

FROGMORE REAL ESTATE PARTNERS FUND MANAGERS LIMITED

Pillar 3 Disclosure and Policy

Introduction

Regulatory Context

The Pillar 3 disclosure of Frogmore Real Estate Partners Fund Managers Limited (“the Firm”) is set out below as required by the FSA’s “Prudential Sourcebook for Banks, Building Societies and Investment Firms” (BIPRU) specifically [BIPRU 11.3.3 R](#). This follows the introduction of the Capital Requirements Directive (“CRD”) which represents the European Union’s application of the Basel Capital Accord. The regulatory aim of the disclosures is to improve market discipline.

Frequency

The Firm will be making Pillar 3 disclosures annually. The disclosures will be as at the Accounting Reference Date (“ARD”).

Media and Location

The disclosure will be published on our website.

Verification

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

Materiality

The Firm regards information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If the Firm deems a certain disclosure to be immaterial, it may be omitted from this Statement.

Confidentiality

The Firm 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 the Firm’s investments therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

Summary

The CRD requirements have three pillars. Pillar 1 deals with minimum capital requirements; Pillar 2 deals with Internal Capital Adequacy Assessment Process (“ICAAP”) undertaken by a firm and the Supervisory Review and Evaluation Process through which the firm and regulator satisfy themselves on the adequacy of capital held by the Firm in relation to the

risks it faces and; Pillar 3 which deals with public disclosure of risk management policies, capital resources and capital requirements. The regulatory aim of the disclosure is to improve market discipline.

The Firm is an Investment Management Firm. It acts solely as agent, so the main protection to our customers is provided through client money arrangements. The Firm's greatest risks have been identified as business and operational risk. The Firm is required to disclose its risk management objectives and policies for each separate category of risk which include the strategies and processes to manage those risks; the structure and organisation of the relevant risk management function or other appropriate arrangement; the scope and nature of risk reporting and measurement systems; and the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

The Firm has assessed business and operational risks in its ICAAP and set out appropriate actions to manage them.

A number of key operations are outsourced by our clients to third party providers such as administrators reducing our exposure to operational risk. The Firm has an operational risk framework (described below) in place to mitigate operational risk. The Firm's main exposure to credit risk is the risk that management and performance fees cannot be collected and therefore credit risk is low. The Firm holds all cash and performance fee balances with banks assigned high credit ratings.

Market Risk exposure has been assessed by the Firm and is limited to the Firm's exposure to any cash amounts held by the Firm in a foreign currency. All foreign currency is converted into GBP on a regular basis.

Background to the Firm

Background

The Firm is incorporated in the UK and is authorised and regulated by the FSA as an Investment Management Firm. The Firm's activities give it the BIPRU categorisation of a "Limited Licence" and a "BIPRU €50K" firm.

The following entities are covered by the ICAAP:

- Frogmore Real Estate Partners Fund Managers Limited

The Firm is a Solo regulated entity with a EEA .

The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under ([GENPRU 2 Annex 4](#));

BIPRU 11.5.1

Disclosure: Risk Management Objectives and Policies

Risk Management Objective

The Firm has a risk management objective to develop systems and controls to mitigate risk to within its risk appetite.

Governance Framework

The Investment Committee is the Governing Body of the Firm and has the daily management and oversight responsibility. It meets quarterly and is composed of:

- Paul White, Jo Allen, Paul Bray, Stuart Jenkin, Patrick Smith, Eric Roseman

The Investment Committee is responsible for the entire process of risk management, as well as forming its own opinion on the effectiveness of the process. In addition, the Investment Committee decides the Firm's risk appetite or tolerance for risk and ensures that the Firm has implemented an effective, ongoing process to identify risks, to measure its potential impact and then to ensure that such risks are actively managed. Management is accountable to the Investment Committee for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Firm.

Risk Framework

1. The Firm is a tightly controlled entity as a result of its relatively small size and concentrated business activities. The Investment Committee and the Directors are involved at every level of decision making and risk management. All material issues are relayed to the most relevant and senior staff through direct communication or through weekly meetings. The Board are therefore aware of all risks faced by the firm, its parent and the relevant funds which it is managing.
2. Since the Investment Committee is drawn from the same investment committee as for FREPIM (Frogmore Real Estate Partners Investment Managers Ltd), the existing investment and asset manager to Frogmore Real Estate Partners LP ("FREP 1") and Frogmore Real Estate Partners II, LP ("FREP 2") , the key success factor for FREPFM is the performance of FREP 1 and FREP 2. Advice on these funds for investment decisions will, therefore, be controlled through a robust decision making process which will also be adopted for FREPFM. The investment process is well-defined and involves a high degree of teamwork, checks and balances and risk management. Throughout the investment and asset management process the Investment Committee will continue to maintain an environment of close internal control and risk management with effective organisational reporting lines.
3. The Investment Committee will use their experience, external and internal research and top-down evaluation of macroeconomic, demographic, national and local real estate fundamentals to formulate a strategy framework. This allows FREPFM to identify and assess potential investment themes, opportunities, products and geographies to pursue in advance of mainstream real estate market sentiment.
4. Extensive due diligence is carried out prior to a transaction being brought to the Investment Committee for approval. Due diligence will include extensive financial modelling, reviewing of assumptions and in-depth market review. For development, external advice is also sought including meetings with architects, contractors and local planning officials. A business plan will always be prepared and submitted for consideration to the Investment Committee. The views of the general partner of future funds will be sought before an acquisition is completed.
5. Further due diligence is conducted at the acquisition phase to aid the Investment Committee in negotiating an acceptable risk and return profile.

BIPRU 11.5.4

Disclosure: Compliance with BIPRU 3, BIPRU 4, BIPRU 6, BIPRU 7, BIPRU 10 and the Overall Pillar 2 Rule

BIPRU 3

For its Pillar 1 regulatory capital calculation of Credit Risk, under the credit risk capital component the Firm has adopted the Standardised approach ([BIPRU 3.4](#)) and the Simplified method of calculating risk weights ([BIPRU 3.5](#)).

Credit Risk calculation

Credit Risk Capital Requirement	Rule	Capital Component
Credit risk capital component	BIPRU 3.2	£1,000
Counterparty risk capital component	BIPRU 13 & 14	£0
Concentration risk capital component	BIPRU 10	£0
Total		£1,000

	Rule	Exposure	Risk Weight	Risk weighted exposure amount
National Government Bodies	BIPRU 3.4.2	£0	0%	£0
Banks etc long-term	BIPRU 3.4.36	£0	50%	£0
Banks etc short-term	BIPRU 3.4.39	£0	20%	£0
Exposure to Corporates/Debtors	BIPRU 3.4.52	£0	100%	£0
Past due item	BIPRU 3.4.96	£0	100%	£0
Fixed assets	BIPRU 3.4.127	£0	100%	£0
Accrued Investment management fees	BIPRU 3.4.128	£0	100%	£0
Total		£0		£0
Credit Risk Capital Component	8% of risk weighted exposure			£0

BIPRU 4

The Firm does not adopt the Internal Ratings Based approach and hence this is not applicable.

BIPRU 6

The Firm, being a Limited Licence Firm is not subject to the Pillar 1 Operational Risk Requirement and, therefore, this is not applicable.

BIPRU 7

The Firm has Non-Trading Book potential exposure only ([BIPRU 7.4](#), [7.5](#)).

BIPRU 10

The Firm is not subject to the Large Exposure Rules at BIPRU 10 and, therefore, no disclosure on this is required.

Overall Pillar 2 Rule

The Firm has adopted the “Structured” approach to the calculation of its ICAAP Capital Resources Requirement as outlined in the Committee of European Banking Supervisors Paper, 25 January 2006.

The ICAAP assessment is reviewed by the Investment Committee and amended where necessary, on a quarterly basis or when a material change to the business occurs.

BIPRU 11.5.8**Disclosure:** Credit Risk and Dilution Risk

The Firm is primarily exposed to Credit Risk from the risk of non-collection of advisory and sub-advisory fees. It holds all cash and performance fee balances with Banks assigned high credit ratings. Consequently risk of past due or impaired exposures is minimal. A financial asset is past due when a counterparty has failed to make a payment when contractually due. Impairment is defined as a reduction in the recoverable amount of a fixed asset or goodwill below its carrying amount.

BIPRU 11.5.12**Disclosure:** Market Risk

The Firm has Non Trading Book potential exposure only ([BIPRU 7.4](#) & [7.5](#)).

Market Risk calculation

	Rule	Position	Risk Weight	PRR
Interest rate positional risk requirement	BIPRU 7.2	£0	8%	£0
Equity positional risk requirement	BIPRU 7.3	£0	8%	£0
Commodity positional risk requirement	BIPRU 7.4	£0	8%	£0
Foreign currency positional risk requirement	BIPRU 7.5	£0	8%	£0
Option positional risk requirement	BIPRU 7.6	£0	8%	£0
Collective investment undertaking positional risk requirement	BIPRU 7.7	£0	32%	£0
Total		£0		£0

BIPRU 11.5.2**Disclosure:** Scope of application of directive requirements

The Firm is subject to the disclosures under the [Banking Consolidation Directive](#) however, it is not a member of a UK Consolidation Group and consequently, does not report on a consolidated basis for accounting and prudential purposes.

BIPRU 11.5.3**Disclosure:** Capital Resources

The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under ([GENPRU 2 Annex 4](#)). Tier I Capital comprises of Shares and Audited Reserves/Losses.

Tier I Capital	£65,000
Deductions	£0
Tier 2 Capital	£0
Deductions	£0
Capital Resources	£0
Tier 3 Capital	£0
Deductions	£0
Total Capital	£65,000

BIPRU 11.5.5

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by [BIPRU 11.5.4R \(3\)](#).

BIPRU 11.5.6
This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by BIPRU 11.5.4R (3) .
BIPRU 11.5.7
This disclosure is not required as the Firm does not have a Trading Book.
BIPRU 11.5.9
This disclosure is not required as the Firm does not make Value Adjustments and Provisions for Impaired exposures that need to be disclosed under BIPRU 11.5.8R (9) .
BIPRU 11.5.10
Disclosure: Firms calculating Risk Weighted Exposure Amounts in accordance with the Standardised Approach
This disclosure is not required as the Firm uses the Simplified method of calculating Risk Weights (BIPRU 3.5).
BIPRU 11.5.11
Disclosure: Firms calculating Risk Weighted Exposure amounts using the IRB Approach
This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit and therefore is not affected by BIPRU 11.5.4R (3) .
BIPRU 11.5.13
Disclosure: Use of VaR model for calculation of Market Risk Capital Requirement
This disclosure is not required as the Firm does not use a VaR model for calculation of Market Risk Capital Requirement.
BIPRU 11.5.14
Disclosure: Operational Risk
The Firm's Fixed Overhead Requirement (FOR) is disclosed as a proxy for the Pillar I Operational Risk Capital calculation. The Firm's Pillar I Capital Resources Requirement is the Sum of Credit Risk and Market Risk which is the higher of the sum of Market Risk and Credit Risk Requirement
Fixed Overhead Requirement GENPRU 2.1.53 <u>£3,000</u>
BIPRU 11.5.15
Disclosure: Non-Trading Book Exposures in Equities
This disclosure is not required as the Firm does not have a Non-Trading Book Exposure to Equities.

BIPRU 11.5.16**Disclosures:** Exposures to Interest Rate Risk in the Non-Trading Book

Although the Firm has cash balances on its Balance Sheet, there is currently no significant exposure to Interest Rate fluctuations.

BIPRU 11.5.17 Disclosures: Securitisation

This disclosure is not required as the Firm does not Securitise its assets.

BIPRU 11.5.18**Disclosure:** Remuneration

The Firm is a Remuneration Code Proportionality Tier 4 Firm and has applied the rules appropriate to its Proportionality Tier. The Remuneration Committee is responsible for the Firm's remuneration policy. All variable remuneration is adjusted in line with capital and liquidity requirements.

Remuneration Code Staff remuneration by business area (BIPRU 11.5.18(6))

Business area	Total remuneration
[Business area 1]	£0
[Business area 2]	£0
[Business area 3]	£0
[Business area 4]	£0

Aggregate quantitative variable remuneration by senior management and other Remuneration Code Staff (BIPRU 11.5.18(7))

Type of Remuneration Code Staff	Number of staff	Total Remuneration
Senior management	0	£0
Other Remuneration Code Staff	0	£0
Totals	0	£0