Davidson Kempner European Partners, LLP – MIFIDPRU 8 Disclosure

Davidson Kempner European Partners, LLP ("DKEP" or "the Firm") is a UK investment firm undertaking activities within the scope of the United Kingdom ("UK") rules that implemented the European Union Markets in Financial Instruments Directive ("MIFID") and is subject to the prudential requirements of the Investment Firms Prudential Regime ("IFPR") contained in the Prudential sourcebook for MIFID Investment Firms ("MIFIDPRU"). DKEP is authorised and regulated by the FCA and its ultimate parent company, Davidson Kempner Capital Management LP ("DKCM") is a U.S. based SEC registered Investment Advisor. DKEP acts as sub-investment advisor to DKCM.

This document sets out the public disclosure under MIFIDPRU 8 for DKEP relating to the financial year ended 31 December 2022.

This statement has been ratified and approved by DKEP's Governance Committee.

1. Scope and application of the requirements

DKEP is required to publish disclosures in accordance with the provisions outlined in MIFIDPRU8 of the IFPR. Under the IFPR's firm categorisation, DKEP is categorised as a non-small, non-interconnected ("non-SNI") MIFIDPRU investment firm.

DKEP's annual audited accounts are available freely from UK Companies House.

2. Governance Arrangements, Risk management objective and policies

<u>Overview</u>

The Firm is governed by its governance committee ("Governance Committee"). During the year ended 31 December 2022, the Governance Committee was comprised of the 12 individual members of DKEP, all of whom held the SMF27 function. DKCM's Chief Compliance Officer and DKCM's General Counsel also attended meetings of the Governance Committee as representatives of the Firm's corporate member. Two individual members retired from DKEP as of 31 December 2022, and a further six individual members ceased to hold SMF27 status by reason of their transition from membership of DKEP to employment by DKEP, and thereby ceased to be members of the Governance Committee as of 31 December 2022. As of 1 January 2023, the Governance Committee is comprised of the Firm's three senior partners: Michael Herzog, Jogeesvaran (Chris) Krishanthan and Zachary Gozali and its Legal Counsel and SMF16/17, Tom Domanski.

The Governance Committee defines, oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management of the Firm, including the segregation of duties in the organisation and the prevention of conflicts of interest, and in a manner that promotes the integrity of the market and the interests of its clients.

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 senior staff 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.

Directorships

The table below sets out details of the directorships held by members of DKEP's Governance Committee falling within the scope of MIFIDPRU 8.3.1R(2) as of 31 December 2022:

SMF Function/Role	Name	Number of directorships
SMF27	DK European Ltd.	0
SMF16, SMF17, SMF27	Tom Domanski	66 (N.B. all directorships are held by virtue of, and in connection with, Mr Domanski's role with the Firm)
SMF27	Zachary Gozali	0
SMF27	Jogeesvaran (Chris) Krishanthan	0
SMF27	Michael Herzog	0
SMF27	Daniel Boehm	5 (N.B. all directorships are held by virtue of, and in connection with, Mr Boehm's role with the Firm)
SMF27	JB de Boissieu	0
SMF27	Romain Ferron	2 (N.B. all directorships are held by virtue of, and in connection with, Mr Ferron's role with the Firm)
SMF27	Risto Koivula	0
SMF27	Jeremy Lowe	1
SMF27	Vincent Ortiz	0
SMF27	Otasowie Osayimwese	1 (N.B. all directorships are held by virtue of, and in connection with, Mr Osayimwese's role with the Firm)
SMF27	Brian Ratner	0

Diversity policy

Davidson Kempner is dedicated to upholding an inclusive culture that values diversity, fosters belonging and promotes equality of access and opportunity. Employment decisions are made based on merit, qualifications, and competence and without regard to an applicant's race, colour, creed, religion, citizenship, national origin, ancestry, age, sex (including pregnancy), sexual and reproductive health decisions, gender identity, gender expression, familial status, caregiver status, marital status, sexual orientation, predisposing genetic characteristics, actual or perceived domestic violence victim status, military status, disability or any other characteristic protected by law. This policy governs all areas of employment including, but not limited to, hiring, promotion, transfer, assignment, compensation, benefits, disciplinary action and termination. Additionally, the Firm has a DE&I Council that was formed in August 2020. The DE&I Council's mission is to formulate and execute initiatives that support the values of diversity, equity and inclusion at Davidson Kempner. The Council aims to influence positive change, to help nurture and attract a diverse talent pool, and to cultivate a greater sense of inclusion and belonging for all our colleagues. The Firm considers that it has upheld its diversity objectives during the financial year ended 31 December 2022.

Risk committee

Pursuant to MIFIDPRU 7.1.4R, MIFIDPRU 7.3 does not apply to the Firm. Accordingly, the Firm is not required to establish a risk committee. The Firm therefore has not established such a committee.

Risk management objectives and policies

The Firm has governance and internal control arrangements in place to manage risks across the business. The Firm's risk management framework is central to the Firm's ICARA process. The risk management framework is split between (1) portfolio and trading risk and (2) enterprise risk and is summarised as follows.

Portfolio and trading risk

As DKEP acts primarily 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 able to monitor the status of each order and its P&L on a position-by-position basis via live system feeds.

Enterprise risk

DKEP's material risks are primarily addressed through its affiliation with DKCM and its reliance on DKCM's wide-ranging infrastructure and processes; any financial impact as a result of these risks are further mitigated by the relationship between DKCM and DKEP in that DKCM reimburses DKEP for any liabilities and costs payable or incurred by DKEP. In addition to the foregoing, DKEP addresses its material risks through the operation of various controls set out in its written policies and procedures.

Considering the relationship between DKEP and DKCM, the Governance Committee has identified the following material risk categories:

- Administrative, Operational and Technology;
- Regulatory; and
- Business and Market.

The Firm has in place arrangements in relation to all aspects of its business. These arrangements are grouped into:

- Organisation and Management – the Firm maintains a clear organisational structure which is organised to maximise independence of function and to reduce internal conflicts. Where conflicts exist, these are documented and recognised and mitigated where possible.

- People and Responsibilities – individuals have clearly defined roles and responsibilities, and openness and communication is actively encouraged in all areas, particularly in respect of any suspected breach of the Firm's legal, ethical and regulatory obligations. There is an annual review and appraisal process in place for all staff.

- Business Processes – business risk is managed through the appointment of skilled senior personnel together with a combination of formal and informal checks and balances combined with management oversight arrangements. The Firm maintains a close working relationship with its clients, prime brokers and administrators and certain other key advisers (in particular its auditors, tax advisors and lawyers).

The Governance Committee is committed to managing the Firm's risks. The Governance Committee has decided that the Firm's overall appetite for risk in business operations is low and it encourages all staff to identify, escalate and minimise risks as much as possible. The Firm has a conservative approach to tax and regulatory compliance risk and employs reputable external advisors that are specialised in those areas.

The Firm defines "risk appetite" as the level of risk that the Governance Committee considers is acceptable for a given risk or group of risks. The assessment of risk takes into account the perceived or actual effectiveness of existing mitigating controls. The Firm's risk appetite is defined by the Governance Committee.

3. Own Funds

The table below sets out the composition of DKEP's own Funds.

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**	**14,911**	
2	**TIER 1 CAPITAL**	**14,911**	**A**
3	**COMMON EQUITY TIER 1 CAPITAL**	**14,911**	
4	Fully paid up capital instruments	**14,911**	
5	Share premium	0	
6	Retained earnings	0	
7	Accumulated other comprehensive income	0	
8	Other reserves	0	
9	Adjustments to CET1 due to prudential filters	0	
10	Other funds	0	
11	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	0	
19	CET1: Other capital elements, deductions and adjustments	0	
20	**ADDITIONAL TIER 1 CAPITAL**		
21	Fully paid up, directly issued capital instruments	0	
22	Share premium	0	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	0	
24	Additional Tier 1: Other capital elements, deductions and adjustments	0	
25	**TIER 2 CAPITAL**		
26	Fully paid up, directly issued capital instruments	0	
27	Share premium	0	
28	(-) TOTAL DEDUCTIONS FROM TIER 2	0	
29	Tier 2: Other capital elements, deductions and adjustments	0	

The table below provides a reconciliation of regulatory own funds to balance sheet in the audited financial statements.

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements				
		a	**b**	**c**
		Balance sheet as in published/audited financial statements	**Under regulatory scope of consolidation**	**Cross-reference to Composition of regulatory own funds table**
		As at period end	**As at period end**	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Tangible fixed assets	3,760,620	3,760,620	
2	Debtors	92,929,156	92,929,156	
3	Cash at bank and in hand	10,124,191	10,124,191	
4	Cash equivalents	7,045,174	7,045,174	
5				
	Total Assets	113,859,141	113,859,141	
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
1	Creditors: amounts falling due within one year	37,206,125	37,206,125	
2	Creditors: amounts falling due after more than one year	11,022,415	11,022,415	
3				
4				
	Total Liabilities	48,228,540	48,228,540	
Members Interests				
1	Loan and other debts due to Members	50,719,522	50,719,522	
2	Loan and other debts due from Members	(236,144)	(236,144)	
3	Members’ other interests classified as equity	14,911,079	14,911,079	A
	Total Members' interests	65,394,457	65,394,457	

4. Own Funds Requirements

DKEP's own funds requirement is calculated as the higher of:

1. Permanent Minimum capital Requirement (PMR) of £75,000
2. Total K-factor requirement of £2,000,953
3. Fixed Overheads Requirement (FOR) of £6,720,677

The Firm's K-Factor requirement can be broken down as follows:

1. the sum of the K-AUM requirement, the K-CMH requirement and the K-ASA requirement - £1,998,451
2. the sum of the K-COH requirement and the K-DTF requirement - £2,502
3. the sum of the K-NPR requirement, the K-CMG requirement, the K-TCD requirement and the K-CON requirement - £0

As of the date of this statement, DKEP's Own Funds Requirement is therefore £6,720,677, being the highest of the three.

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 and ensure sufficient own funds and liquid assets are held to the Overall Financial Adequacy Requirement ("OFAR"). 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 is updated annually and is reviewed and ratified by DKEP's Governance Committee.

5. Remuneration Policy and Practices

Approach to remuneration of staff

The Firm is a MIFIDPRU investment firm and, as such, it is required to comply with Chapter 19G of the Senior management arrangements, Systems and Controls sourcebook ("SYSC 19G") of the Financial Conduct Authority ("FCA") handbook ("MIFIDPRU Remuneration Code").

DKEP has adopted a Remuneration Policy to ensure that it complies with the requirements of the MIFIDPRU Remuneration Code, in a manner that is appropriate to its size and internal organisation and to the nature, scope and complexity of its activities.

The Firm's remuneration approach is designed to support the business strategy, objectives and long-term interests of the Firm as a whole and the performance of its staff individually, while promoting sound and effective risk management. The Firm has also designed its remuneration structure to align with its broader corporate culture and values.

The Firm considers controls relating to variable remuneration to be a key component of sound and effective risk management and, accordingly, its remuneration policy and practices include provisions relating to the manner in which it awards such remuneration, which are described further below.

Objectives of financial incentives

The objectives of the financial incentives offered by the Firm are as follows:

- The Firm aims to reward exceptional performance through competitive remuneration practices;
- Financial incentives are determined based on a combination of individual performance (taking into account financial and non-financial criteria), departmental performance and Firm performance, as well as market levels for comparable roles; and
- The Firm is committed to ensuring that its remuneration practices promote the highest standards of personal and professional conduct, support sound risk management and do not encourage risk taking that exceeds the Firm's risk tolerances and are aligned with the Firm's regulatory obligations.

The Firm uses the following financial incentives:

- salary increases;
- discretionary profit allocations for members of DKEP (with discretionary profit allocations for certain members in respect of performance in a specific year being deferred for up to three years);
- discretionary bonuses (with bonus amounts over a certain threshold being deferred for up to three years); and
- incentive schemes with a formulaic component based on a fixed percentage of the incentive allocation earned by DKCM and its affiliates from certain of the funds managed/advised by the Firm and DKCM, which are paid out over a number of years.

Our financial incentives are designed to:

- attract and retain talent;
- recognise individual, departmental and Firm performance;
- ensure employee satisfaction and motivation; and
- promote an alignment of interests between employees and the Firm.

Remuneration governance

DKEP's Governance Committee is responsible for the Firm's remuneration policy, which includes periodically reviewing, and overseeing the implementation of, such policy.

The Firm conducts an annual, central and independent internal review of the implementation of the Policy for compliance with the policies and procedures adopted by the Governance Committee. The Firm documents the results of its reviews and the actions taken to remedy any findings, as relevant.

Material risk takers

As a non-SNI MIFIDPRU investment firm, the Firm is required to identify its material risk takers ("MRTs"). MRTs are those categories of staff whose professional activities have a material impact on the (i) risk profile of the Firm or (ii) of the assets the Firm manages.

The firm identifies its MRTs in accordance with SYSC 19G.5, using the criteria set out in SYSC 19G.5.3R. A list of the Firm's MRTs is held by the Firm's Legal and Compliance Officer. The Firm reviews its list of MRTs at least annually, and updates that list as necessary throughout the year, including when MRTs join or leave the Firm, as required by the MIFIDPRU Remuneration Code. All MRTs are notified of their status.

During the financial year ended 31 December 2022, the Firm identified 12 MRTs.

Components of remuneration

The Firm ensures its remuneration policy makes a clear distinction between the criteria for setting fixed and variable remuneration.

Staff remuneration is made up principally of a fixed component (salary for employees and fixed drawings/profit allocations for members) and a variable component (bonuses for employees and discretionary profit allocations for members) plus benefits.

Fixed remuneration is set at an appropriate level which is sufficient to ensure that staff are not reliant on variable pay and therefore are not incentivised to take excessive risk. Fixed remuneration is predetermined, non-discretionary, non-revocable and not dependent on performance and therefore fixed pay does not incentivise risk taking.

Variable remuneration is linked to the performance of the Firm, the business units concerned, and the performance of staff. Variable remuneration is discretionary (even if paid consistently over a period of years). It promotes a culture where staff are rewarded for long-term and sustained business performance, whilst demonstrating sound and effective risk management and avoiding excessive risk taking.

Financial and non-financial performance criteria

Fixed remuneration

Fixed remuneration is set using pre-determined criteria and reflects a staff member's professional experience and organisational responsibility at the Firm.

Variable remuneration

All employees are eligible to be considered for an annual discretionary bonus and all members of the Firm may be eligible for an annual discretionary profit allocation.

The Firm may enter into compensation arrangements with one or more employees or members in which all, or a portion, of such employee's or member's discretionary bonus may be based upon a previously agreed percentage of the profit generated from the accounts managed by such employee/member.

For non-investment staff, discretionary bonuses (in the case of employees) or discretionary profit allocations (in the case of members), will be paid out of bonus pools (in the case of employees) or discretionary profit allocation pools (in the case of members). Bonus pools/discretionary profit allocation pools are established annually at the beginning of each calendar year for incumbent non-investment staff (i.e. staff who earned bonuses or discretionary profit allocations from the prior performance year). The bonus pool/discretionary profit allocation pool is updated quarterly based on the performance of the private investment funds and accounts managed by the Firm and DKCM. For new non-investment staff taken on during the course of the year, bonuses/discretionary profit allocations are estimated based on level, experience, internal and market comparables and the Firm budgets accordingly.

The Firm does not maintain a defined bonus pool/discretionary profit allocation pool for investment staff. Bonuses and discretionary profit allocations for investment staff are driven by a number of factors including the percentage of trading profits attributable to such investment staff. All investment positions have investment professionals assigned. Where several investment professionals have responsibility for a single investment position, bonuses/profits are allocated to those several investment professionals based on, among other things, contribution and amount of responsibility for the coverage of the investment position and contribution and proximity to the name and its coverage.

The performance measures used to set the bonus pools/discretionary profit allocation pools are at the discretion of the Firm, and take into account current and future risks and the cost of capital and liquidity. Bonuses/discretionary profit allocations are broadly correlated to the performance of the private investment funds managed by the Firm's client. The Firm looks to the bonus pool/discretionary profit allocation pool from the previous year and the Firm's profitability for the current performance year (driven largely by the performance, net of fees, of the private investment funds managed by the Firm's client).

Individual bonuses/discretionary profit allocations are determined using a combination of the Firm's performance, team/group performance, individual contributions (financial and nonfinancial in nature), and market levels for comparable roles (as determined in consultation with recruiting agencies and comparable industry peer firms).

Non-investment professionals are assessed as to their contributions over the course of the year and their completion of the various goals and projects cited at the beginning of the year. Investment professionals are assessed as to their contribution to the investment process, the quality of their investment recommendations, adherence to risk parameters, trading acumen and avoidance of losses. In addition, a certain percentage of trading profits are earned by the investment professional(s) assigned responsibility for specific investment position(s). There are no similar specific financial metrics with respect to bonuses for non- investment staff.

All employees and members are also assessed as to their adherence to the Firm's culture which prioritizes ethical conduct, adherence to legal and statutory guidelines, teamwork and collegiality, quality and accuracy, sound judgment and respect for individuals, investors, and external parties. Such assessment forms a significant part of the Firm's performance assessment process.

Risk adjustment

Measurements of performance used to calculate variable remuneration components and pools of profit allocation include adjustments for all types of current and future risks (taking into account the cost of the capital and liquidity required) and take into account the need for consistency with the timing and likelihood of the Firm receiving potential future revenues incorporated into current earnings. The allocation of variable remuneration takes into account all types of current and future risks, including non-financial risks.

The Firm acknowledges the importance of risk adjustment in measuring performance and the underlying importance of applying judgment and common sense and the risk management and compliance function is involved in validating and assessing risk-adjustment techniques with the Governance Committee. The Firm takes into account the specific nature of its own activities (and, in particular, the realised nature of its revenues), in conducting any risk adjustment to bonuses/discretionary profit allocations.

An employee or member's eligibility to receive a bonus/discretionary profit allocation will be governed by the applicable terms set out in such employee or member's employment contract, LLP agreement or deed of adherence, as applicable, as well as the terms of any relevant incentive or bonus plan. In addition to any applicable terms in the aforementioned documents, an employee or member will not be eligible where such employee or member is subject to any formal disciplinary action and/or any formal disciplinary warning under or in accordance with the Firm's disciplinary process at the time of payment.

The Firm currently delivers all variable remuneration, including deferred remuneration, in cash.

The Firm is required to ensure that all variable remuneration of its MRTs is subject to in-year adjustments, malus and/or clawback arrangements. Variable remuneration refers to pay that is based on performance or, in exceptional cases, other conditions and includes annual discretionary and guaranteed bonuses and awards under long-term cash and equity incentive plans.

The Firm applies malus and clawback provisions to MRT variable remuneration in the following circumstances:

a. where the MRT participated in or was responsible for conduct which resulted in significant losses to the Firm or relevant business unit;

b. where the MRT failed to meet appropriate standards of fitness and propriety; and/or

c. where the MRT participated in or was responsible for conduct which resulted in a material failure of risk management at the level of the Firm or relevant business unit.

Malus will apply from the date of grant of an award of variable remuneration to the point of vesting which for a cash award will be the date of payment.

Clawback will apply to MRT variable remuneration in the following circumstances:

a. where the MRT participated in or was responsible for conduct which resulted in significant losses to the firm;

b. where the MRT failed to meet appropriate standards of fitness and propriety; and/or

c. in cases of fraud or other conduct with intent or severe negligence by the MRT which lead to significant losses to the Firm.

The Firm applies a three year clawback period from the date of payment any cash award. Specific malus and clawback terms are set out in the individual variable remuneration award documents with MRTs and are subject to compliance with applicable laws.

Policies and criteria for the award of guaranteed variable remuneration

The Firm will not generally award, pay or provide guaranteed remuneration to an MRT unless: (i) it occurs in the context of hiring a new MRT, (ii) it is limited to the first year of service; and (iii) the Firm has a strong capital base.

In cases of senior level hires, whose role and inputs are anticipated to be extraordinary, one-year guarantees may be offered by the Firm to such employees/members. These guarantees are intended to compensate individuals in respect of anticipated bonuses, accrued at their previous firm, which are being forfeited due to the individual's departure.

Any guaranteed remuneration awarded to any MRT is subject to the Firm's policy on malus and clawback, and is only awarded where it is appropriate, taking all relevant circumstances into account.

Policies and criteria for the award of severance pay

Severance pay (other than for contractually mandated notice periods) will only be made at the Firm's absolute discretion. Any payments related to early termination of an MRT employment contract will reflect performance achieved over time and will be designed in a way which does not reward failure or misconduct.

Payments under agreements to settle any potential claims against the Firm arising on the termination of an individual's employment or engagement will be calculated separately, and where appropriate upon taking independent legal advice, based on the potential value of the claim, costs of defending such a claim, and the commercial rationale for settling it. Any such payment will be recorded as being in settlement of the potential claim(s) rather than simply a payment on early termination. HR would prepare the necessary calculations with the assistance of legal advice where appropriate.

MRT termination payments are subject to the approval of the corporate member of the Firm.

Quantitative remuneration disclosures

Table 1: Total amount of remuneration awarded to senior management, identified material risk takers and other staff.

Remuneration	Fixed (in thousands)	Variable remuneration (in thousands)	Total remuneration (in thousands)
Senior Management	4,579	36,021	40,600
Other Material Risk Takers	0	0	0

Other staff	13,236	27,439	40,675
Total	**17,815**	**63,460**	**81,275**

Table 2: Total amount of guaranteed variable remuneration awards made to senior management and other material risk takers.

	Total amount of guaranteed variable remuneration awarded	Number of individuals
Senior Management	0	0
Other Material Risk Takers	0	0

Table 3: Total amount of severance payments awards made to senior management and other material risk takers.

	Total amount of severance payments awarded	Number of individuals
Senior Management	0	0
Other Material Risk Takers	0	0

Table 4: Highest severance payment awarded to an individual senior manager or other material risk taker.

Highest severance payment awarded to an individual Material Risk Taker	N/A