

Pillar 3 disclosures

Macquarie Infrastructure and
Real Assets (Europe) Limited Group
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1.0 Overview

Macquarie Infrastructure and Real Assets (Europe) Limited Group (“MIRAEL Group”) Pillar 3 disclosures follow the requirement described in Banks, Building Societies and Investment Firms Sourcebook (“BIPRU”) 11 of the Financial Conduct Authority’s (“FCA”) Handbook.

The MIRAEL Group comprises, the parent holding company, Macquarie Group Holdings (UK) No.1 Limited (“MGHUK1”) and its subsidiaries Macquarie Group Holdings (UK) No.2 Limited (“MGHUK2”), Macquarie Infrastructure and Real Assets (Europe) Limited (“MIRAEL”) and Macquarie Korea Asset Management Co. Limited (“MKAM”).

The main purpose of the Pillar 3 disclosures is to set out how the MIRAEL Group identifies and manages the key risks to which it is exposed and to provide detail on its capital resources and risk weighted assets methodology.

MIRAEL and MKAM are the primary risk bearing entities within the MIRAEL Group. MGHUK2 is MIRAEL’s holding company and is owned by MGHUK1. MGHUK1 and MGHUK2 hold inter-company balances which are subject to credit risk.

Overview of Group Entities and Business Lines

MIRAEL Group Entities	Description of activities
MIRAEL	A UK incorporated company that is authorised by the FCA to provide funds management and advisory services. MIRAEL falls under the scope of the Alternative Investment Fund Manager’s Directive and operates as a BIPRU €125k Alternative Investment Fund Manager (“AIFM”) firm.
MKAM	A Korean Funds Manager. MKAM was incorporated in Korea and is licensed to provide asset management services under the supervision of the Financial Services Commission, the financial regulatory body of Korea. MKAM is a subsidiary of MIRAEL and is part of the Macquarie Infrastructure and Real Assets (“MIRA”) division within Macquarie Asset Management (“MAM”).
MGHUK2	MIRAEL’s holding company and is owned by MGHUK1.
MGHUK1	Holding company for MGHUK2.

Risk Management

The MIRAEL Group is a member of the Macquarie Group, a diversified financial group providing clients with asset management and finance, banking, advisory and risk and capital solutions across debt, equity and commodities. All risks arising from the MIRAEL Group’s activities are managed in accordance with Macquarie’s global risk management framework. This framework has been formally adopted by the Boards of the individual entities within the MIRAEL Group.

Further information on Macquarie’s Risk Management Framework can be found in Macquarie Group Limited’s 2017 Annual Report at:

www.macquarie.com.au/mgl/au/about-macquarie-group/investor-relations/financial-disclosure/financial-reports/macquarie-group-limited-mgg

Internal capital adequacy assessment process (“ICAAP”)

The MIRAEL Group conducts an ICAAP in accordance with BIPRU 2.2 to ensure that it meets the overall Pillar 2 rule. This involves assessments of capital adequacy in light of the MIRAEL Group’s risk profile and to have a strategy in place for maintaining adequate capital levels.

The ICAAP is part of MIRAEL’s overall risk management framework. Its key features include:

- comprehensive risk assessment process;
- internal assessment of capital adequacy;
- financial and capital forecasts;
- business strategy and growth plans;
- the impact of a three year downturn stress scenario; and
- wind down analysis.

Remuneration

The remuneration disclosure for Pillar 3 is outlined in BIPRU 11.5.18 – 11.5.21. Macquarie’s remuneration disclosures encompass all Remuneration Codes for the UK and are published separately on the Macquarie website

www.macquarie.com/dafiles/Internet/mgl/global/shared/about/investors/regulatory-disclosures/basel-iii-pillar-3-uk-annual-remuneration-disclosures-mar2017.pdf?v=2

Disclosures on Governance Arrangements

Directors of MIRAEL Group hold the following number of directorships as at 31 March 2017:

- James Dyckhoff (Director - Finance) - 11
- Leigh Harrison (Head of MIRA EMEA) - 15
- Philip Hogan (Director - MIRA) - 46
- Arthur Rakowski (Director - MIRA) - 13
- Martin Stanley (Global Head of MIRA) - 13

MIRAEL Group, like all group companies, is subject to Macquarie’s global workforce policy. The Workforce Diversity policy defines Macquarie’s commitment to workforce diversity and the structures in place to ensure it is realised. The principles contained in Macquarie’s Workforce Diversity policy are incorporated into Macquarie’s public statement “Our commitment to diversity and inclusion” available at:

www.macquarie.com.au/dafiles/Internet/mgl/au/about-macquarie-group/diversity/documents/OurcommitmenttodiversityFINAL.pdf

2.0 Capital Adequacy

The consolidated capital requirements for the MIRAEL Group are calculated per BIPRU 8.7.13. The capital requirement calculations are applied to each entity (MGHUK1, MGHUK2, MIRAEL and MKAM) in the consolidated group and then the individual requirements are aggregated.

As an AIFM firm subject to BIPRU, MIRAEL is required to hold capital that is the higher of:

- €125,000; and
- its capital requirements (as calculated below).

The capital requirement for MIRAEL is determined as the higher of (1) and (2):

1. The professional negligence capital requirement plus the higher of (i) and (ii):
 - i. the funds under management requirement; and
 - ii. the Fixed Overhead Requirement ("FOR") in accordance with GENPRU 2.1.45.
2. The amount in accordance with GENPRU 2.1.45 which is the higher of (i) and (ii):
 - i. the sum of the Credit risk and Market risk capital requirements; and
 - ii. the Fixed Overhead Requirement.

For MKAM, MGHUK1 and MGHUK2, the capital requirements are calculated as per GENPRU 2.1.45 as the higher of (i) and (ii):

- i. the sum of the Credit risk and Market risk capital requirements; and
- ii. the Fixed Overhead Requirement.

The capital requirements calculated for MIRAEL, MGHUK1, MGHUK2 and MKAM are aggregated to arrive at the capital requirements for the MIRAEL Group.

The Group's Capital resources and Capital resources requirement comprised the following elements:

	31 March 2017 £'m	31 March 2016 £'m
Capital Resources		
MIRAEL Group		
Tier 1 Capital Resources		
- Equity	145.5	145.6
- Retained Earnings	63.2	29.1
- Reserves	7.0	2.5
- Deduction of Goodwill	(42.2)	(37.0)
Net Tier 1 Capital	173.5	140.2
Tier 2 Capital Resources		
- Subordinated Debt	10.5	10.5
- Minority interest	0.1	0.1
Net Tier 2 Capital	10.6	10.6
Total Capital Resources	184.1	150.8
Capital Resources Requirement		
MIRAEL Standalone		
AIFM¹		
Higher Of		
- Funds under management requirement ² ; and	2.8	1.9
- Fixed Overheads Requirement ("FOR")	5.7	5.0
Plus		
- Professional negligence capital requirement ³	1.4	0.9
AIFM Capital requirements	7.1	5.9
GENPRU		
Higher Of		
- Credit Risk; plus	8.5	8.5
- Market Risk; and	2.4	0.2
- Fixed Overheads Requirement ⁴	5.7	5.0
GENPRU Capital Requirements	10.9	8.7
Total Pillar 1 requirement (Higher of GENPRU and AIFM Capital Requirements)	10.9	8.7

There are no differences between the accounting and prudential approach to equity figures.

¹ MIRAEL was granted an AIFM licence in February 2015.

² Calculated as €125,000 + 0.02% of the funds under management above €250m.

³ Calculated as 0.01% of the funds under management.

⁴ The Fixed Overheads Requirement is calculated in accordance with GENPRU 2.1.53 as a quarter of a firm's relevant fixed expenditure.

2.0 Capital Adequacy

continued

	31 March 2017 £'m	31 March 2016 £'m
Capital Resources Requirement continued		
MKAM Standalone		
GENPRU		
Higher Of		
- Credit Risk; and	3.9	3.4
- Market Risk; or	3.0	2.6
- Fixed Overheads Requirement	0.7	0.7
Total Pillar 1 requirements	6.9	6.0
MGHUK1 Standalone		
GENPRU		
Higher Of		
- Credit Risk; and	3.6	4.1
- Market Risk; or	-	-
- Fixed Overheads Requirement	-	-
Total Pillar 1 requirements	3.6	4.1
MGHUK2 Standalone		
GENPRU		
Higher Of		
- Credit Risk; and	4.6	-
- Market Risk; or	-	-
- Fixed Overheads Requirement	-	-
Total Pillar 1 requirements	4.6	-
MIRAEI Group		
Total Pillar 1 Credit Risk		
- Credit Risk	20.6	16.1
- Market Risk	5.5	2.7
Total Capital Resources Requirements	26.1	18.8
Tier 1 capital ratio	53.2%	59.7%
Total capital ratio	56.4%	64.2%

MIRAEL's (being a significant subsidiary) capital resources and capital resources requirement comprised the following elements:

	31 March 2017 £'m	31 March 2016 £'m
Capital Resources		
Tier 1 Capital Resources		
- Equity	42.7	34.7
- Retained Earnings	32.3	58.2
- Reserves	0.8	0.6
- Material Holding ²	(22.1)	(17.3)
Net Tier 1 Capital	53.7	76.2
Tier 2 Capital Resources		
- Subordinated Debt	10.5	10.5
- Material Holding ²	(10.5)	(10.5)
Net Tier 2 Capital	-	-
Total Capital Resources	53.7	76.2
Capital Resources Requirements		
AIFM¹		
Higher Of		
- Funds under management requirement ³ ; and	2.8	1.9
- Fixed Overheads Requirement ("FOR")	5.7	5.0
Plus		
- Professional negligence capital requirement ⁴	1.4	0.9
AIFM Capital requirements	7.1	5.9
GENPRU		
Higher Of		
- Credit Risk; plus	8.5	8.5
- Market Risk; or	2.4	0.2
- Fixed overhead requirement ⁵	5.7	5.0
GENPRU Capital Requirements	10.9	8.7
Total Pillar 1 requirement (Higher of GENPRU and AIFM Capital Requirements)	10.9	8.7
Total Capital Resources Requirements	10.9	8.7
Tier 1 capital ratio	39.5%	69.9%
Total capital ratio	39.5%	69.9%

¹ MIRAEL was granted an AIFM licence in February 2015.

² The Material Holding represents MIRAEL's equity investment in its subsidiary MKAM

³ Calculated as €125,000 + 0.02% of the funds under management above €250m.

⁴ Calculated as 0.01% of the funds under management.

⁵ The Fixed Overheads Requirement is calculated in accordance with GENPRU 2.1.53 as a quarter of a firm's relevant fixed expenditure.

3.0 Capital Resource Requirement

3.1 Credit Risk

- The MIRAEL Group calculates credit risk using the standardised approach as per BIPRU 3.
- Where available, the credit ratings assigned to counterparties by one or more eligible rating agencies are used in the calculation of risk weighted capital requirements for credit risk. Rating agencies used by Macquarie are Moody's, Standard & Poor's and Fitch.
- The MIRAEL Group has a tightly defined scope of operations, namely the provision of funds management and advisory services, and as such runs minimal credit risk.
- In addition, the MIRAEL Group holds an available for sale investment which is subject to credit risk with a risk weight of 100%.
- MKAM's credit risk relates primarily to fee receivables and the credit risk in MGHUK1 and MGHUK2 relate to intercompany receivables.
- The MIRAEL Group has no exposures that would be subject to counterparty credit risk.

3.2 Market Risk

- The MIRAEL Group calculates market risk using the standardised approach as laid out under BIPRU.
- The MIRAEL Group does not take on any principal positions and all market risks related to equity market exposures on Assets Under Management are borne directly by investors, with no direct risk to the MIRAEL Group.
- The MIRAEL Group does however have exposure to non-sterling related fee receivables and other balance sheet items and is therefore subject to FX risk as a result of adverse currency movements.

3.3 Fixed Overhead Requirement

- A BIPRU firm must calculate a fixed overheads requirement, an amount that is equal to one quarter of the firm's relevant fixed expenditure calculated in accordance with GENPRU 2.1.53 R.
- A full analysis of this and other relevant risks has been undertaken along with an assessment of the capital required to be held behind these risks.

3.4 Other Risks

The following risks are not applicable to the MIRAEL Group:

- Securitisation.
- Interest Rate Risk in the Banking Book (IRRB).
- Trading book exposures in Equities.

4.0 Credit Risk Mitigation

The external credit ratings of the MIRAEL Group's exposures to corporates, institutions and sovereigns have been mapped to credit quality steps to determine the appropriate risk weights according to FCA guidance. The MIRAEL Group complies with Macquarie Group's policy with regards to balance sheet netting arrangements.

The table below illustrates the balance sheet exposure values by risk weight, before and after application of credit risk mitigation. As at 31 March 2017 and 31 March 2016, there was no credit risk mitigation in the MIRAEL Group

Exposure Class	Risk Weight	31 March 2017			31 March 2016		
		Exposure pre-credit risk mitigation	Exposure post-credit risk mitigation	Average Exposure post-credit risk mitigation ¹	Exposure pre-credit risk mitigation	Exposure post-credit risk mitigation	Average Exposure post-credit risk mitigation
		£'m	£'m	£'m	£'m	£'m	£'m
Central Governments	0%	0.1	0.1	0.1	0.1	0.1	0.0
	100%	2.2	2.2	2.1	2.0	2.0	1.9
Claims on Institutions and corporates with a short term credit assessment	20%	0.2	0.2	0.2	0.2	0.2	0.2
	50%	-	-	-	-	-	7.0
	100%	-	-	-	-	-	-
Corporates	20%	0.0	0.0	0.1	0.1	0.1	0.1
	50%	0.5	0.5	0.5	0.5	0.5	21.1
	100%	254.4	254.4	226.2	198.1	198.1	141.8
Other items	100%	0.1	0.1	0.2	0.4	0.4	0.3
Total		257.5	257.5	229.4	201.3	201.3	172.3

¹ Average exposure post CRM shows the average exposure as at 31 March 2016 and 31 March 2017.

Exposure Class	Geographic Location	31 March 2017		31 March 2016	
		Exposure pre-credit risk mitigation	Credit Risk Capital Requirements	Exposure pre-credit risk mitigation	Credit Risk Capital Requirements
		£'m	£'m	£'m	£'m
Central governments or central banks	Europe	2.3	0.2	2.1	0.2
Claims on institutions and corporate with a short-term credit assessment	Europe	0.2	-	0.2	-
Corporates	Americas	-	-	0.1	-
	Asia	64.5	5.2	57.3	4.6
	Australia	0.2	-	0.3	-
	Europe	190.1	15.2	141.0	11.3
Other items	Asia	-	-	0.1	-
	Europe	0.2	-	0.3	-
Grand Total		257.5	20.6	201.3	16.1

Disclaimer

- The material in this document has been prepared by Macquarie Infrastructure and Real Assets (Europe) Limited, Company number 03976881 (“MIRAEL”) purely for the purpose of explaining the basis on which MIRAEL has prepared and disclosed certain capital requirements and information about the management of risks relating to those requirements and for no other purpose. Information in this document, including any forward looking statements, should not be considered as advice or a recommendation to investors or potential investors in relation to holding, purchasing or selling activities or other financial products or instruments (the “Investment Activity”) and does not take into account investors particular investment objectives, financial situation or needs. Before acting on any information investors should consider the appropriateness of information having regard to the Investment Activity, any relevant offer document and in particular, investors should seek independent financial advice. All securities and financial product or instrument transactions involve risks, which include (among others) the risk of adverse and unanticipated market, financial or political developments and, in international transactions, currency risk.
- This document may contain forward looking statements including statements regarding our intent, belief or current expectations with respect to MIRAEL’s businesses and operations, market conditions, results of operation and financial conditions, capital adequacy, individually assessed provisions and risk management practices. Readers are cautioned not to place undue reliance on these forward looking statements. MIRAEL does not take any obligation to publicly update or release the results of any revisions to these forward looking statements whether as a result of new information, future events or otherwise. While due care has been used in the preparation of forecast information, actual results may vary in a materially positive or negative manner. Forecasts and hypothetical examples are subject to uncertainty and contingencies outside MIRAEL’s control. Past performance is not a reliable indication of future performance. Unless otherwise specified all information is at 31 March 2017.
- Although Pillar 3 disclosures are intended to provide transparent capital disclosures on a common basis the information contained in this document may not be directly comparable with the information of other firms. This may be due to a number of factors such as:
 - the mix of business exposures differ between firms; and
 - the fact that Pillar 2 capital requirements are excluded from this disclosure but play a major role in determining both the total capital requirements of the firm and any surplus capital available.

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