BARINGS REAL ESTATE ADVISERS FINANCE LLP

PILLAR 3 & ASSOCIATED REGULATORY DISCLOSURES

MARCH 2016

1. INTRODUCTION

The Capital Requirements Directive ("CRD") created a revised regulatory capital framework across Europe, based on the provisions of the Basel II Capital Accord, governing how much capital financial services firms must retain. The rules are set out in the CRD under three pillars:

- Pillar 1 sets out the minimum capital resource requirement firms are required to maintain to meet credit, market and operational risks;

- Pillar 2 requires firms to assess firm-specific risks not covered by Pillar 1 and, where necessary, maintain additional capital; and

- Pillar 3 requires firms to disclose information regarding their risk assessment process and capital resources.

As described in more detail below, Barings Real Estate Advisers Finance LLP (the "Firm" or "Finance LLP") is a subsidiary of a non-EEA parent. It does not however have a waiver from the disclosure requirements of Pillar 3 and the purpose of this document is to meet its disclosure obligations. The disclosures in this document complement the work already undertaken by the Firm in the assessment of its capital requirements under the Financial Services Authority's ("FCA") Internal Capital Adequacy Assessment Process ("ICAAP").

This is the sixth Pillar 3 disclosure document for the Firm prepared in accordance with chapter 11 of the FCA's Prudential sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"). These disclosures will be made on an annual basis and the report will be published on the Firm's website (www.barings.com). The disclosures have been prepared in order to comply with regulatory requirements and provide information on risk management policies and certain capital requirements. They do not constitute financial statements and are based on unaudited financial positions and should not be relied upon in making judgements about the Firm.

2. CORPORATE BACKGROUND

The Firm is one of a number of subsidiary entities owned by Barings Real Estate UK Holdings Ltd, (together with its subsidiaries "Barings Real Estate Europe") which was launched in April 2004 as an independent real estate investment manager. By 31 December 2015 the business had grown to a team of 105 individuals with capabilities in investment management (equity and debt), asset management and property management. The senior management and key investment staff have long and successful personal track records in the property industry going back a number of years.

In January 2010 the Firm was acquired by Barings Real Estate Advisors LLC, ("BREA"), a US based property investment manager which is a subsidiary of Massachusetts Mutual Life Insurance ("Mass Mutual"). Simultaneous with the acquisition of Barings Real Estate Europe, BREA integrated the Real Estate Finance Group of Babson Capital Management (another Mass Mutual subsidiary), thereby creating a group with circa $49.6bn of real estate assets (as at 31 December 2015), ranking it as one of the largest global property managers. Finance LLP provides discretionary and advisory investment management services to institutional and wealth management clients in property, currently in the UK and Continental Europe through direct investment, indirect investment vehicles and financial instruments. Currently Barings Europe manages three collective investment schemes and at the end of 2015 its total assets under management were approximately $3.6bn billion.

Barings Real Estate Europe opened is first continental European office in the Netherlands in March 2006, an office in Stockholm in September 2007 and an office in Helsinki in June 2011, and in June 2014 acquired PAMERA Barings Real Estate Advisers GmbH (since renamed Barings Real Estate Advisers GmbH) which has six offices across Germany. Additional offices were added to the Barings Europe platform in 2015 with the opening of branches in Milan, Paris and Madrid.

3. SCOPE OF THE REQUIREMENTS

The Firm is authorised by the FCA to conduct investment business. It does not have permission to hold client money and is categorised as a Limited License firm by the FCA for capital purposes. All of the Firm's clients are either Per Se or Elective Professional Clients.

4. RISK MANAGEMENT

The Firm's European Management Committee ("the Board") is responsible for setting the risk appetite of the Firm. The Firm's risk appetite is considered by the Board in conjunction with its reviews of the Firm's strategy. Currently the Board have adopted a conservative approach to risk, resulting in a low risk profile for the Firm, as evidenced by the following:

- the recruitment of experienced personnel throughout the Firm;
- a corporate governance structure that ensures responsibilities within the Firm are apportioned correctly with the appropriate oversight functions in place;
- limited exposure to credit risk; and
- comprehensive insurance arrangements providing high levels of cover.

The Board meets quarterly and has primary responsibility for governance and oversight of the Firm. Although the Firm does not have a dedicated risk management department, there are a number of committees whose remit specifically includes oversight and management of different areas of risk. Moreover, BREA's compliance function maintains a series of sub-committees into which the Firm is required to report on topics such as Enterprise and Operational Risk Management.

The Finance Department is responsible for the financial regulatory returns of the Firm and reports directly to the Board. The Finance Department produces extensive management information including profit and loss accounts for branch offices, balance sheets and budget variance reports. The Firm produces detailed expense and revenue budgets for the next financial year and three to five year forecasts. This information assists the Firm in capital management (including regulatory capital) and cash flow planning.

5. APPROACH TO ASSESSING CAPITAL ADEQUACY

The FCA's ICAAP is a key element of the Firm's implementation of the CRD. The ICAAP is a process that brings together the risk management framework that the Firm has implemented to identify, manage and mitigate its risks within the financial discipline of budgeting and business planning. The intention is that the ICAAP will be reviewed and updated regularly, unless there are any changes in the control environment or other events that warrant a more immediate update. When reviewing and challenging each update the Board will review its stated risk appetite and compare it against actual performance. It will also consider the appropriateness of the stress tests performed as part of the ICAAP and if they are not considered appropriate will devise alternative stress tests.

The Board monitors performance against the ICAAP both directly and through members' representation on the Firm's principal committees. Not all material risks can be mitigated by capital but where capital is appropriate the Board has adopted a "Pillar 1 plus" approach to determine the level of capital that needs to be held. This method takes the FCA's Pillar 1 capital resource requirement calculations as a starting point and then considers whether this delivers an adequate capital sum to cover the Firm's actual risks. Where the Board considers that the Pillar 1 calculation does not adequately reflect the risk, additional capital has been allocated as part of the ICAAP.

6. CAPITAL RESOURCES

The capital resources of the Firm are monitored on an ongoing basis to ensure that at any time there is always sufficient capital in place. As at 31 December 2015 the Firm's capital resources for regulatory purposes were as follows:

£000's	Pillar 1 Minimum Capital	Pillar 2 ICAAP	Pillars 1 & 2 Total
Base Capital Requirement	£91k		£91k
Credit Risk (A)	£176k	-	£176k
Market Risk (B)	£3k	-	£3k
Total Variable Capital Requirement (C) = (A+B)	£179k		£179k
Fixed Overhead Requirement	£268k	-	£268k
Capital Resource Requirement (higher of C & D)	£268k	-	£268k
Pillar 2 total	-	£111k	£111k
ICAAP capital			£369k
Current total capital			£1,583k
Surplus			**£1,214k**

The Firm had £1,583k of regulatory capital after deductions in place at 31 December 2015, compared with an ICAAP requirement of £369k, resulting in a £1,214k (329%) surplus.

7. REVIEW OF MATERIAL RISKS

The Firm has assessed its risks under the following headings (as set out in chapter 1 of the FCA's General Prudential sourcebook):

(a) Credit risk

The Firm deals predominantly with the following counterparties:

- Clients – The Firm has historically had very few bad debts. This is because our clients are usually large institutions with strong credit ratings and prompt supplier payment policies who either invest with us directly or through collective investment funds ("CIFs") managed by the Firm.

- Banks - The Firm currently holds the majority of its own cash with Bank of Scotland plc. At the date of this report Fitch's had allocated a long term credit rating of A to the bank.

The Firm does not have any exposure to market counterparties as it does not deal on its own account and does not execute orders on behalf of its clients.

In accordance with BIPRU 3.1.5, the Firm calculates its credit risk capital requirement as 8% of its risk weighted non trading book counterparty balance.

(b) Market risk

The Firm's exposure to market risk is limited to its currency risk exposure as it does not hold principal positions. The impact of market cycles on the capital position of the Firm is considered under Business Risk below.

(c) Liquidity risk

The Firm currently has no material liquidity risk as it has no debt and an agreement from its parent company to fund any operating shortfalls that may arise.

(d) Operational risk

The Firm considers that it has all reasonable controls in place to protect it from the operational risks identified in its risk assessment.

The business operations of the Firm (particularly at its London office) are at risk of disruption from one off events, such as terrorism, flooding or fire. To counter this risk, the Firm's IT infrastructure is maintained in the US by its ultimate parent who operate stringent security measures and ensure robust back up arrangements are constantly in place. This arrangement also enables the Firm to participate in the Group's business continuity and disaster recovery testing on an annual basis.

The Firm is a BIPRU limited license firm and consequently the FCA's rules on operational risk capital requirement do not apply.

In addition to the above, the Firm also mitigates its operational risk by means of comprehensive Professional Indemnity ("PI"), Directors & Officers Liability ("D&O"), and Commercial/Office insurance policies. The policies, which are on market standard terms, cover the most likely sources of loss to the Firm (including business continuity) to a level that is proportionate to the scale of its business.

(e) Concentration risk

As noted above, the Firm does not trade on its own account and so all its credit risk relates to non-trading book activities. Necessarily, because the Firm's business comprises a few large institutional customers, the credit risk is concentrated on these clients. The Firm seeks to reduce its concentration risk by increasing its retained client base.

The Firm also has a concentration risk with Barings Real Estate Advisers LLP with whom it shares some of its revenues. This entity has the same owners as the Firm but falls outside the scope of the FCA's consolidation requirements.

(f) Residual risk

The Firm does not lend money - the vast majority of its debtors are trade debtors and it has very limited exposure to credit risk.

(g) Securitisation risk

This risk is not relevant to the Firm.

(h) Business risk and stress testing

The key business risk is a reduction in funds under management following a market downturn or loss of clients.

As required as part of the Firm's ICAAP, the Firm has conducted stress testing in order to assess the impact on profit and loss from various scenarios where funds under management fall.

The testing shows that the Firm (which has already withstood dramatic falls in the real estate market over the last few years) has the financial resources to continue to trade during a severe recession scenario with capital resources in excess of its regulatory capital resource requirement. The Firm's management consider that they are well placed to take the necessary management action to protect the Firm's trading position.

The Firm's Board have allocated an additional £111k of capital to the Firm's minimum Pillar 1 capital requirement to reflect the business risks it faces.

(i) Interest rate risk

The Firm does not have any debt. Accordingly its direct interest rate risk is limited to amounts received on deposits held and these are not material to the Firm's operations.

(j) Pension obligation risk

This risk is not relevant to the Firm as the Firm does not operate a defined benefit scheme.

8. REMUNERATION

The Firm has been subject to the Remuneration Code (the “Code”) since 1 January 2011. The Code governs the remuneration policies of regulated firms and aims to ensure that firms establish, implement and maintain remuneration policies, procedures and practices that promote effective risk management.

In accordance with the provisions of the Code, the Firm is required to makes certain disclosures regarding its remuneration policies and processes as well as to disclose aggregate quantitative information on remuneration.

The Firm’s remuneration policies are managed and reviewed by the Board. Salary reviews occur annually on 1 April and focus predominantly on ensuring individuals are receiving a market rate relative to their position within Finance LLP. The Firm also looks to pay an annual cash bonus. The total bonus payable in any year is calculated as a percentage of the profits of the BREA group as whole (incorporating BREA and the Firm). Individual payments are entirely discretionary and are based on the performance of individuals relative to their specific appraisal objectives. Certain senior members of the management team also participate in a long term incentive plan. Awards made under this scheme are based on an individual’s performance during the year and are also discretionary. The Board believes that this remuneration structure meets the requirements of the Code as applicable to a Tier 4 firm and is appropriate given the nature and scope of the business.

Remuneration, as defined in the Code, for Remuneration Code Staff for 2015 totalled £2.3m.

9. UK STEWARDSHIP CODE

The Firm recognises the importance of, and the principals set out in, the UK Stewardship Code, and are committed to complying with it. However, the Firm does not currently manage any portfolios which invest in UK quoted companies, focusing instead on the provision of advice and/or management of collective investment schemes that invest in real property.