Cheyne Capital Management (UK) LLP
CAPITAL REQUIREMENTS DIRECTIVE
PILLAR 3 DISCLOSURES
March 2018

Overview

Cheyne Capital Management (UK) LLP ("CCM(UK)LLP" or the "Firm") is authorised and regulated by the Financial Conduct Authority ("FCA") and is subject to the European Union 2006 Capital Requirements Directive ("CRD"). The Firm was registered as an Alternative Investment Fund Manager ("AIFM") under the Alternative Investment Fund Manager Directive ("AIFMD") effective 22 July 2014.

The CRD requirements have three pillars. Pillar 1 deals with minimum capital requirements; Pillar 2 deals with Internal Capital Adequacy Assessment Process ("ICAAP") undertaken by a firm and the Supervisory Review and Evaluation Process through which the firm and regulator satisfy themselves on the adequacy of capital held by the Firm in relation to the risks it faces and; Pillar 3 which deals with public disclosure of risk management policies, capital resources and capital requirements. The regulatory aim of the disclosure is to improve market discipline.

The disclosure requirements of the CRD (Pillar 3) aim to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2) and aim to encourage market discipline by allowing market participants to assess key pieces of information on risk exposures and risk assessment processes of the firm.

The FCA regulations for the disclosures required under Pillar 3 are contained in the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"). These rules allow the business to exclude disclosures where the information is regarded as immaterial or proprietary/confidential.

Disclosures have been made in this document in compliance with BIPRU 11 unless that disclosure has been regarded as immaterial or proprietary/confidential.

The Firm is an Investment Management Firm. It acts solely as agent, so the main protection to our customers is provided through client money and client asset safeguarding arrangements. The Firm's greatest risks have been identified as business and operational risk. The Firm is required to disclose its risk management objectives and policies for each separate category of risk which include the strategies and processes to manage those risks; the structure and organisation of the relevant risk management function or other appropriate arrangement; the scope and nature of risk reporting and measurement systems; and the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

The Firm has assessed business and operational risks in its ICAAP and set out appropriate actions to manage them.

A number of key operations are outsourced by our clients to third party providers such as administrators reducing our exposure to operational risk. The Firm has an Operational Risk Committee, which oversees the operational risk framework (described below) in place to mitigate operational risk.

The Firm's main exposure to credit risk is the risk that management and performance fees cannot be collected. As the Firm's clients are predominantly institutional clients, the Firm's credit risk is considered to be low. The Firm holds all cash and performance fee balances with banks assigned high credit ratings.

Market Risk exposure has been assessed by the Firm and comprises interest rate risk, currency risk and other price risk depending on the particular strategy (i.e. jump-to-default risk for credit portfolios, break risk for event driven strategies, credit spread widening for convertible portfolios, prepayment risk for ABS portfolios, etc.).

Frequency of Disclosure

The disclosures have been prepared based on the position as at 31st March 2018 and will be updated annually at each accounting date.

Location

This Pillar 3 Disclosure document is available as part of the Financial Statements.

Verification

The disclosures have not been subject to an audit except to the extent that they are equivalent to disclosures under accounting requirements.

Scope of Application

The Firm is not a member of a UK consolidation group and is not required to prepare consolidated reporting for prudential purposes.

Governance Framework

The Designated Members of CCM(UK)LLP (the "Governing Body") aim to meet at least quarterly, and are composed of:

- Cheyne Capital Management Ltd (the Corporate Member)
- Stuart Fiertz
- Gary Ibbott
- Jonathan Lourie

The Governing Body of the Firm is responsible for the entire process of risk management, as well as forming its own opinion on the effectiveness of the process. In addition, the Governing Body decides the Firm's risk appetite or tolerance for risk and ensures that the Firm has implemented an effective, ongoing process to identify risks, to measure its potential impact and then to ensure that such risks are actively managed.

The Executive Committee comprises the executive board of the Corporate Member from time to time and any subsequent appointees. The Executive Committee is currently comprised of:

- Stuart Fiertz
- Xavier Himmer
- Gary Ibbott
- Jonathan Lourie
- Sandra Wittmann

The Executive Committee of the Firm has daily management and oversight responsibility as well as responsibility for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Firm.

Statement of Risk Appetite

CCM(UK)LLP's appetite for risk is low.

Overview

CCM(UK)LLP is a limited licence business under the Capital Requirements Directive. CCM(UK)LLP was originally established as a limited company which commenced business in June 2000 under a non-recourse business model with no proprietary trading activities. CCM(UK)LLP is an independent asset manager with no broker dealer subsidiaries or affiliates. CCM(UK)LLP is part of a group that has grown organically, rather than through acquisition, into an investment management firm that manages or advises a diverse range of investment products. CCM(UK)LLP does not deal with retail investors. The fund clients which CCM(UK)LLP manages are administered by third party administrators who are regulated in the EU for this activity and the assets are, where possible, custodied with recognised Prime Brokers , or otherwise with third parties, such as Custodians or Depositaries. Non-fund clients have similar independent arrangements with such third parties.

Operational Risk

Operational risk has been described by the Basel Committee on Banking Supervision as "the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events". Operational Risk represents the greatest potential risk of loss. In order to mitigate this risk CCM(UK)LLP employs qualified, experienced staff and ensures segregation of functions between front office and middle office, finance, risk, compliance and legal. CCM(UK)LLP has well defined and documented procedures and controls which have been subject to third party review and validation. CCM(UK)LLP believes that the Fixed Overhead Requirement is a good proxy of the capital required in order to achieve an orderly wind down of the business.

Business Risk

Business Risk covers any risk arising from changes in the business where the income may fall or is volatile, relative to a fixed cost base. A business risk is a revenue surprise. CCM(UK)LLP manages a wide number of funds/products with either permanent capital, locked in capital or predefined redemption terms. As such it is not as exposed to the risk of mass redemptions leading to loss of revenues.

Credit Risk

As a Limited Licence BIPRU Investment Firm, CCM(UK)LLP neither holds client money nor assets nor lends money, and is, therefore, not exposed to Credit Risk in its traditional sense. The Firm's exposure to Credit Risk is the risk that investment management fees cannot be collected and the exposure to banks where cash is held. The Firm only holds cash with banks which have high credit ratings.

Market Risk

As a Limited Licence BIPRU Investment Firm, CCM(UK)LLP does not take principal risk. The only potential exposures are Non Trading Book Exposures, i.e. to foreign exchange losses on assets or liabilities in foreign currencies. CCM(UK)LLP calculates amounts available to be paid to Portfolio Managers based on the actual conversion rates achieved and may hedge forward the amounts required to cover future costs to minimise this risk.

Liquidity Risk

The Firm is subject to the FCA's Liquidity Rules. The Firm has in place Liquidity Systems and Controls which include the management of Liquidity Risk via scenario and stress testing of the Firm's Cash Flow Forecast and the establishment of management actions and contingency funding plans.

Risk Framework

Risk within the Firm is managed by use of the following:

- An independent Risk Management Team (the "RMT") which oversees risk, valuation and pricing within the Firm. This encompasses investment risks, market risk, credit risk, liquidity risk and leverage across all different strategies and portfolios, stress testing of the underlying risk factors, review of the aggregated exposures, and limit monitoring of exposures and P&L limits.

- Risk management policies, processes and procedures which are compliant with AIFMD;

- The Firm has a conservative approach to risk;

- The Firm has identified its risks and recorded them in a 'Risk Register';

- The Executive Committee and the Firm's Risk and Compliance Officers review and consider changes to the scoring of the 'Risk Register' on a quarterly basis;

- The Firm has undertaken Scenario Analysis and Stress Tests based on a drop in the market value of assets under management or a reduction in the level of assets under management. This informs the Firm how risks are likely to behave and what, if any, impact there is likely to be to our balance sheet;

- The Firm has in place an internal control framework to govern its processes and procedures and to mitigate any risks;

- Liquidity Risk is monitored based on the liquidity profile of the underlying funds and the liquidity of the investments. The potential mismatch of the liquidity provided to investors against the liquidity of the underlying investments is monitored and quantified by calculating the time to liquidation for each fund;

- Leverage is monitored at the gross assets and net assets level versus the net asset value of the underlying funds.

Where practicable, Investment Risks are monitored and managed via the use of third party software solutions and proprietary models on an intra-day and end-of-day basis. Stress analysis is performed at the fund and company level to determine the potential downside under stressed market conditions.

Capital Resources

CCM(UK)LLP is a regulated entity with a non EEA parent. CCM(UK)LLP is covered by the Internal Capital Adequacy Assessment Process ("ICAAP") and its activities give it the BIPRU categorisation of a "limited licence" collective portfolio management investment firm.

CCM(UK)LLP has adopted the "structured approach" to the calculation of its Pillar 2 capital requirement as outlined in the Committee of European Banking Supervisors Paper, 27 March 2006 and takes the higher of Pillar 1 or Pillar 2 as the ICAAP capital requirement.

The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under (GENPRU 2 Annex 4). Tier 1 Capital comprises of LLP Members' Capital.

Tier 1 Capital	£8,000,000
Deductions	-£558,413
Tier 2 Capital	£2,000,000
Deductions	£0
Capital Resources	£9,441,587
Tier 3 Capital	£0
Deductions	£0
Total Capital	**£9,441,587**

For its Pillar 1 regulatory capital calculation of Credit Risk, under the credit risk capital component the Firm has adopted the Standardised approach (BIPRU 3.4) and the Simplified method of calculating risk weights (BIPRU 3.5).

Credit Risk calculation

Credit Risk Capital Requirement	**Rule**	**Risk weighted exposure amount**
Credit risk capital component	BIPRU 3.2	£1,193,794
Counterparty risk capital component	BIPRU 13 & 14	£0
Concentration risk capital component	BIPRU 10	£0
Total		**£1,193,794**

	Rule	**Exposure**	**Risk Weight**	**Risk weighted exposure amount**
National Government Bodies	BIPRU 3.4.2	£221,417	0%	£0
Banks etc long-term	BIPRU 3.4.36	£0	50%	£0
Banks etc short-term	BIPRU 3.4.39	£25,978,672	20%	£5,195,734
Exposure to Corporates/Debtors	BIPRU 3.4.52	£7,316,220	100%	£7,316,220
Past due items	BIPRU 3.4.96	£0	150%	£0
Collective Investment Undertakings	BIPRU 3.4.114	£188,476	100%	£188,476
Fixed assets	BIPRU 3.4.127	£165,848	100%	£165,848
Accrued Investment management fees	BIPRU 3.4.128	£2,056,134	100%	£2,056,134
Total		**£35,926,778**		**£14,922,429**
Credit Risk Capital Component	8% of risk weighted exposure			**£1,193,794**

Market Risk

The Firm has Non Trading Book potential exposure only (BIPRU 7.4 & 7.5).

Market Risk calculation

	Rule	Position	Risk Weight	PRR
Interest rate positional risk requirement	BIPRU 7.2	£0	8%	£0
Equity positional risk requirement	BIPRU 7.3	£0	8%	£0
Commodity positional risk requirement	BIPRU 7.4	£0	8%	£0
Foreign currency positional risk requirement	BIPRU 7.5	£1,175,931	8%	£94,075
Option positional risk requirement	BIPRU 7.6	£0	8%	£0
Collective investment undertaking positional risk requirement	BIPRU 7.7	£0	32%	£0
Total		**£5,134,263**		**£410,741**