

Build an understanding of the totality of credit risk in the target SME business through a granular approach focussing on:

- Management,
- operations,
- customers/suppliers,
- peers,
- industry,
- event risks,
- other business risks,
- financial performance and forecasts,
- leverage,
- exit strategy
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Identify strengths and weaknesses

1. The SME Direct Lending team assess likely impact of external factors such as legislation, M&A, LBOs
2. Set current macro themes : all relevant macro economic indicators
3. Perform peer group analysis and develop/build on sector view
4. Identify potential positive and negative investment considerations

As of the date of this document, the Chenavari Multi-Strategy Credit Fund has 8 segregated trading subsidiaries pursuing the following strategies:

- ⇒ **Corporate Credit Spread Neutral Strategy.** This strategy is a long short corporate credit strategy, with the particularity to be quite neutral to overall credit spreads sensitivity of the portfolio.
- ⇒ **Corporate Credit Directional Strategy.** This strategy is a long short corporate credit strategy, which can have a strong directional bias in terms of credit spread sensitivities of the overall portfolio
- ⇒ **Direct Lending Strategy,** Pursuing SME & Real Estate lending opportunities that can generate attractive risk rewards for investors through a balanced portfolio. The opportunity in European leveraged finance for SMEs has emerged following the financial dislocation and the banks retrenchment from regulatory capital intensive activities.
- ⇒ **Credit Multi-Strategy 2,** Pursuing opportunities across credit markets, these multi-strategy share classes, with a one year lock-up, allow Chenavari Investment Managers to dynamically grasp opportunities within the different areas of the credit markets, depending on opportunity set.
- ⇒ **Specialty Finance Strategy,** Pursuing opportunistic investments in the credit markets, in a range of credit instruments including (but not limited to) primary and secondary deals of asset-backed securities, credit-linked notes and by providing financing to companies involved in specialty finance and asset-backed financing of loan portfolios.
- ⇒ **European Mezzanine ABS Strategy,** This strategy is to generate attractive risk adjusted returns by capitalising on opportunities in Asset Backed Securities in Europe.
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- ⇒ **European Real Estate Debt Strategy.** This strategy is to generate attractive risk adjusted returns by capitalising on opportunities in real estate debt investments in Europe.
- ⇒ **Structured Finance Regulatory Capital Strategy.** This strategy is a predominantly long strategy on primary and secondary asset-backed securities, where the investment rationale is to benefit from the current regulatory capital situation affecting banks and financial institutions.
- ⇒ **Dynamic Credit Cycle Strategy.** This strategy is to pursue a short-biased credit portfolio strategy seeking to benefit from a turn in the credit cycle. Its aim is to short risk and long risk positions.

Risk Framework

Chenavari has a strict risk framework policy. The Risk Management team monitors portfolio limits on a daily basis. Should a limit be breached, portfolio managers have to address them promptly.

As indicated above, both the Chief Risk Officer and the Managing Partner have the authority to bring the portfolio to the pre-specified risk limits at any time. The risk framework covers the following aspects:

Corporate credit strategies:

Main limits of this strategy include the following:

The main risk measures can be categorized as follows: (1) capital consumption, (2) liquidity, (3) leverage, (4) global: spread sensitivity and stress, (5) sectorial ("concentration"): spread sensitivity and stress, (6) idiosyncratic ("concentration"): single name spread sensitivity and Jump-To-Default, (7) correlation, (8) implied volatility, (9) recovery, (10) counterparty exposure, (11) IR and FX limits.

Capital consumption/collateral management:

Capital consumption of all positions should be less than 75% of the NAV. This is to guarantee we hold enough free cash to satisfy collateral calls even under adverse conditions. Note that our calculation of capital consumption embeds liquidity: illiquid positions consume more than liquid ones; hence the Capital Consumption limit acts simultaneously as a liquidity limit.

Liquidity constraints:

Liquidity is measured using 2 main indicators: bid offer trading spreads and an independent liquidity rating provided by Markit, call "Markit depth". We apply a list of constraints to the risk that we can take on less liquid credits.

Leverage:

1. Leverage Long (i.e. sum of gross notional exposure of long risk positions) should be less than 3 times NAV
2. Leverage Short (i.e. sum of the premiums paid on short risk positions) should be less than 70% of NAV