

AEW Europe LLP
Pillar III Disclosures
as at 31 December 2019

BACKGROUND

AEW Europe LLP (“AEWE”) is a limited liability partnership registered in England under number OC342015. The members of the limited liability partnership, AEW Global Limited and AEW Global UK Limited, are both subsidiaries of AEW SA which is the holding company of the AEW Europe group of companies. The AEW Europe group of companies is itself part of a larger group formed by Natixis Investment Managers and controlled by Natixis SA and, ultimately, BPCE SA. Natixis SA and BPCE SA are both credit institutions incorporated in France.

AEWE is authorized by the FCA under registration number 518455. AEWE has had FCA permission as a discretionary investment firm since 2 July 2010. Previously the business had been carried on by AEW Europe (a partnership).

AEW is categorised as a Collective Portfolio Management Investment Firm (“CPMI firm”) and is subject to the IPRU-INV, GENPRU and BIPRU requirements. As such it must at all times meet the higher of its BIPRU requirement, its IPRU-INV requirement and its base capital requirement of €125k.

AEWE does not hold but can control client money or assets. AEWE is authorised to manage Alternative Investment Funds and has Passports to provide cross- border services or activities in a number of EU and EEA states.

The FCA rules provide that AEWE 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 AEWE is required to maintain.
- Pillar 2 – requires AEWE to assess whether additional capital is required above the minimum requirement
- Pillar 3- requires AEWE 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.

CONFIRMATION

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

RISK MANAGEMENT FRAMEWORK

AEWE is run on behalf of its members who have appointed a Management Committee. Its day to day management is carried by its Managing Director who has FCA SMF1 approval for that purpose. In addition, the compliance and risk processes are reviewed semi-annually at a Compliance and Risk Committee on which AEWE management and members of the management of Natixis Investment Managers sit.

There is a formal risk management process whereby risks are identified and considered by management. The Internal Capital Adequacy Assessment Process (“ICAAP”) is part of the process of risk management at AEWE, along with a quantitative operational risk assessment.

The AEWE 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.

GOVERNANCE FRAMEWORK

On at least an annual basis the Management Committee meets 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

AEWE strategy is used to define its Core Risk Appetite Statements. Its strategy statements are:

1. To make AEWE the most respected Global Real Estate Investment Manager.
2. To be a place where people want to work.
3. To build strong relationships based on trust performance and transparency.
4. To create long term value for stakeholders.

AEWE 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 Group 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.

RISKS

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

Credit Risk

In the light of its client base this risk is considered to be low. In addition, AEWE has money invested in the Money Markets, its bank exposures and debtors. Given that the debtors relate to two funds and five separate account mandate there is considered 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 AEWE recognises that it needs to monitor developments on these issues.

Liquidity risk

AEWE has three 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 are generally accurate. Monthly management accounts are produced to the CEO which provides actual positions. A capital planning exercise (“Multi-Year plan”) has been undertaken.

Market risk

AEWE does not have a trading book and as such it has no direct exposure to market risk. However, it will in future receive one stream of revenue that will be partly dependent on fund performance and as such it can be exposed to market risk. The projected amount of performance related remuneration is however not material in the context of AEWE's revenues.

Operational risk

The Quantitative Operational Risk Assessment conducted in 2019 assessed and quantified the risks in the business in relation to Operational and Compliance risks. These were then plotted on a chart mapping average unitary impact against net annual frequency. A review of these found a requirement for an additional £78,000 capital arising from operational risk.

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 AEWE'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.

CAPITAL RESOURCES AND REQUIREMENTS

As a CPMI firm, AEW is subject to a Pillar 1 Minimum Capital Requirement based on the higher of:

- Base Capital Requirement (€125k); or
- the sum of its Credit Risk Capital Requirement plus Market Risk Capital Requirement; or
- the firm's Fixed Overheads Requirement; or
- Its IPRU-INV requirement (the higher of its Funds under Management Requirement and its Fixed Overhead Requirement plus a professional liability risks requirement).

AEWE's Pillar 1 requirement as at 31st December 2019, is based on IPRU-INV requirement, which was **£2,645K**

AEWE'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 AEWE's Management Committee.

Based on its ICAAP assessment, the Management Committee 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 **£2,723K**.

The total capital resources of the as at 31 December 2019 are summarised as follows:

£000	As at 31 Dec 2019
Tier 1 capital*	6,536
Tier 2 capital	
Tier 3 capital	
Deductions from Tiers 1 and 2	(1,961)
Total capital resources	4,575
*No hybrid tier one capital is held	

REMUNERATION POLICY

The Management Committee of AEWE determines the Remuneration Policy, subject to the requirements of the Alternative Investment Fund Managers Directive. The Management Committee sets and agrees the Remuneration Policy of AEWE; reviews take place on an annual basis. It has determined that there are 9 employees that are identified as Code Staff.

Any performance related remuneration is subject to the profits of AEWE and is agreed by the Management Committee. The Management Committee may consider, amongst other things, the short and long-term financial position of AEWE, 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 2019 was:

Employee information	
	2019
	£'000
Fixed compensation	1,643
Variable compensation	1,568
Total	3,211