



AVENTICUM
CAPITAL MANAGEMENT

Basel III

Pillar 3 Disclosures 2019

Aventicum Capital Management (UK) LLP

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Introduction

This document comprises the Pillar 3 disclosures for Aventicum Capital Management (UK) LLP ('ACMUK' or 'the Firm') as at 31 December 2019. It should be read in conjunction with ACMUK's 2019 Annual Report, which will be available from Companies House, Crown Way, Cardiff, Wales, CF14 3UZ.

ACMUK is authorised and regulated by the Financial Conduct Authority ("FCA").

As an authorised firm, ACMUK has further been categorised as follows:

- Prudential Category: Collective Portfolio Management Investment (CPMI) firm;
- Sub-Category: IPRU (INV) 11 and GENPRU/BIPRU.

ACMUK is subject to the following sections of the FCA Handbook:

- i) General Prudential Sourcebook (GENPRU).
- ii) Interim Prudential sourcebook for Investment Businesses (IPRU-INV).
- iii) Prudential sourcebook for Bank, Building Societies and Investment Firms (BIPRU)

Pillar 3 aims to promote market discipline and transparency through the publication of key information on capital adequacy, risk management and remuneration.

Basis and Frequency of Disclosures

Where disclosures have been withheld, as permitted, on the basis of confidentiality, materiality, or being proprietary in nature, this is indicated. Pillar 3 disclosures are published annually and concurrently with the annual report. The annual report is prepared under IFRS, and accordingly, certain information in the Pillar 3 disclosures may not be directly comparable.

This Pillar 3 document has been verified and approved in line with internal policy. It has not been audited by ACMUK's external auditors. However, it includes information that is contained within the audited financial statements as reported in the 2019 Annual Report.

Basis of Consolidation

ACMUK has no subsidiaries and is a joint venture operation of Credit Suisse Asset Management International Holdings Ltd ("CSAM") and Qatar Holding LLC (QH).

Remuneration

The remuneration disclosures required by BIPRU can be found in a separate document ('Pillar 3 – UK Remuneration Disclosures 2019') on the Credit Suisse website at: www.credit-suisse.com

Capital Management

Overview

ACMUK considers a strong and efficient capital position to be a priority. Consistent with this, ACMUK closely monitors its capital position on a continuing basis to ensure ongoing stability and support of its business activities. This monitoring takes account of the requirements of the current regulatory regime and any forthcoming changes to the capital framework. ACMUK continues to provide confirmation that it will ensure that it is able to meet its debt obligations and maintain a sound financial position over the foreseeable future.

Multi-year business forecasts and capital plans are prepared by ACMUK, taking into account the business strategy and the impact of known regulatory changes. These plans are subjected to various stress tests, reflecting both macroeconomic and specific risk scenarios, as part of the Internal Capital Adequacy Assessment Process ('ICAAP'). Within these stress tests, potential management actions, that are consistent with both the market conditions implied by the stress test and the stress test outcome, are identified. The results of these stress tests and associated management actions are updated regularly, as part of the ICAAP, with results reviewed by ACMUK's Reserved Matters Management Committee ("RMMC"). The ICAAP then forms the basis for any SREP ('Supervisory Review and Evaluation Process') review that the FCA conducts when assessing a firm's level of regulatory capital.

Own Funds

BIPRU Chapter 11 requires disclosure of the main features of any Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Tier 2 instruments that make up a firm's regulatory own funds ('capital resources'). However ACMUK has not issued any AT1 or Tier 2 capital instruments.

ACMUK holds solely Tier 1 Capital.

ACMUK's Pillar 1 capital requirement is calculated as the higher of:

- EUR125,000; and
- the 'Fixed Overhead Requirement'.

A summary of ACMUK's own funds is shown below.

Capital composition (£000s)		
As at 31 December	2019	2018
	Own funds	Own funds
Tier 1 capital		
Capital contribution reserve	13,000	12,600
Retained earnings	(11,956)	(11,130)
Total Tier 1 capital	1,044	1,470
Total capital	1,044	1,470

Key capital ratios for ACMUK are disclosed in the following table.

Capital ratios		
As at 31 December	2019	2018
Tier 1	13.2%	19.0%
Total Capital	13.2%	19.0%

Risk-weighted Asset and Capital Requirements

The Pillar 1 capital requirements of ACMUK are summarised below, along with risk-weighted asset ('RWA'). Credit risk capital requirements and RWA are further analysed by exposure class:

RWA and capital requirements (£000s)				
As at 31 December	2019		2018	
	RWA	Capital Requirement	RWA	Capital Requirement
Credit risk				
<i>Standardised Approach</i>				
Central governments or central banks	82	7	15	1
Institutions	657	53	726	58
Units or shares in collective investment undertakings	639	51	1,137	91
Other items	522	42	388	31
(i) Total credit risk	1,900	153	2,266	181
Market risk				
<i>FCA Standard Rules</i>				
Foreign exchange (Banking Book)	715	57	659	53
(ii) Total market risk	715	57	659	53
(iii) Total credit and market risk ((i) + (ii))	2,615	210	2,925	234
Other risks				
Fixed overhead requirement	7,908	633	7,717	617
(iv) Total other risks	7,908	633	7,717	617
Pillar 1 RWA and capital requirements (higher of (iii) or (iv))	7,908	633	7,717	617

Business Background

ACMUK provides investment management services for clients. ACMUK is regulated by the FCA and is authorised to carry out the following activities:

- i) Advising on investments (except on Pensions)
- ii) Agreeing to carry out a regulated activity
- iii) Arranging deals in investments
- iv) Arranging safeguarding and administration of assets
- v) Dealing in investments as agent
- vi) Making arrangements with a view to transactions in investments
- vii) Managing an unauthorised AIF
- viii) Managing investments

As at 31 December 2019, ACMUK had the following Funds under management (“the Funds”):

- AQS Emerging Markets Corporate Debt Total Return Fund ICAV
- AQS Emerging Markets Corporate Debt Total Return Feeder Fund I PLC

The objective of the ICAV is to realise long term capital appreciation and generate attractive risk-adjusted returns by making investments in Emerging Markets Corporate fixed income instruments. The focus is on investments in Emerging Markets Corporate debt instruments across Emerging Market countries, across a broad range of industries. The investment strategy is a total return-focused, value-oriented approach to investing which combines a disciplined, research-driven investment process with opportunistic credit selection and trading in a benchmark-unconstrained framework. In pursuing its investment strategy the ICAV seeks to take advantage of structural inefficiencies in the Emerging Markets credit asset classes which may be caused by benchmark-constrained and non-dedicated managers as well as regulatory constraints on banks’ balance sheet capacity and risk appetite.

The investment process is defined by rigorous fundamental, bottom-up corporate credit analysis, analysis of fundamental sovereign and industry risks, identification of deep value opportunities and valuation dislocations in the market, portfolio construction and ongoing performance review and risk management.

Risk Management

Overview

ACMUK's risk management framework is based on transparency, management accountability and independent oversight. Risk management plays an integral role in ACMUK's business planning process and is strongly supported by senior management and the Reserved Matters Management Committee ("RMMC"). The primary objectives of risk management are to protect ACMUK's financial strength and reputation. ACMUK has an in-house dedicated Risk Manager and a higher level risk oversight is provided by CS Risk Management

ACMUK has implemented risk management processes and control systems to limit the impact of adverse events by monitoring all relevant key risks including operational, investment, regulatory and key person.

The primary risks faced by ACMUK are business and operational risks. ACMUK may not trade on its own behalf nor take proprietary market risk positions. ACMUK is exposed to market risk to the extent that market valuations impact the value of Assets under Management ("AUM") and investment management fees receivable.

Credit risk only arises in respect of management fees receivable from third party clients.

Operational Risk

Operational Risk (OpRisk) is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. ACMUK's aim is the early identification, recording, assessment, monitoring, prevention and mitigation of operational risks, as well as timely and meaningful management reporting.

OpRisk Framework

ACMUK's OpRisk framework is a series of processes, procedures, reports and channels of responsibility which are used to monitor and manage the operational risks of the firm. These include governance committees, day-to-day management practices such as the collection and analysis of performance data and strategic and cultural practices.

Roles and responsibilities

ACMUK's OpRisk model works on three levels:

Level 1

=> Individuals' Responsibilities

- Ultimate risk ownership resides with the Managing Partner
- Each staff member should own, understand and take active role in management of their business risks
- Operational risks should be identified and addressed early

Level 2

=> Independent Checks

- An independent perspective from the Investment level helps to ensure operational risks are adequately owned, understood, assessed, monitored, mitigated and escalated if necessary in a timely manner
- This level is supported by other functions such as Operations, Financial Accounting, Compliance and Risk Management
- Additionally, ACMUK outsources Administration, Custody and Middle Office duties to a leading, experienced third party provider. ACMUK meets regularly with the third party providers' teams to ensure systems, controls and processes are appropriate and performing satisfactorily

Level 3

=> Internal and External Audit, Regulator

- Internal Audit performs intensive reviews and operates as an independent check on the effectiveness of internal controls
- External Auditors and the Regulator provide additional feedback on effectiveness of controls

OpRisk management is the responsibility of each team member. The management of OpRisk is performed at each level of the organisation and is a requirement of each individual staff member. In order to control OpRisks effectively, many different disciplines, policies and skills are required and most OpRisks are best controlled and managed where they arise in the business.

Within the OpRisk framework, ACMUK identifies and records OpRisk events on an internal register. The Firm considers OpRisk as part of its assessment of capital adequacy and related insurance cover which it will review at least annually.

ACMUK is subject to Risk and Control Self-Assessments ('RCSAs'), which are comprehensive, bottom-up assessments of key OpRisks. RCSAs utilise other components of the OpRisk framework, such as

risk and control indicators and loss data, and they evaluate the strength of mitigating controls to produce an assessment of the residual risks.

Internal Audit performs regular reviews & operates as an independent check on the effectiveness of internal controls, reporting directly to the Managing Partner, the RMMC and the Avenicum Group. External Auditors provide additional feedback on the control environment and the overall effectiveness of the OpRisk framework. ACMUK will review its OpRisk management practices regularly and strives to improve and enhance wherever necessary.

Credit Risk

Overview

ACMUK has adopted the Standardised Approach to risk weights for the purposes of calculating Pillar1 credit risk capital requirements. Under this approach, ratings published by External Credit Assessment Institutions ('ECAIs') are mapped to Credit Quality Steps ('CQS') according to mapping tables laid down by the European Banking Authority ('EBA'). The CQS value is then mapped to a risk weight percentage. The ECAIs used by ACMUK are Standard & Poor's, Moody's.

No credit risk mitigation ('CRM') techniques are applied, and no exposures are covered by funded or unfunded credit protection. Accordingly, ACMUK is not exposed to wrong-way risk.

Credit Exposures, RWA and Capital Requirements

The following tables represent analyses of exposures, RWA and capital requirements:

Credit exposures and RWA by exposure classes (£000s)

As at 31 December 2019

Credit exposures by regulatory approach:	Exposure at default		RWA		Capital requirement
	Average for year	Year-end exposure	Average for year	Year-end	Year-end
<i>Standardised Approach</i>					
Central governments and central banks	70	82	70	82	7
Institutions	1,388	1,313	694	657	53
Units or shares in collective investment undertakings	719	639	719	639	51
Other items	479	522	479	522	42
Total Standardised Approach	2,656	2,556	1,962	1,900	153

Credit exposures - analysed by geographical region (£000s)

As at 31 December 2019

Credit exposures by regulatory approach:	UK	Other Europe	Americas	Total
<i>Standardised Approach</i>				
Central governments and central banks	82	-	-	82
Institutions	-	1,313	-	1,313
Units or shares in collective investment undertakings	-	639	-	639
Other items	183	339	-	522
Total Standardised Approach	265	2,291	-	2,556

Credit exposures - analysed by industry (£000s)

As at 31 December 2019

Credit exposures by regulatory approach:	Financial	Commercial	Other	Public Authorities	Total
<i>Standardised Approach</i>					
Central governments and central banks	-	-	-	82	82
Institutions	1,313	-	-	-	1,313
Units or shares in collective investment undertakings	639	-	-	-	639
Other items	-	522	-	-	522
Total Standardised Approach	1,952	522	-	82	2,556

Credit exposures - analysed by residual maturity (£000s)

As at 31 December 2019				
Credit exposures by regulatory approach:	Up to 12 months	Between 1 and 5 years	Greater than 5 years	Total
<i>Standardised Approach</i>				
Central governments and central banks	82	-	-	82
Institutions	1,313	-	-	1,313
Units or shares in collective investment undertakings ("CIUs")	349	290	-	638
Other items	463	59	-	522
Total Standardised Approach	2,207	349	-	2,555

Impaired loans, charges and write-offs

ACMUK had no impaired loans, charges or write-offs during the year. CSAM's accounting policies relating to impairment are described in the ACMUK 2019 Annual Report.

Credit quality step analysis of post-CRM exposure and capital deductions under the Standardised Approach (£000s)

As at 31 December 2019									
Standardised Approach - credit exposures	Credit quality step						Uniform Regulatory Treatment	Total	Deduction from capital resources
	1	2	3	4	5	6			
Central governments and central banks	-	-	-	-	-	-	82	82	-
Institutions	-	1,313	-	-	-	-	-	1,313	-
Units or shares in collective investment undertakings	-	-	-	-	-	-	639	639	-
Other items	-	-	-	-	-	-	522	522	-
Total	-	1,313	-	-	-	-	1,243	2,556	-

No credit risk mitigation is applied, and accordingly the pre- and post-CRM exposure values are equal.