

**AEW UK Investment Management LLP**

**Pillar III Disclosures**

**as at 31 December 2020**

## **AEW UK Investment Management LLP (AEW UK) Pillar III Disclosure and Policy**

### **BACKGROUND**

AEW UK is Authorised and Regulated by the FCA. As a consequence of the permissions it has under its regulatory licence AEW UK is categorised as a Collective Portfolio Management Investment firm (CPMI) and subject to IPRUINV and BIPRU requirements. This means it has a €125k base requirement, and is subject to the IPRINV and BIPRU requirements. A BIPRU firm must maintain at all times capital resources equal to or in excess of the amount calculated in accordance with the variable capital requirements for a BIPRU firm and those of an IPRUINV firm.

### **SUMMARY**

The Capital Requirements Directive (CRD) requirements have three pillars:

- Pillar 1 deals with the minimum capital requirements.
- Pillar 2 is the Internal Capital Adequacy Assessment Process (ICAAP) which assesses what capital is required by the firm to meet the risks the firm faces.
- Pillar 3 deals with public disclosure of risk management policies, capital resources and capital requirements in order to improve market discipline.

AEW UK has identified its principal risks as reputational and operational.

AEW UK is required to disclose its risk management objectives and policies for each separate category of risk which include the strategies and processes to mitigate those risks. AEW UK has assessed operational and reputational risk in its ICAAP and set out appropriate actions to manage them.

AEW UK will make Pillar 3 disclosures on an annual basis.

### **CONFIRMATION**

The information contained within this document has not been audited by AEW UK's external auditors and does not constitute any form financial statement and must not be relied upon in making a judgement on AEW UK.

### **CONFIDENTIALITY**

AEW UK regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems, which if shared with competitors, would render AEW UK's investment therein less valuable. Further, AEW UK must regard information as confidential if there are obligations to customers or other counterparty relationships binding AEW UK. In the event that any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

### **RISK MANAGEMENT FRAMEWORK**

The framework within AEW UK to manage risks is overseen by the Management Committee with reporting to the Board. At fund level, it is overseen by the Portfolio Management Review Committee. The Head of Operations and Risk Management oversees the risk management and the Compliance Officer oversees compliance and regulatory risk. These arrangements are deemed proportionate to the firm's business.

Material risks are assessed directly in the ICAAP. The Head of Operations and Risk Management has the day-to-day responsibility for ensuring that operational risk events that are escalated with the business are considered. Where necessary the Head of

Operations and Risk Management will escalate them to senior management recommending proportionate action and reflection in the ICAAP where appropriate. The Head of Operations and Risk Management reports on risks directly to the Management Committee on a quarterly basis. All meetings are minuted and have a set Agenda, including Financial Reporting; Compliance; Internal Audit and Operational Risk. Meetings are attended by members of the Management Committee. In addition, the Management Committee reports to the Board of AEW UK. Compliance and risk meetings are held with the Natixis Investment Managers SA ("NIM") Group Compliance and Risk functions in a six-monthly Group Compliance, Risk and Internal Control meeting ("CRIC") according to a standardised agenda.

The firm's yearly budget is produced in September each year. Management accounts, financial statements and budget vs. actual variance analysis reports are presented to the firm's Management Committee each month. Regulatory filings are undertaken by AEW UK.

### **GOVERNANCE FRAMEWORK**

On at least an annual basis the Board, meet to review the assessment and consider whether the level of risk that the firm is running (i.e. the firm's risk appetite) is acceptable.

### **RISK APPETITE**

The Management Committee of AEW UK is responsible for determining the level of risk that is acceptable in the activities undertaken by the firm (i.e. the firm's risk appetite). Risks are mitigated through the application of limits and controls and a monitoring process at operational level.

On a day-to-day basis it is the responsibility of the Head of Operations and Risk Management to oversee the risk management framework and determine the firm's appetite. Each senior manager has been allocated responsibility for risk; and monitoring is undertaken by the Compliance Officer to support the control environment. Any operational risk incidents are reported to AEW Group and NIM via OSIRisk, a dedicated risk management tool.

AEW UK strategy is used to define its Core Risk Appetite Statements. Its strategy is to become the partner of choice for institutions seeking exposure to the UK real estate sector.

AEW UK has set certain parameters on its risk appetite that include:

- No debts greater than 120 days old.
- Bad debts to be kept < 0.1% of net revenue
- Banks/Instruments must be with counterparties approved BY AEW Executive Committee and in line with group requirements
- Cash flow survival period in days at least 120 days
- Liquid current assets to be at least 120% of its current liabilities
- Minimum Capital Adequacy Ratio ("CAR") of 110% of Capital Requirement.

### **CATEGORISATION OF RISKS**

AEW UK recognises it is principally exposed to operational and reputational risk.

#### **Operational Risk**

Major sources of operational risk include operational process, IT security, dependence on key suppliers, fraud, human error, regulatory compliance, recruitment, training, retention of staff, and social and environmental impact. The company has strict

operational procedures in place. AEW UK has adopted NIM's operational risk policies and procedures. The firm has documented its operational risk policy in its risk policy and the compliance and risk management is monitored and reported to the Board.

### **Reputational Risk**

This is one of the key risks to any Investment Manager, and can be triggered by events both internally and externally. This is the risk of direct or indirect loss arising from damage to the AEW UK's reputation. Reputational risks exist as the potential outcome of risks occurring within other risk categories, i.e. operational risk, and do not exist in isolation. The identification and mitigation of reputational risks is therefore managed through processes for managing operational risks.

### **Credit Risk**

In the light of its client base this risk is considered to be low. Given that the debtors relate to four funds and three separate account mandates there is considered to be no actual risk attributable to the funds due. Its bank maintains a good rating with ratings agencies and it is not considered that any material credit risk exists. However, AEW UK recognises that it needs to monitor developments on these issues.

### **Liquidity risk**

AEW UK has two main fee types and revenue from these fee types is reliable and is not subject to considerable variations. The costs of running the company are not complex and comprise mainly of payroll and property expenses. The forecast of these costs is generally accurate. Monthly management accounts are produced to the Head of Operations and Risk Management which provides actual positions. A Capital planning exercise ("Multi-Year plan") is undertaken annually.

## **CAPITAL RESOURCES AND REQUIREMENTS**

The Pillar 1 capital requirement is defined as the higher of the following:

- Base Capital Requirement (€125,000); OR
- Fixed Overhead Requirement; OR
- The sum of Market and Credit Risk Requirements; OR
- The AUM requirement plus the PII requirement

AEW UK's Pillar 1 requirement as at 31<sup>st</sup> December 2020, based on the Fixed Overhead Requirement, was **£1,604K**

AEW UK's Pillar II capital requirement is calculated by the Firm in accordance with its ICAAP. This includes an assessment of the adequacy of capital resources to support current and future activities and to cover the key risks faced by the business, including relevant stress scenarios. The ICAAP is reviewed and approved at least annually by AEW UK's Board.

Based on its ICAAP assessment, the Board of the business consider that an appropriate level of capital to support current and future business requirements, when consideration of stress events and various key risk scenarios are taken into account, is **£1,604K**.

The total capital resources of the as at 31 December 2020 are summarised as follows:

£000	As at 31 Dec 2020
Tier 1 capital*	2,960
Tier 2 capital	
Tier 3 capital	

Deductions from Tiers 1 and 2	(10)
Total capital resources	2,950
*No hybrid tier one capital is held	

### **REMUNERATION POLICY**

The Board of AEW UK determines the Remuneration Policy. The Board sets and agrees the Remuneration Policy of AEW UK; reviews take place on an annual basis. It has determined that there are 10 employees that are identified as Code Staff.

Any performance related remuneration is subject to the profits of AEW UK and is agreed by the Board. The Board may consider, amongst other things, the short and long term financial position of AEW UK, along with other appropriate risk assessments, before reaching a decision. In line with the proportionality guidance aggregate remuneration has been provided below for Code Staff:

Total remuneration for Code staff in 2020 was:

<b>Employee information</b>	
	<b>2020</b>
	<b>£'000</b>
Fixed Compensation	1,423
Variable Compensation	400
<b>Total</b>	<b>1,823</b>