

ARDIAN Investment UK Ltd Pillar 3 Disclosure

This disclosure is made by ARDIAN Investment UK Ltd. (the “Firm”) which acts as an investment manager and advisor to private equity funds. This document meets the Firm’s obligation under Chapter 11 of the BIPRU Sourcebook in the Financial Conduct Authority (“FCA”) Handbook of Rules and Guidance.

The Firm’s regulator has implemented rules in its Handbook under which authorised investment managers must determine the amount of capital for internal prudential and proper corporate governance and senior management responsibility purposes that must be retained to adequately meet future business activities and mitigate against challenges to the prudential soundness of those firms.

The FCA has created a three Pillar framework in order to address these risk-linked regulatory capital requirements.

Pillar 1 sets the minimum capital that must be maintained by an authorised entity to meet credit, market and operational risk.

Pillar 2 requires a firm to assess firm-specific risks and maintain additional capital as needed to ensure adequate capital will be available in the event that a risk materialises. Pillar 2 sees the creation of an Internal Capital Adequacy Assessment Process (“ICAAP”) which links risk to capital for internal capital management purposes.

Pillar 3 goes a step further from Pillar 2 and instructs authorised firms to present information about its risk assessment, risk management processes and outcomes and the resulting capital position in a public disclosure document.

The rules require the disclosure of material information, however recognise that certain information must be excluded from the public disclosure document due to it being proprietary or confidential and as such its disclosure may impact the value of a firm’s investments, undermine its competitive position, or breach a contractual or other requirement of confidentiality.

Information is considered:

- (i) “Material” - if its omission or misstatement could change or influence the assessment or decision of a user relying on that information.
- (ii) “Confidential” - if there is obligation binding a firm to confidentiality.
- (iii) “Proprietary” - if sharing that information would undermine a competitive position.

The Firm's Board of Directors possess the appropriate expertise and experience to control the Firm's activities. The Firm's Board in coordination with its Parent and affiliates sets the Firm's strategy and risk appetite. The composition of the Board adds to the level of understanding of how the Firm fits into its client relationships with Funds. The Board is composed of the following members:

Dominique Senequier President ARDIAN	CF 1 - Director	Supervisory Director
Vincent Gombault Member of ARDIAN Exec Committee	CF 1 - Director	Supervisory Director
Dominique Gaillard Member of ARDIAN Exec Committee	CF 1 – Director	Supervisory Director
Benoit Verbrugge	CF 1 – Director	Executive Director
Olivier Decanniere	CF 1 - Director	Executive Director
Michael Ferragamo	CF 1 - Director	Executive Director
Andrew Liau	CF 1 - Director	Executive Director

Risks and mitigating factors are identified through analysis of the Firm's operations and consultation with directors and the investment team. The compliance officer documents each risk and scores it as to probability and impact. The probability and impact are set based on the past occurrence of a risk, the Firm's business activities, and mitigating factors. These aspects of risk management, review and reporting are subject to review by the Board. Due to the direct involvement and oversight by the Firm's four Day to Day Management Directors, the Firm's activities are constantly monitored and any possible risk to the Firm is reviewed and resolved as quickly as possible. The full Board is informed of any possible substantial risk and is actively involved in remedying these situations or matters.

FCA Risk Categorisation	ARDIAN UK Risk Definition	How Assessed For CRD Purposes
i) Credit risk	Credit risk	No outstanding large exposures.
ii) Market risk	Market risk	There is little correlation between distress in public asset markets and the long-term committed management fees expected by ARDIAN UK. The Board considers long-term risks associated with lower investor appetite for private equity but this does not have an implication for CRD purposes. ARDIAN UK has some currency risk because the majority of its fees are denominated in US dollars and its expenses are almost all in UK sterling. These exposures are understood and monitored by the management of ARDIAN UK in conjunction with the parent company. The Board does not consider that this poses a significant risk requiring special treatment for CRD purposes.
iii) Operational risk	Operational risk	Minimal Risk – Most back office functions are performed by our Parent or by contracted third-party specialist Administrators.
iv) Liquidity risk	Investment Risk	Minimal risk – fees are fixed by contract and most are paid quarterly in advance.
v) Insurance risk	N/A	N/A
vi) Concentration risk	Strategic Risk	ARDIAN UK is well diversified across its managed funds. Fees are received from diverse products ranging from Secondary Fund of Funds to Infrastructure products.
vii) Residual risk	N/A	The Company maintains enough capital for an orderly wind-down, see Section 6
viii) Securitisation risk	N/A	N/A – the business does not securitise assets
ix) Business risk	Strategic Risk	Loss of clients might impact future earning potential but would not change current revenue projections because fees are set by contract.
x) Interest rate risk	N/A	Ardian UK has no debt, following settlement of the Intragroup loan in 2016, so no significant interest rate risk.
xi) Reputational risk	N/A	Reputational risk is mostly tied to the performance of the globally sponsored funds, the Firm's treatment of clients and their information, and actions taken by ARDIAN as a whole (i.e. something leading to bad press, fraudulent acts, etc). Any risk to the Firm's reputation is spread across the Firm globally. ARDIAN UK has no risks associated with retail investors.
xii) Pension obligation risk	N/A	N/A
xiii) Any other risks identified (for example this may take the form of your standard risk)	Cyber risk	The danger of cyber-attack is a constant presence in the discussions at UK Board level and is also the subject of regular reporting from the Ardian IT Security team - particularly in light of the recent Wannacry attacks

The Firm's Pillar 1 capital requirement is the greater of:

- Base capital of €125,000
- The sum of the market risk requirement and credit risk requirement; or
- The Fixed Overhead Requirement.

Within the parameters outlined as an AIFM firm, a secondary 'minimum capital requirement' test is also considered, being;

- The Fixed Overhead Requirement (FOR); plus
- AIFMD Insurance requirement (0.01% of NAV)

The Firm's Fixed Overhead Requirement is the greater of these possible base levels and therefore the market risk and credit risk are considered adequately met.

The Firm holds capital significantly in excess of its Pillar 1 requirement at December 31, 2016 and foresees no impediments to continuing to hold capital in excess of the Fixed Overhead Requirement in the future.

The Firm's Pillar 2 Capital reserve represents its assessment of its Operational Risk. This position was reached following detailed analysis undertaken which revealed that where there are other forms of risk faced by the Firm, those risks are largely either minor (so as to have no appreciable effect on the Firm), or are simply irrelevant given the nature and relative simplicity of the business activities of the firm. Where the risk was considered to be more pertinent; additional Capital resources have been allocated to further support the ability of the business to any likely resultant impact.

Stress Tests were considered and, where necessary, conducted to determine the impact of market movements on the financial viability of the Firm.

The Company has considered several Stress Test Scenarios:

- The weakening of functional currencies versus the reporting currency;

and additionally for operational risk impact;

1. 40% Drop in Global Equity Markets;
2. Loss of support from our largest single investor in the future;
3. The holding of a \$ Financial Asset, and the associated risk exposure this could bring;
4. Brexit, and the associated economic and political volatility this could generate; and
5. Cyber risk

The Firm concluded, based on analysis of these specific matters that it would be appropriate to hold additional Pillar 2 reserves of £200k.

The Firm has designated certain individuals as firm risk takers. The aggregate remuneration for these individuals is £4,573k.

The summary of accounts reflects the Firm's 31 December 2016 audited financials.

Tier 1 Capital - 2016	<u>£000</u>
Share Capital	1,050
Audited Reserves	49,209
Deductions from CET 1	<u>(2,640)</u>
Current available regulatory capital	47,619