

FROGMORE REAL ESTATE PARTNERS FUND MANAGERS LIMITED

Pillar 3 Disclosure and Policy

Published January 2018

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 FCA’s “Prudential Sourcebook for Banks, Building Societies and Investment Firms” (BIPRU) specifically BIPRU 11.3.3 R. This is a requirement which stems from the UK’s Capital Requirements Directive (“CRD”) III implementing Regulations which represented the European Union’s application of the Basel Capital Accord. The Firm is no longer formally subject to CRD but remains subject to the UK’s implementation Regulations of CRD prior to CRDIV. The regulatory aim of the disclosures is to improve market discipline.

Frequency

The Firm will be making Pillar 3 disclosures at least annually. The disclosures will be as at the Accounting Reference Date (“ARD”) which will be the most recent calendar quarter ended prior to publication of Pillar 3 disclosures.

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, as this is not a requirement, 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 to which the Firm remains subject to as a consequence of the UK CRDIII implementing Regulations, 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 Firm is a MiFID Investment Management Firm. It acts solely as agent, so the main protection to our customers is provided through client money and asset 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 (typically the Funds we provide Investment Management services to) 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 fees and insurance commissions cannot be collected and therefore credit risk is considered low. The Firm holds all cash with banks assigned high credit ratings.

Market Risk exposure has been assessed by the Firm and is considered to be Nil. The Firm does not hold foreign currency assets.

Background to the Firm

Background

The Firm is incorporated in the UK and is authorised and regulated by the FCA as a MiFID Investment Management Firm. The Firm’s activities give it the BIPRU categorisation of a “Limited Licence” and a “BIPRU €50K” Base Capital firm.

The following entities are covered by the ICAAP:

- Frogmore Real Estate Partners Fund Managers Limited

The Firm is a Solo regulated entity with an EEA parent.

The Firm is a BIPRU 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 Frogmore Investment Committee is the Governing Body of the Firm and has the daily management and oversight responsibility. It meets quarterly and as from 1 October 2017 is composed of:

- Paul White
- Jo Allen
- Paul Bray
- Patrick Smith
- Tim Allibone
- Andrew Rogers (FREP 3 only)

The Governing Body 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 Governing Body 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 Governing Body 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 Governing Body 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. The key success factor for FREPFM is the performance of Frogmore Real Estate Partners LP ("FREP 1"), Frogmore Real Estate Partners II LP ("FREP 2") and Frogmore Real Estate Partners III LP ("FREP 3"). The Investment Committee is drawn from the same investment committee as for FREPIM (Frogmore Real Estate Partners Investment Managers Ltd), which is the existing investment and asset manager to FREP 1 and FREP 2. The investment and asset manager to FREP 3 is FREPFM. Advice on these funds for investment decisions is controlled through a robust decision making process which has been 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.

Risk Framework (continued)

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	£44,044
Counterparty risk capital component	BIPRU 13 & 14	£0
Concentration risk capital component	BIPRU 10	£0
Total		£44,044

	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	£103,366	20%	£20,673
Exposure to Corporates/Debtors	BIPRU 3.4.52	£2,211,260	100%	£2,211,260
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		£2,314,626		£2,231,933
Credit Risk Capital Component	8% of risk weighted exposure			£178,555

BIPRU 4 (Advanced Credit Risk Approach)

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

BIPRU 7 (Market Risk)

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

Overall Pillar 2 Rule

The Firm has adopted the “Pillar I plus 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 surplus of capital held vs capital required is reviewed by the Governing Body on a quarterly basis. The formal ICAAP is reviewed by the Governing Body whenever a material change to the business occurs, and is reviewed at least annually, and amended where necessary.

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 management fees and insurance commissions. It holds all cash 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).

The Firm’s Market risk calculation is £Nil.

BIPRU 11.5.2

Disclosure: Scope of application of directive requirements

The Firm is subject to the disclosures under the CRDIII Implementing Regulations. 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 1 Capital comprises of Share Capital and Audited Reserves.

Tier 1 Capital	£1,941,840
Deductions	£0
Tier 2 Capital	£0
Deductions	£0
Capital Resources	£0
Tier 3 Capital	£0
Deductions	£0
Total Capital	£1,941,840

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 Base requirement which is the higher of the Base requirement / FOR / Sum of Credit Risk and Market Risk.
Fixed Overhead Requirement GENPRU 2.1.53 <u>£674,953</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 because the Firm does not Securitise its assets.

BIPRU 11.5.18**Disclosure: Remuneration**

Frogmore strives to be a business for talented and motivated individuals in which high levels of personal and company performance will be recognised and rewarded. The Chairman & Chief Executive determines the policy relating to remuneration and reward for Executive Directors, Key Members and the Management Team and is guided by the Remuneration Committee.

Any decisions made by the Remuneration Committee are intended to promote sound and effective risk management and to not encourage risk taking which exceeds the level of tolerated risk of the Firm.

Annual reviews are used to evaluate individuals' performance in line the business unit concerned and the overall results of the Firm, in relation to both financial and non-financial metrics (such as effective risk management and compliance). All variable remuneration is adjusted in line with capital and liquidity requirements.

The Firm has taken into consideration the BIPRU remuneration principles proportionality rule at SYSC 19C.3.3R(2) of the FCA Handbook. The Firm has applied proportionality in a way, and to the extent, appropriate to the size, internal organization and nature and complexity of the Firm's activities.

Remuneration Code Staff Remuneration by Business Area (BIPRU 11.5.18(6))

Business Area	Total Remuneration
Asset advisor and asset management	£939,014

Aggregate Quantitative Remuneration by Senior Management and other Remuneration Code Staff (BIPRU 11.5.18(7))

Type of Remuneration Code Staff	Total Remuneration
Senior Management (Governing Body)	£939,014
Other Remuneration Code Staff	£0
Totals	£939,014