MIFIDPRU Disclosure

Date: 29 September 2023

Introduction

DRC Savills Investment Management LLP (“DRC SIM”, “the Firm” or “we”) is a UK MIFID investment firm undertaking regulated activities in scope of the Markets in Financial Instruments Directive (“MIFID”). DRC SIM is subject to the prudential requirements of the Investment Firms Prudential Regime (“IFPR”) contained in the MIFIDPRU Sourcebook of the Financial Conduct Authority (“FCA”) Handbook.

In line with the requirements under IFPR, DRC SIM is required to publish disclosures in accordance with the FCA rules and guidance outlined in Chapter 8 of the MIFIDPRU Sourcebook.

Basis of Disclosure

This disclosure is for the year ended 31 December 2022, and has been prepared on a solo entity basis. For the purposes of the prudential regulations, DRC SIM is classified as a non-small non-interconnected (“non-SNI”) firm. As a non-SNI firm, the information contained in this disclosure is proportionate for the constitution of DRC SIM with consideration of its size, sector, nature, scope and complexity of activities.

The Firm was an Exempt CAD firm prior to the implementation of the IFPR with a capital requirement of €50,000. Following the implementation of the IFPR on 1 January 2022 the Firm is a non-SNI firm. As a non-SNI firm that was previously Exempt CAD, the FCA has provided transitional provisions as set out in MIFIDPRU TP 2 Own funds requirements. Specifically, the transitional provisions for Fixed Overheads Requirement and K-factor requirement for former exempt CAD firms under rule 2.10(R) (3). The alternative requirement is: (a) from 1 January 2022 to 31 December 2022, an amount equal to the firm’s permanent minimum capital requirement after any transitional relief that may apply under

MIFIDPRU TP 2.12R has been taken into account. The Firm has decided to use the transitional provisions for the year ended 31 December 2022.

Significant Changes Since Prior Disclosure

This is the first MIFIDPRU disclosure for DRC SIM. Hence there are no significant changes to be outlined here.

Governance Arrangements

Firm Structure

DRC SIM is a limited liability partnership, which is authorised and regulated by the FCA in the United Kingdom under Firm Reference Number: 574874. DRC SIM is an investment adviser focusing on the commercial real estate debt sector in Europe. DRC SIM is a subsidiary of Savills IM Holdings Limited, which is part of the Savills Investment Management Group (“Savills IM Group”). The Savills IM Group is majority owned by Savills plc, a global real estate company and listed on the London Stock Exchange and a constituent of the FTSE 250 Index. The Savills IM Group has a strategic investment alliance with Samsung Life Insurance Co. Ltd (“Samsung Life”), the leading life insurer in Korea, pursuant to which Samsung Life holds a minority interest in Savills IM Holdings Limited.

DRC SIM’s 2022 audited financial statements are prepared in accordance with United Kingdom accounting standards including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (FRS 102) and applicable law.

Firm Governance

The Firm’s Senior Managers and the Management Committee (“Management Committee”) are responsible for the oversight of implementation of the strategic objectives, risk strategy and internal governance arrangements of the Firm. There are 17 members of DRC SIM, which includes four Senior Managers and one corporate partner. Three are registered with the FCA as Senior Management Functions SMF27 (Partner) and one as SMF16 (Compliance Oversight) and SMF17 (MLRO) under the Senior Managers & Certification Regime (“SM&CR”).

As of 31 December 2022, the number of directorships held by each member of the Management Committee is as follows:

Name	Number of Directorship Position Held		
	Executive	Non-Executive	Total
Dale Lattanzio	0	0	0
Rob Clayton	0	0	0
Cyrus Korat	0	0	0
Savills IM Holdings	N/A	N/A	N/A

On a quarterly basis, the Management Committee of DRC SIM receive reports on issues relevant to its operations as part of the Savills IM Group. .

DRC SIM is part of the Savills IM Group and as such certain policies and procedures required for DRC SIM to carry out its activities may be those which apply globally to the Savills IM Group. The Members Committee and Senior Managers may decide that appropriate governance in particular areas is effected through adherence to the relevant Savills IM Group policy or procedure, but shall oversee such adherence and shall ensure the activities of DRC SIM are carried out in accordance with the SM&CR and all other applicable laws and regulations and as appropriate, the relevant terms of appointment of DRC SIM for each client.

DRC SIM maintains a clear organisational structure and has organised its business in such a way as to maximise the independence of functions and reduce the risk of internal conflicts by means of an appropriate and proportionate segregation of duties and reporting lines in conjunction with the implementation of policies and procedures. The management of conflicts of interest is of paramount importance to DRC SIM and a specific policy and register is maintained accordingly. DRC SIM ensures that its Management Committee and other staff representing it shall act in the interests of clients and DRC SIM. DRC SIM's control environment encompasses the basis of how risk is perceived and addressed by the Management Committee, Senior Managers and associated staff. As part of the Savills IM Group, DRC SIM has adopted the "Three Lines of Defence" model to align its risk governance structure in line with market practice.

Diversity and Inclusion

The Savills IM Group has introduced certain diversity & inclusion objectives which include employee engagement scores on inclusion matters, completion of diversity & inclusion training, gender and (in the UK) ethnic minority representation. These will be measured and reported on annually from 2024. It is therefore expected that we can report further on these figures in the disclosure for year ended 31 December 2024.

During 2023, the Savills IM Group will finalise and implement its Diversity and Inclusion strategic framework, which sets out the key components of the diversity and inclusion objectives of the Savills IM Group. As part of the implementation process, Savills IM Group will formally adopt the following mission statement:

'Savills Investment Management embraces diversity and inclusion, seeking to provide a platform and a supportive environment for everyone to achieve their potential free from discrimination or prejudice.
Savills Investment Management respects all of its staff, clients, stakeholders and counterparties, challenges stereotypes and celebrates the value of having a diverse range of people in its organisation, providing a rich variety of viewpoints.'

Risk Management

Risk management framework

The Management Committee of DRC SIM has ultimate responsibility for the development of appropriate strategies, systems, and controls for the management of risks within the business.

Being exposed to risk is inherent in providing financial services and DRC SIM assumes a variety of risks in the course of its ordinary business activities. Savills IM Group's Enterprise Risk Management ("ERM") framework provides structure to effectively manage risk across its operations, both with respect to company-specific risks and operational risks related to the asset management activities carried out by the various companies across the Group. The Savills IM Group's Risk and Compliance function is responsible for overseeing the ERM framework which integrates concepts of strategic planning, operational management and internal controls. The ERM framework is directly applicable to DRC SIM and its subsidiaries.

Risk appetite

The risk strategy and risk appetite have been designed to be consistent with the overall business model of the Firm, including its purpose, values, risk culture expectations, corporate strategy and strategic objectives.

The Risk Appetite Statement ('RAS') is part of the Risk Appetite Framework, the governance framework and wider culture of the overall organisation at DRC SIM. The RAS defines the types and aggregate levels of risk that the Firm is willing to accept, tolerate or be exposed to in pursuit of its corporate strategy and business objectives. The RAS defines the approach to growth, risk, and return. It is necessary to ensure that the amount of risk taken is within the acceptable boundaries that are commensurate with the financial strength and corporate strategy of the Firm. The ICARA process takes into account the impact of the risks, in the context of the RAS, and determines the potential harm to the Firm, its clients or financial services markets.

Key risks

There are several risks associated with the business model, including the real estate market, foreign exchange, client, concentration and other macro-economic risks. Market risk is one of the key risk factors, whereby the business model assumes a certain level of market values for, or income from, the underlying real estate assets financed by clients of DRC SIM. The potential risk that borrowers or counterparties will fail to meet their obligations, at any point during the lifetime of a credit, in accordance with agreed terms could have an impact upon the advisory fees. The goal of credit risk management is to optimise the risk-adjusted rate of return, by maintaining credit risk exposure within acceptable parameters. Foreign exchange ('FX') risk pertains to any revenues DRC SIM derives in foreign currency that could be affected by movements in the exchange rates. This risk is mitigated through hedging which offsets any significant FX impact. Client and concentration risk is apparent if DRC SIM deems to have an over-reliance on one specific client, or if a contract provides for an immediate termination of DRC SIM as advisor, which would reduce advisory fees going forward.

Own funds requirement

The Firm must, at all times, hold own funds and liquid assets which are adequate, both to their amount and their quality, to ensure that the Firm is able to remain financially viable throughout the economic cycle and be able to address any material potential harm that may result from its ongoing activities; and to ensure that the Firm's business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

As a result of the introduction of the IFPR, the Firm has conducted and documented its Internal Capital Adequacy and Risk Assessment process (ICARA) to identify whether the Firm complies with the abovementioned overall financial adequacy rule. The Firm may hold additional own funds or additional liquid assets above the Firm's own funds requirement or basic liquid assets requirement to manage the potential harms identified.

The Firm's ICARA is reviewed and approved by the Management Committee at least annually, or more often as deemed appropriate.

As a Non-SNI firm, the Firm is required to maintain an amount of own funds that is the higher of the:

- Permanent minimum capital requirement (PMR);
- Fixed overheads requirement (FOR), which is an amount equal to three months of the firm's relevant expenditure; and
- Total K-Factor requirement, which include:
  - **K-AUM,** assets under management; **K-CMH,** client money held; and **K-ASA,** assets safeguarded and administered
  - **K-COH,** client orders handled; and **K-DTF,** daily trading flow
  - **K-NPR,** net position risk; **K-CMG,** clearing member risk; **K-TCD** trading counterparty default risk; and **K-CON,** concentration risk

Given the Firm's activities, the main exposure of the Firm is K-AUM, which is the risk of advising on investments. The remaining K-Factors do not fall within the scope of the Firm's activities and therefore not considered for the purposes of this disclosure.

Based on the Firm's reliance on the transitional provisions, the alternative requirement is: (a) from 1 January 2022 to 31 December 2022, an amount equal to the firm's permanent minimum capital requirement after any transitional relief that may apply under MIFIDPRU TP 2.12R has been taken into account. The Firm has decided to use the transitional provisions and the requirements are set out in the table below.

The Firm's own funds requirements according to MIFIDPRU 4.3 are as follows:

	£ ('000)	
(a) Permanent minimum requirement (PMR)	75	
(b) Fixed Overhead Requirement (FOR)	800	
(c) Sum K-factor capital	371	Sum of (c1) and (c2)
(c1) K-AUM	371	Based on the 15 month average AUM as at 30 June 2023.
(c2) K-COH	-	
Own Funds Requirements	75	*Based on the PMR as the firm utilises the transitional provisions.*

Concentration risk

Concentration risk is that associated with the firm's exposure to sectoral, geographic and entity or obligor concentrations. Concentration risk has been assessed in the ICARA.

Liquidity

Liquidity risk is the risk of the Firm failing to meet its short-term liabilities as they fall due. The Firm's appetite for concentration risk is averse.

The Firm is required to hold an amount of liquid assets equal to one third of their Fixed Overhead Requirement ("FOR"). This is the basic liquid asset requirement ("BLAR") and is made up of approved liquid assets, which include, cash, units or shares in short-term regulated money market funds and short-term deposits at UK credit institutions. The Firm is placing reliance on the transitional provisions set out in MIFIDPRU TP 2.10R and therefore the liquid capital requirement is equal to one third of the Firm's permanent minimum capital requirement.

Remuneration

The Firm is required to comply with the MIFIDPRU Remuneration Code under IFPR, which aims to ensure that we have risk-focused remuneration practices and policies that are consistent with and promote sound and effective risk management in the long-term interests of the Firm and our customers and do not expose the Firm or our clients to excessive risk.

Our approach and objectives

We have formulated our approach with reference to the guidance set out by the FCA. We consider the appropriate balance between fixed and variable remuneration as well as the constraints in place to avoid a conflict of interest between staff incentives and the best interests of customers.

The objectives of our financial incentives are to:

- promote sound and effective risk management in the long-term interests of the Firm and our customers;
- limit risk-taking and avoid conflicts of interest
- ensure alignment between risk and individual reward
- supporting positive behaviours and healthy firm cultures
- encourage responsible business conduct
- discourage behaviour that can lead to misconduct and poor customer outcomes
- align employee's interests with the firm's long-term strategy and objectives
- be gender neutral, in line with the Equality Act 2010.

Governance and decision-making procedures

The Firm's Management Committee in conjunction with Savills IM Group Remuneration Committee is responsible for overseeing the implementation of our remuneration policy and ensuring our compliance with the MIFIDPRU Remuneration Code.

One role of the Firm's Management Committee in conjunction with Savills IM Group Remuneration Committee is to ensure the extent of the variable remuneration at the Firm cannot affect the Firm's ability to ensure a sound capital base. The Firm's Management Committee in conjunction with Savills IM Group Remuneration Committee is responsible for overseeing the performance management process; reviewing and approving the remuneration policy, variable remuneration pool and caps, eligibility of participation in variable remuneration schemes, as well as the approval of variable remuneration awarded to individuals.

We assess our staff members under our performance management process on an ongoing basis with an annual performance assessment outcome being used as a contributing factor in the determination of remuneration.

The remuneration of senior staff in risk management and compliance functions is directly overseen by the Firm's Managing Partner (with input from the Firm's Management Committee) in conjunction with Savills IM Group Remuneration Committee. Any remuneration to staff with control functions is awarded according to objectives linked to their functions and remains independent from the business units they oversee.

Key characteristics of remuneration policies and practices

All staff receive fixed remuneration in form of base salary or annual profit share (as appropriate); and are considered for discretionary variable remuneration in form of bonus, guarantees and/or additional profit share (as appropriate) where eligible.

Fixed remuneration

<u>Base Salary/Annual Profit Share</u>
We review the base salary or annual profit share (as appropriate) of our staff members on an annual basis by considering factors such as market information and individual performance.

Variable remuneration

<u>Bonus/Additional Profit Share</u>
The Firm's bonus scheme is a discretionary reward scheme based on the performance of the Firm as a whole. All bonuses are dependent on the firm's overall financial result to ensure a sound capital base. The bonus pool will take into consideration all types of current and future, financial and non-financial risks and be determined on a sliding scale, using a monthly salary multiplier as a guide.

On an individual level, the scheme is designed and linked to both financial and non-financial criteria, rewarding behaviours that promote positive non-financial outcomes for the firm and limiting eventual behaviours contrary to the firm's values.

The bonus pool and other individual bonuses will be adjusted as deemed necessary by the Firm's Managing Partner (with the input from the Firm's Management Committee) in conjunction with Savills IM Group Remuneration Committee in consideration of the following:

- Any compliance or regulatory issues that have occurred or are under investigations internally or externally
- Any persistent or significant breaches in either financial or non-financial KPI's
- Any conduct related matters that have occurred or are under investigation internally or externally
- Any matters that adversely impact client outcomes
- Any other factors that may publicly impact the Firm's brand or reputation.

Control function staff are independent from the business units they oversee and are remunerated in line with the achievement of the objectives of their functions. The determination of the level of remuneration of such staff is independent of the performance of the business areas they oversee.

<u>Carried Interest</u>
There are funds advised by the Firm which incorporate carried interest and co-invest plans. These arrangements allow for members of staff to participate in the financial gain of an underlying fund. Such plans are present to increase the long term alignment with the relevant investors, the Firm and the individuals responsible for the relevant fund.

<u>Guarantees</u>
We acknowledge non-performance-related variable remuneration, such as sign-on bonus, buy-out award, retention award and severance pay, may weaken the alignment of risk and award.

We may award the following remuneration if it does not become common practice:

- Sign-on bonus: only in the first year of service of the newly hired material risk takers where the firm has a strong capital base.
- Buy-out award: involves the Firm compensating a new employee for reduced, revoked, or cancelled variable remuneration by the previous employer.
- Severance pay: in case of early termination of the employment contract, the Firm retains the ability to make severance payments as long as they reflect the individual's performance over time and do not reward failure or misconduct.

Material risk takers

Material risk takers are those staff members and members of Senior Management who have a material impact on the Firm's risk profile, including:

- Member of the management body
- Manager or senior member of staff in a control function
- Manager or senior member of a business unit carrying regulated activities
- Manager of a support function who can have a material impact on the Firm's risk profile, such as IT
- Staff with the authority to approve or veto the introduction of new products
- Staff responsible for managing a material risk or risk management policies
- Staff awarded in the previous financial year a total remuneration that is equal to or greater than the average total remuneration awarded in that financial year to any of member of staff who meets the material risk taker qualitative criteria

Performance adjustments (e.g. clawback and malus)

As part of the ongoing integration of the Firm with the Savills IM Group, the Firm's remuneration policy is in the process of being amended. Following the alignment of the remuneration policy with the Savills IM Group policy:

- up to 100 % of the total variable remuneration previously awarded will be subject to clawback arrangements. The following criteria will result in clawback arrangements being invoked:
    - Any evidence of member of staff misbehaviour or material error;
    - Any participation in or, responsibility for conduct which resulted in significant losses to the Firm or relevant business unit;
    - Any failure to meet appropriate standards of fitness and propriety;
    - Any matters that adversely impact client outcomes; or
    - Any other factors that demonstrably publicly impact the Firm's brand or reputation.

- Clawback should always be applied in cases of fraud or other conduct with intent or severe negligence which led to significant losses.

Further cases and the determination of the level of clawback and/or malus to be undertaken will be made by the Firm's Management Committee in conjunction with Savills IM Group Remuneration Committee of the Firm, which may seek external independent professional advice on the implementation of such arrangements.

Quantitative disclosures

For the financial year ended 31 December 2022, the GBP amount of remuneration awarded is as follows:

	Total	(i) Senior Management	(ii) Other material risk takers	(iii) Other staff
Total remuneration	7,260,000	2,525,000	0	4,735,000
(a) Fixed remuneration	3,612,500	905,000	0	2,707,500
(b) Variable remuneration	3,647,500	1,620,000	0	2,027,500

Note: As of 31 December 2022, the Firm did not have any material risk takers that were not senior managers .

For the financial year ended 31 December 2022, the GBP amounts of guarantee variable remuneration and severance awarded are as follows:

	Number of material risk takers receiving the award	Total	(i) Senior Management	(ii) Other material risk takers
Guaranteed variable remuneration	0	0	0	0
Severance	0	0	0	0

There were no guaranteed variable remuneration and no severance payments awarded in the reporting period.

Annex 1: Own funds – Composition of regulatory own funds

	Item	Amount (£ '000)	Source based on reference numbers / letters of the balance sheet in the audited financial statements
1	**OWN FUNDS**	**9,355**	
2	**TIER 1 CAPITAL**	**9,355**	
3	**COMMON EQUITY TIER 1 CAPITAL**	**9,355**	
4	Fully paid-up capital instruments	**50**	Statement of Financial Position – page 11
5	Share premium	**-**	
6	Retained earnings	**13,504**	Statement of Financial Position – page 11
7	Accumulated other comprehensive income	**-**	
8	Other reserves	**-**	
9	Adjustments to CET1 due to prudential filters	**-**	
10	Other funds	**-**	
11	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	**-**	
19	CET1: Other capital elements, deductions and adjustments	**4,199**	See note below.
20	**ADDITIONAL TIER 1 CAPITAL**	**-**	
21	**Fully paid up, directly issued capital instruments**	**-**	
22	**Share premium**	**-**	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	**-**	
24	**Additional Tier 1: Other capital elements, deductions and adjustments**	**-**	
25	**TIER 2 CAPITAL**	**-**	
26	Fully paid-up, directly issued capital instruments	**-**	
27	Share premium	**-**	
28	(-) TOTAL DEDUCTIONS FROM TIER	-	
29	Tier 2: Other capital elements, deductions and adjustments	-	

Note: Other capital deductions include a dividend declared in Q2 2023.

Annex 2: Own funds – Reconciliation of regulatory own funds to balance sheet in the audited financial statements

		a	b	c
		Balance sheet as in published/audited financial statements **Amount as at period end (£ '000)**	**Under regulatory scope of Consolidation** **Amount as at period end (£ '000)**	**Cross-reference to Annex 1**
Assets - *Breakdown by asset classes according to the balance sheet in the audited financial statements*				
1	Tangible assets	4		
2	Investment in subsidiaries	195		
5	Trade and other receivables: current	10,327		
6	Cash and cash equivalents	9,327		
	Total Assets	19,853		
Liabilities - *Breakdown by liability classes according to the balance sheet in the audited financial statements*				
1	Trade and other payables: current	6,213		
2	Derivative financial instruments	86		
	Total Liabilities	6,299		
Members' interests				
1	Members' capital classified as equity	50		4
2	Members' other interests	13,504		6
	Total Members' interests	13,554		

Annex 3: Own funds – Main features of own instruments issued by the firm

Members' capital of £50,000 relates to members interests held by Savills IM Holdings Limited.