Capital Requirements Directive
Disclosures under Pillar 3
for
Cordea Savills Investment Management Limited ('CSIM')

1 March 2010

Background
The 2006 EEA Capital Requirements Directive ('the Directive') based on the provisions of the Basel 2 Accord created a revised regulatory capital framework across Europe agreed by the G-10.

This was implemented in the United Kingdom by the Financial Services Authority ('FSA') and specifically through the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

The new framework consists of three 'pillars':

- Pillar 1 sets out the minimum capital requirements that CSIM is required to meet for credit, market and operational risk;

- Pillar 2 requires CSIM to take a view on whether additional capital should be held against capital risks not covered by Pillar 1; and

- Pillar 3 requires us to publish certain details of our risks, capital and risk management process.

The FSA rules under BIPRU require that a firm subject to the provisions of the Directive must disclose, as appropriate, the relevant information required under Pillar 3. This must be done in accordance with a formal disclosure policy which sets out our policies for assessing the appropriateness of our disclosures, including their verification and frequency.

The rules provide that we may omit one or more of the required disclosures if we believe that the information is immaterial. Materiality is based on the criteria that the omission or misstatement of material information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions. Where we have considered a disclosure to be immaterial, we have stated this in the relevant section.

We are also permitted to omit one or more of the required disclosures where we believe that the information is regarded as proprietary or confidential. Proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers and counterparties. Where we have omitted information for either of these two reasons we have stated this in the relevant section and the reasons for this. Where appropriate, we have published more general information on the subject matter of the required disclosure.

Cordea Savills Investment Management, registered in England, Number 3680998, is authorised and regulated by the Financial Services Authority and is a subsidiary of Cordea Savills LLP, registered in England, Number OC306423. The registered office of both entities is at 20 Grosvenor Hill, London W1K 3HQ.

Risk management objectives and policies
CSIM risk management policy reflects the FSA requirement that we must manage a number of different categories of risk. These include for CSIM: credit, market, business, operational, and group risk. In respect of this disclosure it is the first four of these risks that are relevant; however, further information on all these risks is set out below.

- **Group risk**

CSIM has group risk and we aim to make sure we have appropriate interaction with group functions to understand and influence group level decisions. This risk is not considered material for the purposes of this disclosure.

- **Credit risk**

The extent to which we provide credit to clients and, therefore, the extent to which we are subject to credit risk and how we mitigate this is governed by the terms and conditions of individual agreements with those clients. Some terms are subject to confidentiality clauses and therefore we are not disclosing this information under the terms of BIPRU 11.3.6R (Exemption from disclosure: Proprietary or confidential information).

For segregated fund clients, provision for the non-payment of fees, etc are governed by our agreements with these clients, the terms of which are again subject to confidentiality clauses.

- **Market Risk**

Under Pillar 1, our market risk is limited to our exposure to foreign exchange fluctuations, due to some assets and liabilities being denominated in currencies other than sterling.

- **Business Risk**

Our Pillar 2 business risk assessment principally considers our exposure to one form of asset class i.e. property and a fall in assets under management following a market downturn that leads to lower management fees. To mitigate our business risk, the Cordea Savills Investment and Risk Committee regularly analyses various different economic scenarios to model the impact of economic downturns on our financial position. Our exposure to business risk is hedged, to a degree, by having mainly closed ended funds with a life cycle of typically 5 to 7 years and a geographic spread of funds covering Europe and recently Asia.

- **Operational Risk**

Most of our risk management efforts are focused on operational risk. This includes everything, from risk to our business strategy to adverse reputational risk. Our policy is to operate a robust and effective risk management process, embedded within the governance and management structures of our business. The concept of reducing risk to acceptable levels implies some articulation of risk appetite.

Our risk management framework defines what operational risk means to us and this is approved by our Board.

All business areas are subject to at least an annual risk review conducted by our senior management and our Investment and Risk Committee and by the group internal audit review. During these reviews, potential and actual operational risks are identified and controls put in place to mitigate them. We actively monitor risks that remain out with our tolerance levels after mitigating controls have been put in place.

These risk registers are reviewed regularly as part of our management control framework. The risk management process consists of a cycle of risk identification and assessment, control evaluation and action planning, action completion, measurement and reporting, monitoring and assurance and board level review.

Capital resources
Our capital resources comprise of core Tier 1 capital only and therefore there are no other items or deductions.

In accordance with GENPRU 2.1.45R (calculation of variable capital requirement for a limited licence BIPRU firm), our capital requirement has been determined as being our fixed overhead requirement and the sum of our credit risk capital requirement and our market risk capital requirement.

Compliance with rules in BIPRU and Pillar 2 rule requirements
Our overall approach to assessing the adequacy of our internal capital is set out in our Internal Capital Adequacy Assessment Process (ICAAP).

The ICAAP process involves separate consideration of risks to our capital combined with stress testing using scenario analysis. The level of capital required to cover risks is a function of impact and probability. We assess impact by modelling the changes in our income and expenses caused by various potential risks over a 2-year time horizon. Probability is assessed subjectively.

Our Pillar 2 capital requirement, which is our own assessment of the minimum amount of capital that we believe is adequate against the risks identified, has been assessed as being more than our Pillar 1 capital requirement. Therefore, our Pillar 1 plus Pillar 2 requirement is the minimum regulatory capital requirement that we will hold.

Basis and Frequency of Disclosures
This disclosure document has been prepared by CSIM in accordance with the requirements of Pillar 3. Unless otherwise stated, all calculations will be based on figures as at 31 December, our financial year-end. Future disclosures will be issued on an annual basis and published as soon as practicable after the publication of the Annual Report and Accounts.