

# AVENUE EUROPE MANAGEMENT, LLP

## Pillar 3 Disclosure

### 1. Introduction

The Capital Requirements Directive of the European Union (the “**Directive**”) 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 risk;
- 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; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet the Pillar 3 obligations of Avenue Europe Management, LLP (the “**Firm**”). The Firm is permitted to omit required disclosures if it is determined that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information. In addition, the Firm may omit required disclosures where it is determined that the information is regarded as proprietary or confidential. Proprietary information is that which, if it were shared, would undermine the Firm’s competitive position. Information is considered to be confidential where there are obligations binding the Firm to confidentiality with customers, suppliers and counterparties.

The Firm has made no omissions on the grounds that information to be disclosed is immaterial, proprietary or confidential.

### 2. Scope and Application of the Requirements

The Firm, a limited liability partnership, is authorised and regulated by the FCA and is subject to regulatory capital requirements assessed in accordance with the Directive. The Firm is categorised as a limited license firm by the FCA for capital purposes. It is an investment management firm and, as such, has no trading book exposure. The Firm is not a member of a group that is subject to consolidated regulatory capital reporting for prudential purposes.

The Firm is the investment manager and sub-advisor to Avenue Europe International Management, L.P. (“**Avenue Europe International**”), a Delaware limited partnership that is registered as an investment adviser with the United States Securities and Exchange Commission. The Firm’s responsibilities are set out clearly and explicitly in its investment management and advisory agreements. The Firm carries no market risk other than foreign exchange risk on its foreign currency accounts, and, to the extent the Firm carries any credit risk, such risk is limited to fees receivable from Avenue Europe International and amounts held at authorised banks.

Avenue Germany Management, GmbH ("**Avenue Germany**") is a German domiciled company that provides sub-advisory services to the Firm. Avenue Italia Advisors S.r.l. ("**Avenue Italy**") is an Italian domiciled company that provides sub-advisory services to the Firm. Avenue Iberia Asesores, S.L. ("**Avenue Spain**") is a Spanish domiciled company that provides sub-advisory services to the Firm. Avenue Germany and Avenue Spain are 100% owned subsidiaries of Avenue England Limited, which, in turn, is a 100% owned subsidiary of the Firm. Avenue Italy is 100% owned by the Firm. As a result of this, Avenue Germany, Avenue Italy and Avenue Spain are consolidated into the Firm's financial regulatory returns. For purposes of this Pillar 3 disclosure, neither of Avenue Germany, Avenue Italy or Avenue Spain is considered a significant subsidiary. At 30 June 2017 Avenue Germany Management GmbH was placed in liquidation. This closure causes no additional risk to the Firm and all costs relating to the closure have been absorbed by the firm with no detriment to its financial position.

### 3. *Risk Management*

The Firm is governed by its Governing Board (hereinafter, the "Board" or "members") which determines the business strategy and risk appetite for the Firm. The members, who may delegate certain responsibilities to senior management of the Firm, are also responsible for establishing and maintaining the Firm's governance arrangements, along with designing and implementing a risk management framework that identifies the risks that the business faces.

The members determine how the risks the Firm faces are mitigated and assess the arrangements to manage those risks on an ongoing basis. The members meet on an as-needed basis, but, generally, no less than quarterly, and discuss the financial position of the Firm, business planning and risk management. The members manage the Firm's business and identify risks through a framework of policy and procedures taking account of relevant laws, standards, principles and rules, including FCA principles and rules, with the aim of operating a defined and transparent risk management framework. These policies and procedures are updated as required to ensure that the Firm operates with utmost integrity and professionalism with respect to its client, Avenue Europe International.

The Firm's Pillar 2 ICAAP report for 2017 has been prepared, reviewed and completed with assistance from competent advisors. This report was presented to, and formally accepted by, the members of the Firm. To ensure the viability and security of the Firm, continuous assessment of business risks is conducted by the members of the Firm and necessary risk control and risk mitigation processes are in place and monitored appropriately.

The members have identified that business, operational, market and credit risks are the main areas of risk to which the Firm is exposed. Where the members identify material risks, they consider the financial impact of these risks as part of business planning and capital management and determine whether the amount of regulatory capital is adequate.

#### *Credit Risk*

Credit risk is the risk that a party will default on a financial agreement. The Firm is exposed to credit risk as follows:

- Fees due from Avenue Europe International; and
- UK and US authorised banks in relation to deposits.

The risks are mitigated by:

- A close working relationship with Avenue Europe International;
- Periodic monitoring of the financial strength of the credit institutions with whom the Firm maintains a banking relationship;
- Contractual arrangements being in place in relation to the payment of fees; and
- Monitoring of payments against agreed payment arrangements and invoices issued.

### *Market Risk*

Market risk is the risk that arises from macroeconomic events, which may impact the Firm's income from Avenue Europe International's funds. The Firm's only market risk exposure relates to exchange rate movements on fees due by Avenue Europe International. The Firm has an exchange rate exposure between the date of recognition of fee income in its accounts and the receipt and conversion into sterling of those monies.

The risk is mitigated by keeping both the size of our debtor balance and the trends/market expectation for sterling to US dollar exchange rate movements under regular review and arranging for timely payments of fee invoices.

### *Business and Operational Risks*

Business risk is defined by the FCA as the risk of loss inherent in the business and the specific domains in which it operates. The Firm does not anticipate any increased business risk in the coming year.

Operational risk is defined by the FCA as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risk. The Firm has identified relevant risks and related mitigation and controls as part of its ICAAP.

The Firm has implemented policies and procedures and conducts ongoing operational and related compliance monitoring to assist in identifying any weaknesses and potential failures which are to be reported to the members and senior management.

### *4. Regulatory Capital*

As a limited liability partnership, the Firm's capital arrangements are established in its partnership deed.

The Firm's capital position as at the year end on 31 December 2018 is summarised as follows:

<b>Capital item</b>	<b>£'000</b>
Tier 1 capital	5,872
<b>Total capital resources, net of deductions</b>	<b>5,872</b>

The Firm has a simple operational infrastructure. As noted above, the Firm has limited market and credit risk exposure. The Firm has adopted the standardised approach to market risk and the standardised approach to credit risk. It is subject to the Fixed Overhead Requirement of £1,629,516

The most recent statutory account is as of 31-December-2018 showing total capital resources of £5,872,474.

The members of the Firm have agreed that the Pillar 2 ICAAP report will be updated immediately should the scope of the Firm's business change significantly, or if otherwise, updating will be on an annual basis hereafter.

## Remuneration Code staff

The Firm has identified its Remuneration Code staff as required by SYSC 19A.3.5 (1). Remuneration Code staff include all members of the following groups to the extent that they do not fall below the relevant de minimis limits established by the FCA:

- senior management;
- risk takers;
- staff engaged in control functions; and
- a residual category including all staff receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on the risk profile.

### *Aggregate remuneration of Remuneration Code staff*

In the case of the Firm, there is significant overlap between these groups; where an individual is part of the senior management of the Firm and also falls within one or more of the other groups set out above.

The Firm has a single business area, which is the provision of investment management services. Based on the size, nature and complexity of the Firm, the Firm falls within the FCA's third proportionality level. As such, the Firm is able to omit disclosures relating to the aggregate quantitative information on remuneration.

### *Remuneration policy and responsibility for determining remuneration policy*

The Firm has adopted a remuneration policy which:

- has been reviewed and approved by the governing board of the Firm (the "**Board**");
- is periodically reviewed and updated as necessary, but no less than annually, by senior management and members of the Firm;
- covers all of its Remuneration Code staff;
- requires for all staff, including but not limited to Remuneration Code staff, that the structure of remuneration within the Firm is consistent with and promotes effective risk management;
- establishes that performance-related pay of Remuneration Code staff is based upon a performance assessment process and requires that non-financial performance metrics should form a significant part of this process;
- prohibits the award, payment or provision of guaranteed bonuses to Remuneration Code staff unless it is in the first year of service and is exceptional;
- prohibits severance payments related to early termination of Remuneration Code staff from being used to reward failure; and
- is proportionate to its business and, specifically, takes into account the specific features of the activities of the Firm when adhering to Principle 8 of the Remuneration Code in relation to profit-based measurement and risk adjustment and Principle 12 in relation to remuneration structures in relation to multi-year frameworks.

Due to the size, nature and complexity of the Firm, we do not consider it necessary to form an independent Remuneration Committee.

Date of statement: 2018