

AEW Global Advisors (Europe) Limited

Pillar III Disclosures

as at 31 December 2017

## **BACKGROUND**

AEW Global Advisors (Europe) Limited (“AEW GAE”) is a limited company registered in England under number 05406927. The sole shareholder of AEW GAE is AEW Capital Management, L.P., a US based limited partnership (“AEW CM”). AEW CM (and therefore AEW GAE) is owned by Natixis Global Asset Management, L.P. (“Natixis US”). Natixis US is part of Natixis Investment Managers SA, an international asset management group based in Paris, France, that is in turn owned by Natixis, a French investment banking and financial services firm. Natixis is principally owned by BPCE, France’s second largest banking group. BPCE is owned by banks comprising two autonomous and complementary retail banking networks consisting of the Caisse d’Epargne regional savings banks and the Banque Populaire regional cooperative banks. AEW GAE has FCA (formerly FSA) permission as a discretionary investment firm since 14 October 2005. It is categorised as a BIPRU €50k / Limited Licence firm, and is subject to the GENPRU 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. AEW GAE does not hold but is permitted to control client money. It does not hold Passports to provide cross-border services or activities in a number of EU states. The FCA rules provide that AEW GAE report on its financial affairs on a non-consolidated basis.

## **FCA REGULATORY CAPITAL FRAMEWORK**

The FCA’s regulatory capital framework consists of 3 pillars:

- Pillar 1 – defines the minimum level of capital that AEW GAE is required to maintain.
- Pillar 2 – requires AEW GAE to assess whether additional capital is required above the minimum requirement
- Pillar 3- requires AEW GAE to publish information regarding its management arrangements, risk exposure and capital position. This document is created in order to fulfil disclosure requirements under Pillar 3.

## **RISK MANAGEMENT**

AEW GAE is controlled by its Board of Directors. Its day to day management is carried by its Chief Executive Officer who has FCA CF3 approval for that purpose. There is a formal risk management process whereby risks are identified and considered by management. AEW CM’s Risk Management Committee, on which members of the Board of AEW GAE and members of the management of AEW CM sit, reviews risk related to AEW GAE’s business on at least a quarterly basis. Additionally, AEW GAE is included in an annual compliance assessment and an annual operational risk assessment conducted by AEW CM and reported to the Board of AEW GAE. The Internal Capital Adequacy Assessment Process (“ICAAP”) is part of the process of risk management at AEW GAE. The AEW GAE business model is not complex and therefore business planning and capital management is straight forward. Each risk has been identified in the course of the day to day management of the business, during the quarterly Risk Management meetings or as part of the annual compliance or risk assessments.

## **RISK APPETITE**

AEW GAE’s strategy is used to define its Risk Appetite. Its strategy statements are:

1. Be recognized as an established research-driven global real estate manager offering a variety of listed real estate strategies.
2. Seeking to offer solid relative performance in both up and down markets with relatively low volatility.
3. Attract and retain institutional clients. The firm’s current client roster, through AEW CM includes some of the world’s leading private and public retirement programs, foundations,

endowments and private corporations. AEW GAE also has one direct external Netherlands foundation client.

AEW GAE 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 with at least an A rating per the Fitch Long Term Credit Rating or at least an Aa3 on the Moody's long term rating and approved by Board of Directors.
- 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. Escalation to CEO occurs where CAR falls below 140%.

## RISKS

Assessments were made in relation to the main risks to which firms face as follows.

- **Credit risk**  
AEW GAE has a sub-advisory agreement with AEW CM as described above together with one external institutional client in the Netherlands. Given that AEW GAE's principal debtor is AEW CM together with one other institutional client, there is considered to be no actual risk attributable to the funds due. In the light of AEW CM's client base, any risk in this area is considered to be low. Additionally, AEW GAE's bank maintains a good rating with ratings agencies and it is not considered that any material credit risk exists. However AEW GAE recognises that it needs to monitor developments on these issues.
- **Liquidity risk**  
AEW GAE has a sub-advisory agreement with AEW CM as described above. The revenue from AEW CM 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 are generally accurate. Monthly management accounts are produced to the CEO and AEW CM which provide actual positions. A Capital planning exercise ("Multi-Year plan") has been undertaken.
- **Market risk**  
AEW GAE revenue is based on Assets Under Management and is therefore subject to investment performance but fluctuation in value of investments is not material in the context of AEW GAE's revenue.
- **Operational risk**  
AEW GAE undertakes a review of its Operational Risks on at least an annual basis. A review of these found no requirement for additional capital arising from operational risk. As described in the Operational Risk Assessment Overview report, the top five risks ranked by average potential annual loss are the following: Failure in the management of key person backup/replacement, Noncompliance or inefficiency of the internal policies and procedures regarding Code of Ethics, Failure in the process of opening / modifying / closing an account or portfolio (operational or administrative processing), Failure in the process of developing / disseminating sales literature or prospectus, and Failure to comply with the contractual and regulatory constraints of portfolios. However, the mitigating factors deem all of these identified risks as immaterial to AEW GAE and AEW CM.

## **CAPITAL RESOURCES**

AEW GAE's capital resources consist of Tier 1 Capital, being Share Capital of £200k and Profit and Loss Reserves of £1,622k as at 31 December 2017.

## **ADEQUACY OF CAPITAL RESOURCES**

The adequacy of AEW GAE's capital resources is formally assessed in line with the ICAAP. During that process, AEW GAE considered its risks and the capital requirement the risks may give rise to. In addition, it compares the regulatory capital resources that are available to ensure that AEW GAE is sufficiently capitalised. The ICAAP is approved by the CEO and the Board of Directors. AEW GAE considers that the variable capital requirement under GENPRU 2.1.45, applicable to Limited Licence firms, is sufficient to cover its risks. The capital is calculated by taking the higher of a) 25% of the fixed overhead requirements and b) the aggregate of the credit risk requirement and the market risk requirement. As a result its capital requirements on the basis of figures as at 31 December 2017 is £487k and AEW GAE's capital resources significantly exceed capital requirements as at that date.