talent Development is mandated to ensure we remain an entrepreneurial, innovative, and vibrant organization – one that values teamwork, and welcomes and leverages differences among genders, ethnicities, nationalities, sexual orientations, and other life experiences.

Overall, the IDC is accountable for helping the Firm:

- Attract, develop, and retain the best possible talent
- Become more diverse and inclusive, with increased representation among women, underrepresented demographic groups, and people with varied experiences, perspectives and sexual orientations
- Employ talent that reflects the clients we serve, the companies with which we partner, and the communities in which we live and conduct business
- Improve mentoring, and identify and implement other best practices to develop and retain diverse talent
- Partner closely with outside organizations to foster stronger ties with the community, and in particular with underrepresented groups
- Encourage a keen sense of responsibility in everyone at the Firm for contributing to our success
- Drive business leader accountability for ultimate progress and results

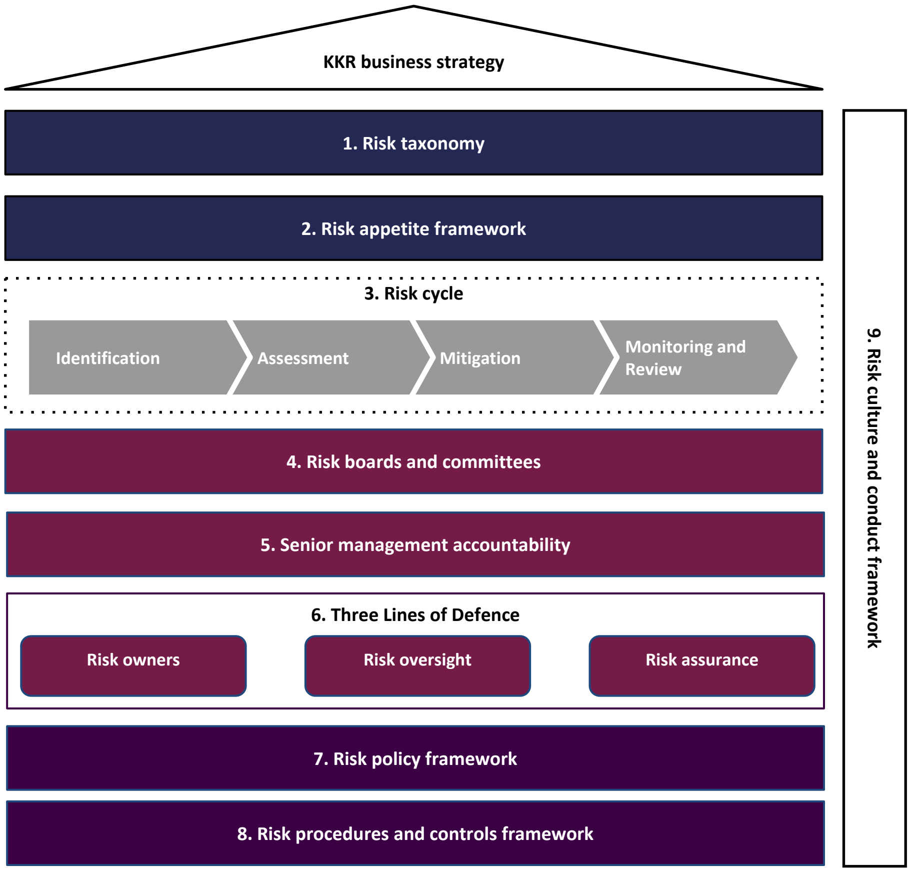
## Risk Management: Objectives and Policies

KCA LLP is committed to transparent and comprehensive risk management in order to maintain capital and liquidity throughout the economic cycle. The ExCo discusses KCA LLP's business strategy as well as business and operational risks on a regular basis. The ExCo members have significant experience and are conscious of material risks presented by KCA LLP's business and have sufficient experience to assess, manage and monitor relevant risks in an appropriate manner.

The Risk Officer independently reports to the ExCo on a quarterly basis, including reporting the results of the Risk Appetite Statement measures. The Risk Officer also collaborates with other business support functions relating to KCA LLP through quarterly update calls with business heads as well as annually reviewing and updating the detailed risk registers.

### Risk Management Framework

To help the ExCo discharge their responsibilities and support the management of risk, KCA LLP has established a the Risk Management Framework ("RMF") as illustrated below




The ExCo approves and updates the business plan and financial projections. This process supports a risk management review of current and emerging risks, including material risks to the business.

The Risk Taxonomy identifies the range of risks which the organisation is exposed to. Risk management lead an annual review of the taxonomy to ensure it continues to provide coverage of all risk exposures.

Material risks are those which the ExCo see as the most significant to the business. Once confirmed, risk management draft supporting risk appetite statements and the corresponding metrics, limits and triggers are approved by the ExCo.

The RMF operates on the basis of an ongoing risk cycle based on the identification, assessment, mitigation and ongoing monitoring and review of risks.

This cycle is supported by the principle that roles and responsibilities for risk management are embedded across the three lines of defence, with certain senior roles carrying additional accountability and the ExCo retaining ultimate responsibility for the RMF.

<u>The first line of deference (Risk owners) is responsible for:</u>

- Identifying and managing all the risks in the activities in which they are engaged.
- Developing appropriate policies, standards and controls to govern their activities.
- Regular self-assessments of risks and controls.
- Escalating risk events and issues as appropriate to the Second line of defence.

<u>The second line of deference (Risk oversight – which is performed by the Risk and Compliance functions) is responsible for:</u>

- Design and maintenance of the risk framework and programs.
- Facilitating risk management activities and providing oversight and challenge.
- Ongoing monitoring of risk exposure and the design and oversight of controls.
- Providing reporting to the relevant stakeholders, committees and governance forums.

<u>Third line of defence: Risk assurance</u>

- Internal Audit is the 'third line of defence', responsible for independently evaluating the adequacy and effectiveness of business processes and controls as well as evaluating the effectiveness of each line of deference.

Key risks are addressed in dedicated policies which describe the risk, set out the methodology for control and identify ownership across the three lines of defence.

The operation of procedures and controls are periodically tested to ensure they remain fit for purpose.

KCA LLP's Risk Register identifies and assesses all relevant risks and is maintained by the EMEA Risk Officer.

**Risk Appetite Framework**

Risk appetite is the level of risk that the business is willing to assume in the conduct of its activities and is the foundation of a best practice risk management approach. KCA LLP maintains a Risk Appetite Statement ("RAS") to manage the specific risks relating to the risk profile of the business.

The RAS includes a risk target (the level below which no action is required), a risk appetite trigger (the level at which escalation occurs to a higher forum, because the risk profile is sufficiently close to the risk appetite limit) and a risk appetite limit (the level of risk that KCA LLP is unwilling to take in pursuit of its strategy). The RAS is reviewed and refined at least annually based on the development of the risk profile of KCA LLP.

This Risk Appetite Framework together with the Risk Register identifies the key risks facing the business from a bottom up approach though one-to-one meetings with each of the business areas including support functions. These risks are then reviewed and challenged by the ExCo who also provide a top down assessment of risks facing the business and also ensure that this is consistent with KCA LLP's risk management strategy.

The methodology for establishing risk appetite and cascading it to the business is outlined below:


**KCA Group Global Risk Management Framework**

KCA LLP has an independent risk framework and ICARA process. However, it also benefits from, and its practices are consistent with, the broader risk management framework and oversight of KKR Group.

**ICARA and Risk Management Effectiveness Assessment**

Upon the ExCo's review of the ICARA process, it believes that the ICARA prepared is reflective of the risks KCA LLP faces and suitably analyses how these risks impact KCA LLP itself, its customers, and the wider market and how they are managed and mitigated. Furthermore, the ExCo concludes that the risk framework currently in place is suitable for the business and fully supports the objectives of the ICARA process. However, the ExCo are aware of the foundation that the ICARA is built on with regards to continuous improvement and therefore believe it appropriate to highlight the following:

- The ExCo will continue to review the new rules as they become more prevalent to ensure that the document meets the appropriate requirements.
- Given that 2022 was the first year that an ICARA had been prepared, the ExCo will pay close attention to any efficiencies and enhancements that may develop over time. One key area is developing a greater focus on the harms that arise within the risk registers themselves.
- Although the ExCo believe that the current risk framework in place is suitable, it will strive to always improve this in any way possible.

KCA LLP's ICARA and RMF are subject to review and challenge as follows:

- As part of the preparation of the ICARA, external consultants in the form of PwC were engaged to provide advice on IFPR, the ICARA and to provide a comprehensive review of the final product. PwC were ultimately engaged to help ensure that this ICARA was prepared in line with the FCA's expectations.
- Freshfields were also engaged to provide legal opinions and specialist advice on a number of different topics arising from the new MIFIDPRU handbook.
- By the CEO, ExCo, Risk, Finance and Compliance functions, providing input and challenging each other as part of the analysis and development process.
- By the ARC who review the ICARA prior to it being submitted to the ExCo.
- By KCA LLP ExCo which is ultimately responsible for review and approval of the ICARA.
- The ExCo meeting discussion of the ICARA is attended by KCA LLP Risk Officer, Finance Officer, Compliance Officer, KCA LLP Head of Enterprise Risk and a representative of Group Internal Audit.
- The ICARA is ultimately presented to the ExCo for challenge, review and approval.

The ExCo will continue to assess the effectiveness of the ICARA and RMF on a periodic bases.

## Own Funds

Under IFPR, an investment firm is required to assess how much capital ("Own Funds") it requires to operate a sustainable business by considering the risks faced by the firm in the course of fulfilling its activities throughout the economic cycle.

KCA LLP's Own Funds comprises only of common equity – tier 1 capital, which is fully paid up, and totals £8.5m as at 31st December 2022. The composition of Own Funds, the reconciliation of Own Funds to the audited financial statements and the main features of instruments issued by KCA LLP as at 31st December 2022 is shown in the tables in appendix 2.

**Own Funds Requirements**
KCA LLP is required to disclose compliance with the own funds requirements ("OFR") set out in MIFIDPRU 4.3. The OFR is the higher of the K-factor requirement ("KFR") and the fixed overheads requirement ("FOR"):

| Item | | GBP Amount (in thousands) |
|---|---|---|
| FOR | | 2,587 |
| K-factors* | Sum of K-AUM<br>Sum of K-DTF | 760<br>1,972 |
| | Sum of K-CMH, K-ASA, K-COH, K-NPR, K-CMG, K-TCD and K-CON | - |
| | **Total = KFR** | 2,732 |
| | | |
| **OFR** | | **2,732** |

** see appendix 1 for a definition of K-factors and their application to KCA LLP*

**Approach to assessing the adequacy of own funds**
Under MIFIDPRU 7.4.7R, KCA LLP must at all times hold own funds and liquid assets which are adequate, both as to their amount and their quality, to ensure that:

a. KCA LLP is able to remain financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities; and
b. KCA LLP's business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

This is known as the Overall Financial Adequacy Rule ("OFAR").

KCA LLP assesses compliance with the OFAR through the annual ICARA. This includes assessing additional own funds required to meet the risks of KCA LLP's activities to clients, the market and the firm itself.

The process is managed by an ICARA working group who complete an assessment of all material risks to KCA LLP leveraging the experience of subject matter experts and utilise the risk framework to assess the risks identified and capital held are comprehensive and proportionate to the nature, scale and complexity of KCA LLP.

**Wind down requirement – assessed as part of the 2022 ICARA process**
The wind down model looks at the costs associated with winding down KCA LLP. The wind down capital requirement was assessed as being £3.9m which is greater than the OFR.

**Own Funds Threshold Requirement ("OFTR")**
The OFTR requires that an investment firm holds own funds equal to the higher of the following items in order to ensure that KCA LLP is able to remain financially viable throughout the economic cycle and can be wound down in an orderly manner:

- K-factors + additional own funds to mitigate the risk of harm from on-going operations (e.g. the aggregate of K-factors and additional own funds requirement).
- FOR + additional own funds to mitigate the risk of harm during a wind-down (e.g. the higher of the FOR or total wind-down figure).

KCA LLP has analysed via internal workshops a number of operational loss events based on its key identified material risks to on-going operations. The costs of winding down KCA LLP have also been analysed. Through these tests, KCA LLP is able to assess the amount of capital and liquid resources to maintain on-going operations and wind-down in a manner that results in minimising the risks of harm to consumers or to other market participants.

The analysis was performed with oversight from the ExCo. They included a number of scenarios capturing the risks identified in the KCA LLP risk register, how they're mitigated and how KCA LLP would deal with them should the controls and procedures in place not fully mitigate these risks. The analysis included financial forecasts, stress tests and reverse stress tests utilising a number of variables.

## Concentration Risk

Concentration risk is the risk arising from the strength or extent of a firm's relationship with, or direct exposure to, a single client or group of connected clients.

KCA LLP's revenue is limited to that earned from KCA US and KCAI. The ExCo does not, however, consider this to be a significant concentration risk, given (i) these revenues are from affiliated entities which are dependent on the services provided by KCA LLP and (ii) the financial strength of the KKR Group.

## Liquidity Risk

Liquidity risk is the risk of having insufficient liquid assets to meet financial obligations when they fall due and is considered as part of the overall annual risk register process of KCA LLP.

The Firm's main source of income is via a cost plus sub-advisory arrangement to KCA US, which is settled on request by this entity. As a result of this, the Firm is able to sustain liquidity based on its income being settled in a timely manner.

KCA LLP does not have an overdraft facility and its only material debtors are cash and debtor balances with KKR subsidiaries. If liquidity is required, KAML or KCA US would be the provider of additional cash resources.

## Remuneration

This section contains the qualitative and quantitative disclosures required under MIFIDPRU 8.6.

**Remuneration Objectives**
KCA LLP's principal remuneration objective is to ensure remuneration policies and practices for all staff are in line with the firm's business strategy, objectives, risk appetite, culture and values and long-term interests. KCA LLP offers competitive remuneration and appropriate reward and incentivisation schemes, to attract and retain individuals with suitable qualifications, experience and skills. The ExCo considers it is important that staff be compensated in a manner that motivates them to excel and encourages them to remain with KCA LLP.

Further, the ExCo intends to align the interests of staff with those of the wider KKR Group and its shareholders by encouraging the fostering of relationships amongst colleagues and divisions for sourcing business opportunities, developing and maintaining client and investor relationships, and promoting the success of KKR Group as a whole for the benefit of shareholders and stakeholders.

The ExCo is committed to ensuring remuneration policies are appropriate to the nature, scale and complexity of the risks inherent in the business model and activities of KCA LLP. As a provider of investment management advisory and trade execution services the remuneration policies of the firm are considered appropriate to the risk profile of the firm, the investments managed and the promotion of sound risk management.

KKR Group believes in a culture of meritocracy and fairness. Individual remuneration is not based on the success of specific transactions, investments, commissions, fees, profits or other income generated in connection therewith. Remuneration is based on the performance of (i) the KKR Group as a whole, (ii) the performance of the business in which an individual works and (iii) the individual's performance and contributions to the management, leadership, culture and values of the KKR Group.

**Remuneration Framework and Regulatory Compliance**
KCA LLP is subject to the MIFIDPRU Remuneration Code ("the RemCode"). The rules are located in the SYSC Sourcebook of the FCA Handbook. Under SYSC19G, all staff of KCA LLP are subject to the basic requirements the RemCode.

As a non-SNI, KCA LLP's material risk takers ("MRTs") are also subject to the standard requirements of the RemCode. MRTs are members of staff whose professional activities have a material impact on the risk profile of KCA LLP or of the risk profile of the assets that the firm manages. The ExCo is responsible for reviewing and approving the list of MRTs annually.

KCA LLP framework is documented within KKR Group's European Regulatory Remuneration Policy Statement (RPS"). The purpose of the RPS is to set out the remuneration policies and practices for affiliates of KKR Group which are authorised and regulated in the UK or European Union as investment firms. As such, the RPS applies to all staff of KCA LLP, which includes employees, officers and members.

KCA LLP, in line with the RPS, 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. The RPS is reviewed, amended (if necessary) and approved annually by the ExCo in order to:

- Not encourage excessive risk taking;
- Cover all aspects of remuneration within the scope of the RemCode for all staff;
- Be clear and documented;
- Be appropriate and proportionate to the nature, scale and complexity of the risks inherent in the business model;
- Be consistent with and promote sound and effective risk management;
- Be in line with the KKR's business strategy, objectives and interests;
- Include measures to avoid conflicts of interest; encourage responsible business conduct and fair treatment of clients;
- Include measures to avoid conflict of interest; and
- Comply with all applicable regulatory remuneration disclosure and regulatory reporting requirements for the relevant performance period.

**Oversight of Remuneration**

The remuneration of the KCA LLP ExCo is set and approved in conjunction with the KKR Europe Head and Senior Leadership team of KKR Group.

The ExCo directly oversees the remuneration of KCA LLP's support and control function directors, senior managers and MRTs, with input from the relevant Global Heads of KKR Europe's Support and Control Functions.

The ExCo is also responsible for commissioning, at least annually, a central and independent internal review to assess whether the Remuneration policies and practices implemented comply with the remuneration policies and practices that they have adopted. KKR Internal Audit conducted a central and independent review in Q2 2022.

**Remuneration Award Setting**

The KKR Group bonus pool, incentive pools and strategic guidelines for their implementation are set by the Senior Leadership Team of KKR Group. The Senior Leadership Team has overall responsibility for administering the global KKR Group reward schemes, including making the adjustments referred to in further detail below, and ensuring that KKR Group remuneration decisions, bonus pools and incentive scheme allocations take into account implications for risk and risk management and the long-term interests of KKR Group's shareholders and stakeholders as a whole.

The ExCo has overall responsibility for KCA LLP's prudential matters, including compliance and risk management, and is therefore suitably positioned to ensure that staff and MRT remuneration decisions and awards are consistent with the RPS, encourage responsible business conduct, avoid conflicts of interest, promote risk awareness and prudent risk taking and do not exceed the firm's level of tolerated risk or financial resources, or impact the maintenance of a sound capital base.

In relation to variable remuneration, the ExCo ensures:

- The total amount of the variable remuneration is based on a combination of the assessment of the performance of the individual; the business unit concerned; and the overall results of the firm; and
- The assessment of performance is part of a multi-year framework that ensures the assessment is based on longer-term performance; and
- The payment of performance-based remuneration is spread over a period that takes account of the business cycle of the firm and its business risks; and
- The allocation of variable remuneration components takes into account all current and future risks; and
- The allocation of variable remuneration is awarded to create alignment and ownership with KKR's strategic objectives.

**Components of Remuneration**

The types of remuneration awards by KCA LLP, together with the categorisation of this remuneration between fixed and variable and any conditions relating to them are stated below:

| Component | Settled In | Vesting Criteria | Market Performance Conditions | Malus and Clawback (to MRTs) |
|---|---|---|---|---|
| Fixed | Cash | No | No | No |
| Variable | Cash | No | No | Yes |
| Variable | Cash | Yes | No | Yes |
| Variable | Equity | Yes | No | Yes |
| Variable | Equity | Yes | Yes | Yes |

**Fixed Remuneration**

An individual's fixed remuneration is generally defined as their base salary and other fixed contractual benefits. Remuneration is considered fixed where the following conditions are satisfied and the award and its amounts are based on predetermined criteria, are non-discretionary, reflect the level of professional experience, seniority and organisational responsibility as set out in their particular role description, are transparent with respect to the amount awarded to the individual, are permanent, i.e. maintained over a period tied to the specific role and organisational responsibilities, are non-revocable, the permanent amount is only changed via collective bargaining or following renegotiation in line with national criteria on wage setting, cannot be reduced, suspended or cancelled by the firm, do not provide incentives for risk assumption, and do not depend on performance.

The extent to which an individual's fixed remuneration will be subject to periodic review is be set out in the agreement governing their employment or appointment. In general, however, KCA LLP will be under no obligation following a review to award any increase and any increase in fixed remuneration will only be awarded if it is sustainable according to the financial situation of KCA LLP.

In compliance with the RemCode, an individual's fixed remuneration represents a sufficiently level of total remuneration to ensure the possibility of paying lower, or no, variable remuneration in any particular year.

**Variable remuneration**
An individual's variable remuneration is generally defined as remuneration that is based on performance or in exceptional cases other conditions. Where based on performance the variable remuneration reflects the long-term performance of the staff member as well as performance in excess of the staff member's role description and terms of employment or appointment.

The application of performance adjustments could lead to the payment of no variable remuneration to a particular individual in a particular year.

The RemCode doesn't have set thresholds on the ratio of fixed to variable components. The KCA LLP ExCo reviews and approves the ratio for each performance year to ensure that the fixed component represents a sufficiently high proportion of total remuneration to enable the operation of a fully flexible policy on variable remuneration, including the possibility of paying no variable remuneration component. The ratio set for a performance year reflects the highest amount of variable remuneration that can be awarded in the most positive scenario whist not affecting KCA LLP's ability to maintain a sound capital base.

**Guaranteed remuneration**
KCA LLP can, in limited circumstances, award guaranteed variable remuneration. These make whole awards are discretionary replacement awards, when new joiners lose economics from a previous employer. KCA LLP makes such payments in order to treat new joiners fairly. They are subject to malus and clawback.

**Severance awards**
KCA LLP may be obligated to make payments to staff should their contract be terminated early. Such payments would reflect performance whilst being employed by the firm and would not reward failure, excessive risk taking or misconduct. When making such payments, account is taken of relevant factors, such as tenure, notice period and their participation in long-term incentive plans and pension schemes, unused annual leave and any incremental costs incurred by the employee as a result of termination.

**Adjustments to Variable Remuneration**
The allocation of variable remuneration components takes into account all current and future risks. To do this, KCA LLP will determine the level of seniority and responsibility adjustments should apply to, which risk adjustment techniques and measures are most appropriate and consider both financial and non-financial risks.

Ex-ante performance adjustments are included in determining the initial allocation or award of variable remuneration. This would include consideration of the member of staff's impact on the future business of the firm and the level of risk inherent in their role.

Ex-post performance adjustments are considered as a method to adjust variable remuneration allocated or awarded to staff after a reasonable period that has allowed risks to materialise and be measured against the parameters set out in the risk management framework. This would include consideration of the staff member's adherence to KCA LLP's risk management framework and policies, involvement in any operational loss events, breaches of regulations or laws and quality of engagement with third parties (including clients).

Ultimately, in the event that the financial performance of KCA LLP is subdued, the ExCo must ensure the firm's total variable remuneration is appropriately contracted, including through malus or clawback arrangements as explained further below.

**MIFIDPRU Material Risk Takers**
KCA LLP has identified eight MRTs on the basis of being at least one of the following:

- A member of the ExCo.
- A member of the senior management for the purposes of the UK Senior Managers Regime.
- Responsible for business units carrying out KCA LLP's activities permitted by the FCA.
- Responsible for activities of a Control Function, the prevention of money laundering and terrorist financing.
- Responsible for managing a material risk.
- Responsible for managing information technology, information security, outsourcing of critical or important functions, taking decisions approving or vetoing the introduction of new products and economic analysis.

Subject to regulatory approval, the quantitative criteria do not apply where the firm determines that the staff member, or the category of staff to which they belong, has no material impact on the risk profile of KCA LLP or the assets it manages.

The remuneration of these MRTs is subject to the malus and clawback (explained below) requirements of the RemCode as applied to both remuneration paid in a year and deferred awards.

**Malus and Clawback**
The Remuneration Rules require that KCA LLP sets out malus and clawback arrangements in relation to MRTs. These are arrangements that could result in adjustments to remuneration.

The key difference between malus and clawback is whether the award has already been paid or not. For example,

- Malus provisions allow a firm, in certain situations, to reduce or cancel a cash bonus or share award before it has been paid out (or the shares issued or transferred).
- Malus provisions can also be applied to deferred remuneration e.g., to an award that has not yet vested.
- Clawback provisions allow a firm to recover a bonus or share award, after it has been paid out.

The in-year adjustment, malus and clawback arrangements cover situations where the relevant MRT:

- Participated in or was responsible for conduct such as fraud or severe negligence which resulted in significant financial losses to the firm; and/or
- Failed to meet appropriate standards of fitness and propriety including material instances of misconduct, misbehaviour or material error and any instances resulting in cause.
- If the Firm or the relevant business unit suffers a material failure of risk management due to actions of the MRT.

Malus may be applied to a MRTs variable remuneration until the award has vested in its entirety.

The minimum malus and clawback period is three years. This allows sufficient time for any potential risks to crystallise. Different periods may be set for different categories of MRTs. The clawback period will span at least the combined length of any Deferral Periods and Retention Periods. Clawback will be applied at the minimum, in cases of fraud or other conduct with intent or severe negligence, which led to financial losses.

**Quantitative Remuneration Disclosures**

| Disclosure Item (amounts in £Ms) | Senior Management | Other Material Risk Takers | Other Staff | Total |
|---|---|---|---|---|
| **Total number of Material Risk Takers** | **4** | **5** | **-** | **9** |
| | | | | |
| **Total amount of remuneration awarded** | **7.6** | **4.9** | **15.2** | **27.6** |
| - fixed remuneration awarded | 0.9 | 0.911 | 5.179 | 6.9 |
| - variable remuneration awarded | 6.7 | 3.953 | 9.977 | 20.7 |
| | | | | - |
| Total guaranteed variable remuneration awarded | - | - | - | - |
| | | | | |
| Total severance payments awarded | - | - | 0.0 | 0.0 |
| Number of MRTs receiving severance payments | - | - | - | - |
| Highest MRT severance payment award | n/a | n/a | n/a | n/a |

## Appendix 1

**K-factors Definitions**

The K-factor methodology for calculating own funds requirements is described in chapter 4 of the MIFIDPRU sourcebook. The application of each K-factor to an investment firm is determined by its regulatory permissions. The table below shows the definition of each K-factor and if they applied to KCA LLP in the reporting period:

| K-factor | Definition | Applicable to KCA LLP |
|---|---|---|
| K-AUM | Assets Under Management | Yes |
| K-COH | Client Orders Handled | Not applicable |
| K-ASA | Assets Safeguarded and Administered | Not applicable |
| K-CMH | Client Money Handled | Not applicable |
| K-NPR | Net Position Risk | Not applicable |
| K-CMG | Clearing Margin Given | Not applicable |
| K-TCD | Trading Counterparty Default | Not applicable |
| K-DTF | Daily Trading Flow | Yes |
| K-CON | Concentration Risk | Not applicable |

# Appendix 2

| Table 1: Composition of regulatory own funds | | | |
|---|---|---|---|
| | **Item** | **Amount (GBP thousands)** | **Source based on reference numbers/letters of the balance sheet in the audited financial statements** |
| 1 | **OWN FUNDS** | **8,500** | |
| 2 | **TIER 1 CAPITAL** | **8,500** | |
| 3 | **COMMON EQUITY TIER 1 CAPITAL** | **8,500** | |
| 4 | Fully paid up capital instruments | 8,500 | Members' capital classified as equity |
| 5 | Share premium | - | |
| 6 | Retained earnings | - | |
| 7 | Accumulated other comprehensive income | - | |
| 8 | Other reserves | - | |
| 9 | Adjustments to CET1 due to prudential filters | - | |
| 10 | Other funds | - | |
| 11 | (-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1 | - | |
| 19 | CET1: Other capital elements, deductions and adjustments | - | |
| 20 | **ADDITIONAL TIER 1 CAPITAL** | - | |
| 21 | Fully paid up, directly issued capital instruments | - | |
| 22 | Share premium | - | |
| 23 | (-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1 | - | |
| 24 | Additional Tier 1: Other capital elements, deductions and adjustments | - | |
| 25 | **TIER 2 CAPITAL** | - | |
| 26 | Fully paid up, directly issued capital instruments | - | |
| 27 | Share premium | - | |
| 28 | (-) TOTAL DEDUCTIONS FROM TIER 2 | - | |
| 29 | Tier 2: Other capital elements, deductions and adjustments | - | |

| Table 2: Reconciliation of own funds to balance sheet in the audited financial statements | | | |
|---|---|---|---|
| | **Item** | **Amount in audited financial statements** | **Cross-reference to Own Funds Table** |
| | | **31/12/2022** | |
| **Assets** | | | |
| | Fixed assets | - | n/a |
| | Cash and cash equivalents | 17,670 | n/a |
| | Debtors | 513 | n/a |
| | Total assets | 18,183 | n/a |
| | | | |
| **Liabilities** | | | |
| | Creditors: falling due within one year | 6,651 | n/a |
| | Creditors: amounts falling due after one year | - | n/a |
| | Members' capital classified as liability | 3,032 | n/a |
| | Total liabilities | 9,683 | n/a |
| | | | |
| **Shareholders equity** | | | |
| | Members' capital classified as equity | 8,500 | Item 4 |

| Table 3 - Own Funds: main features of own instruments issued by the Firm | |
|---|---|
| Instrument type | Capital from designated members |
| Designated members | KKR Asset Management Limited |
| Amount recognised in regulatory capital (GBP000s) | 8,500 |
| Rights of capital from designated members | Ranks pari passu with unsecured creditors and loans |
| Accounting classification | Equity |
| Original date of issuance | 30 November 2012 |
| Perpetual or dated | Perpetual |
| Divdends paid in year to 31 December 2022 | Nil |