Blackstone / GSO Debt Funds Management Europe Limited

Pillar 3 disclosures – June 2019

Background

The 2013 Capital Requirements Directive IV (the "Directive") of the European Union created a revised regulatory capital framework across Europe based on the provisions of the Basel III Capital Accord. The framework consists of three "pillars":

- Pillar 1 sets out the minimum capital requirements that we are required to meet;
- Pillar 2 requires us, and the Central Bank of Ireland ("CBI"), to take a view on whether additional capital should be held against risks not adequately covered by Pillar 1; and
- Pillar 3 requires us to publish information on our risk management objectives and policies, capital resources and capital requirements.

The rules provide that we may omit one or more of the required disclosures if we believe that the information is immaterial, proprietary or confidential.

Materiality is based on the criteria that the omission or misstatement of material information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions. Proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers and counterparties.

Scope

The disclosures in this document are made in respect of Blackstone / GSO Debt Funds Management Europe Limited (the "Firm" or "DFME"), its 100% subsidiary Blackstone / GSO Debt Funds Management Europe II Limited ("DFME II") and its EU parent financial holding company Blackstone / GSO Debt Funds Europe (Luxembourg) S.à r.l ("LuxCo" and, together with DFME and DFME II, the "LuxCo Group") which are ultimately owned by The Blackstone Group L.P. ("Blackstone"). The LuxCo Group calculates DFME's regulatory capital requirement and reports on a solo and a consolidated basis.

The Firm is authorised under the Markets in Financial Instruments Directive 2014/65/EU ("MiFID"). It is not authorised to trade on its own account or hold client assets or client financial instruments. DFME's principal activities are the management of Collateralised Loan Obligation vehicles ("CLOs").

DFME II is an approved Alternative Investment Fund Manager under the European Union (Alternative Investment Fund Managers) Regulations 2013 (the "AIFM Regulations"). DFME II provides investment management functions including portfolio management, risk management, administration, marketing and related activities to its alternative investment funds in accordance with the AIFM Regulations and the conditions imposed by the CBI as set out in the CBI's alternative investment fund rulebook. DFME II does not carry out fund administration itself but delegates this function to external service providers regulated by the CBI or another recognised regulatory authority.

LuxCo is an unregulated entity and is not subject to supervision by its local regulator. However, as part of the LuxCo Group, it is subject to limited supervision by the CBI.

There are no known current or foreseen practical or legal impediments to the prompt transfer of capital resources or repayments of liabilities between affiliate and subsidiary undertakings and there are no subsidiary undertakings where actual capital resources are less than the required minimum.

Risk Management

The Firm maintains a risk management framework that facilitates discussion and decision making in respect of risk matters at the appropriate level within the LuxCo Group and Blackstone. The Firm's risk management policies and processes are designed to manage the risks within its business and are comprehensive and proportionate to the nature and scale of the Firm's activities. The Firm has a risk management framework that enables effective and efficient escalation of risk issues.

The board of directors of the Firm (the "Board") is ultimately responsible for the Firm's risk management framework and is supported by business management functions for day-to-day and periodic monitoring and maintenance of risk management controls with the Firm. In addition, the Firm established the Enterprise Risk Management Committee ("ERMC") which oversees the management of all risks of the LuxCo Group and reports to the Board. The ERMC provides a forum for senior management to review and discuss the LuxCo Group's risk profile.

The key risk exposures of the LuxCo Group are set out below:

Operational Risk

Operational risk is the risk to earnings and capital resulting from inadequate or failed internal processes, people, systems or from external events. . It is multifaceted and impacts various functional areas including IT, legal and compliance, finance, trading, disaster recovery, HR management and outsourcing. The Firm's policy is to operate a robust and effective risk management process, embedded within the governance and management structures of its business. The ERMC is responsible for overseeing material risks, relevant controls and risk mitigation procedures.

Credit Risk

Credit risk is the current and prospective risk to earnings and capital arising from a counterparty's failure to meet the terms of any contract with the Firm, or otherwise fail to perform as agreed. The LuxCo Group and Firm's credit risk principally arise from the following:

- Debt Investments – the Firm retains 5% "net economic interest" in certain CLOs where the Firm acts as retention holder.
- Cash deposits - the LuxCo Group holds its cash deposit with reputable global banks.
- Debtors - the LuxCo Group's third party debtors are mainly fees due from CLOs and funds. The risk of non-payment from these counterparties is minimal as there is a close working relationship between the investment management teams and the administrators/trustees of these funds that are responsible to ensure that all receivables are settled in a timely manner.

Market Risk

LuxCo Group's market risk principally arises from exposure to foreign exchange fluctuations of assets and liabilities that are denominated in currencies other than the LuxCo's functional currency, the Euro. LuxCo Group's receivables from the CLOs and funds are in Euro and consequently LuxCo Group faces limited foreign exchange risk.

Capital Resources

The capital resources of LuxCo Group and DFME as at 31 December 2018 were respectively €47.2 million and €94.9 million, comprising Core Tier 1 capital.

Minimum Capital Requirement

The LuxCo Group is subject to consolidated supervision and is expected to hold minimum capital of the higher of (a) the CBI's base capital requirement (b) the Pillar 1 amount, (c) the Pillar 2 amount or (d) the expected amount required for an orderly wind-down on a consolidated group basis.

a) The CBI's base capital requirement for both DFME and DFME II is €125,000 each. For DFME II there are additional requirements which largely vary in accordance with its assets under management ("**AUM**").
b) LuxCo Group calculates its Pillar 1 minimum capital requirements as the higher of the Fixed Overhead Requirements and the sum of its Credit Risk and Market Risk capital requirements. The Pillar 1 capital calculation is based on pre-determined risk weights applied to LuxCo Group's exposure to credit and market risk.
c) The Pillar 2 calculation is based on the Board's own view about LuxCo Group's financial exposure to credit, market and operational risks and the probability of such risks materialising.
d) The orderly wind-down is an analysis of the financial impact of a complete wind-down of LuxCo Group over a 12 month period.

As at 31 December 2018, LuxCo Group's minimum regulatory capital requirement was €11.4 million. The minimum regulatory capital requirement has been calculated by reference to the Pillar 2 amount identified in the Firm's Internal Capital Adequacy Assessment Process ("ICAAP"), being the higher of the Pillar 1, Pillar 2 or the wind down scenario. The Pillar 2 amount is set out in the ICAAP and is based on a bottom-up approach of LuxCo Group's risk assessment.

Following the ICAAP process, the Board of DFME determined that no additional capital was required by the LuxCo Group beyond the Pillar 2 amount of €11.4 million over the forecast period and allocated this entirely to DFME, resulting in the same minimum capital requirement for both DFME on a solo basis and the LuxCo Group on a consolidated basis.

Board of Directors

The Board of DFME monitors the on-going compliance of LuxCo Group and the Firm with their respective minimum capital requirements and ensures that both LuxCo Group and the Firm maintain adequate capital to cover their material risks at all times.

In considering new appointments to the Board, the Firm acknowledges the importance and benefits of diversity (including, without limitation, by reference to the experience, background, race, culture, age and gender of any prospective candidates) in the boardroom. It is the policy of the Firm that all appointments to the Board are based on merit against objective criteria and with due regard to the benefits of diversity. Other relevant matters will also be taken into account, such as the ability to fulfil time commitments in the case of non-executive directors.

Compliance with Pillar 2 Rule Requirements

The overall approach to assessing the adequacy of the LuxCo Group's internal capital is set out in its ICAAP.

The ICAAP process involves separate consideration of risks to the Firm's capital combined with stress testing using scenario analysis. The Firm assesses the impact by modelling the changes in its income and expenses caused by various potential risks and adverse scenarios over a 3-year time horizon.

LuxCo Group's risk assessment, through its 2019 ICAAP process, has concluded that both LuxCo Group and the Firm have adequate regulatory capital resources and are both forecast to have adequate regulatory capital resources over the planning horizon.

Remuneration

The Firm is authorised and regulated by the CBI as a MiFID firm and is subject to rules on remuneration outlined in the Directive. The Directive covers an individual's total remuneration, both fixed and variable. The Firm offers both a fixed base salary to its employees and variable remuneration, which is dependent on individual and business performance, taking appropriate consideration of financial and non-financial criteria. Our policy is designed to ensure that we comply with the Directive and our compensation arrangements:

- are consistent with and promote effective risk management;
- do not encourage inappropriate and/or excessive risk taking;
- include measures to avoid conflicts of interest; and
- are in line with the Firm's business strategy, objects, values and long-term interests.

The Directive requires firms to apply the principle of proportionality when establishing and applying total remuneration policies, having regard to their size, internal organisation, nature, scope, and complexity of their activities. The proportionality principle contained in the Directive and the guidelines of the European Banking Authority aim to match the remuneration policies and practices with the individual risk profile, risk appetite and the strategy of each institution. Specifically, firms that do not deal on their own account and do not underwrite new issues, are entitled to avail of exemptions (referred to as "neutralisations" in the Directive itself). DFME falls into this category of firms and is therefore currently disapplying the rules on deferral, non-cash instruments, retention periods and performance adjustment.

Blackstone's compensation process ("BXCP") is managed through several bodies to provide robust and effective consideration of remuneration matters. The BXCP provides oversight over the design and operation of Blackstone's remuneration process and reviews and approves the Firm's remuneration policy (the "Remuneration Policy") after taking advice from the Board. The Board is responsible for providing oversight of the implementation of the Remuneration Policy and processes, which includes reviewing the Remuneration Policy at least annually. The Remuneration Policy reflects inputs from the relevant control functions including the European Head of HR and the Compliance and Finance functions. Senior management of DFME are responsible for the day-to-day implementation of the Remuneration Policy and monitoring compliance related risks. The Dublin-based executive directors of DFME review total remuneration of DFME's employees on an annual basis.

The Firm recognises the need to motivate, attract and retain highly skilled employees through a policy that delivers sustainable and superior business performance. Remuneration is made up of fixed and variable elements. Fixed remuneration is made up of base salary and standard benefits based on the individual's role and primarily reflects relevant professional experience and organisational responsibility, as set out in the relevant employee's job description as part of the terms of employment. Certain individuals receive a role based allowance based on their role and responsibilities. Variable remuneration is discretionary and dependent on both the Firm and the individual's performance against a number of financial and non-financial metrics, in each case taking appropriate consideration of regulatory guidance, the business function of the relevant employee and the potential impact of an employee's actions on the risk profile of the Firm. Performance is assessed over a full year. Variable remuneration is paid in cash and, in certain cases, in common equity units of Blackstone and could be subject to deferral. Senior management and members of staff whose actions have a material impact on the risk profile of the Firm ("Identified Staff") are subject to the cap on variable pay of 200% of fixed pay. This cap was increased from 100% by DFME's parent, LuxCo on 28 June 2017.

Compensation payable is based on an assessment of a sustainable and risk adjusted performance of the business. Appropriate consideration is given to all regulatory guidance, including the rules on guaranteed bonuses and termination payments and the impact employee actions may have on the risk profile of the Firm.

The independence of the control functions is safeguarded by ensuring that the remuneration of relevant individuals who carry out control functions is not linked directly to the performance of the business area they control, is in accordance with objectives linked to their functions and is determined by the relevant global heads of such control functions who make recommendations to the BXCP, independent of the individual business group heads.

The Identified Staff group is reviewed on an ongoing basis. The application of remuneration policies and variable remuneration in respect of Identified Staff as defined in and in accordance with the Directive and applicable local regulations.

As at 31 December 2018, the total number of Identified Staff was six, of which two individuals were remunerated €1 million or more in the year ended 31 December 2018.

For the year ended 31 December 2018, total remuneration payable to senior management and Identified Staff was approximately €2.96 million, comprising of fixed and variable components.

Having regard to the Firm’s size, internal organisation and the nature, scope and complexity of its activities DFME has determined that it will not make any additional quantitative disclosures in this document. In all cases, the information is available to the CBI on request.