



# MIMEL Pillar 3 Capital Disclosure

**March 2021**

Macquarie Investment Management Europe Limited  
ACN [XXX XXX XXX]

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# 1. Overview

This disclosure is in relation to **Macquarie Investment Management Europe Limited (“MIMEL”)**. MIMEL is a UK incorporated company that is authorised and regulated by the Financial Conduct Authority (“FCA”) as a MiFID investment firm.

MIMEL is a wholly-owned subsidiary of Macquarie Corporate Holdings Pty Limited (“MCPHL”), ultimately owned by Macquarie Group Limited (“MGL”). MGL is a large financial conglomerate, authorised and regulated by the Australian Prudential Regulation Authority (“APRA”) as the non-operating holding company of an Australian authorised deposit-taking institution.

MIMEL is regulated under the Banks, Building Societies and Investment Firms Sourcebook (“BIPRU”) and General Prudential Sourcebook (“GENPRU”) of the FCA Handbook. These regulations are structured in line with Basel Committee’s three Pillars of supervision: Pillar 1 “minimum capital requirements”, Pillar 2 “supervisory review process” and Pillar 3 “market discipline”.

MIMEL Group’s Pillar 3 disclosures follow the requirements described in Chapter 11 of the BIPRU. The main purpose of the Pillar 3 disclosures is to set out the MIMEL Group’s risk profile, capital adequacy and risk management approach with an aim to increase transparency and confidence in the market.

As at 31 March 2021, the MIMEL Group consisted of the entities listed in Table 1 below. The disclosures for MIMEL are produced on a consolidated basis.

Figure 1.

<b>MIMEL UK Consolidation Group</b>	<b>Description of activities</b>
Macquarie Investment Management Europe Limited (“MIMEL”)	MiFID investment firm carrying out investment management and distribution activities in Europe
MIM Holdings (Austria) GmbH (“MIM Austria Holdco”)	MIM Austria Holdco is a subsidiary of MIMEL and is the holding company of MIM Austria KAG.
MIM Austria KAG (“MIM Austria”)	MIM Austria is an investment management company incorporated in Austria and regulated by the Financial Market Authority (“FMA”)

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## 2. Risk Management

### Risk Management

The MIMEL Group is a member of the Macquarie Group, a global provider of banking, financial, advisory, investment and funds management services. All risks arising from the MIMEL Group's activities are managed in accordance with Macquarie's global risk management framework. This framework has been formally adopted by the MIMEL Group Board.

Any new business activity in the MIMEL Group will require the approval of the Board. It will be subject to Macquarie's New Product and Business Approval process. This process is an important aspect of Macquarie's approach to risk management, providing a well-established framework for the identification and assessment of incremental risks arising.

Detail on Macquarie's Risk Management Framework, including the Risk Management Group, risk reporting and risk mitigation can be found on the Macquarie Group website and in Macquarie Group Limited's 2021 Financial Statements at

- [www.macquarie.com.au/mgl/au/about-macquarie-group/investor-relations/financial-disclosure/financial-reports/macquarie-group-limited-mqg](http://www.macquarie.com.au/mgl/au/about-macquarie-group/investor-relations/financial-disclosure/financial-reports/macquarie-group-limited-mqg)
- [www.macquarie.com/uk/about/company/risk-management-at-macquarie/](http://www.macquarie.com/uk/about/company/risk-management-at-macquarie/)

### Internal capital adequacy assessment process (“ICAAP”)

The MIMEL Group conducts and documents an ICAAP in accordance with BIPRU 2.2 in which it identifies the key risks to which it is exposed, the management of these risks, and determines its level of internal capital requirements over a three-year projected period to meet the overall Pillar 2 rule. This involves assessments of capital adequacy in light of the MIMEL Group's risk profile and implementing a strategy for maintaining adequate capital levels.

The ICAAP is part of the MIMEL Group'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.

The MIMEL Group's ICAAP is subject to senior management oversight and is reviewed and approved by the MIMEL Board.

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# 3. Remuneration

## Remuneration

Please refer to MIMEL's Pillar 3 Remuneration Disclosures for information on MIMEL's remuneration policy and practices. [www.macquarie.com/au/about/investors/regulatory-disclosures](http://www.macquarie.com/au/about/investors/regulatory-disclosures)

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# 4. Capital Adequacy

## Capital Resources

The MIMEL Group's regulatory capital resources are solely in the form of Tier 1 capital instruments, comprising ordinary share capital and retained earnings; less intangibles.

Tier 1 regulatory capital resources is to account for externally verified (audited) retained earnings, and foreseeable dividend payments.

The MIMEL Group does not hold any Tier 2 capital.

## Capital Requirements

MIMEL is a BIPRU 50k firm and a limited licensed firm. Per BIPRU 8.7.13(3), MIMEL calculates its consolidated Pillar 1 capital requirement by treating the consolidation group as a single undertaking and applying the risk capital requirements for credit risk, market risk and the fixed overheads requirement set out in BIPRU 8.7.12 to the group as a whole.

MIMEL's UK consolidation group includes MIMEL and two subsidiary undertakings, MIM Austria Holdco and MIM Austria, on the basis that MIM Austria Holdco is a financial holding company and MIM Austria is an asset management company in accordance with BIPRU 8.5.1R.

As a BIPRU 50K firm, MIMEL needs to hold capital that is the higher of:

1. the base capital requirement of €50,000 (per GENPRU 2.1.41 and 2.1.48); and
2. the variable capital requirement (per GENPRU 2.1.40 and 2.1.45 as calculated below).

On both a standalone (solo) and consolidated basis, MIMEL's minimum Pillar 1 capital requirement is therefore determined in accordance with GENPRU 2.1.45 as the higher of:

1. the sum of its Credit risk and Market risk capital requirements; and
2. the Fixed Overheads Requirement ("FOR").

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

Table 2: Capital Adequacy - the MIMEL Group (Consolidated)

	31 March 2021 £'m	31 March 2020 £'m
<b>Capital Resources</b>		
<b>MIMEL Group</b>		
<b>Tier 1 Capital Resources</b>		
– Equity	50.0	50.0
– Profit and loss account and other reserves including material interim net losses	(6.0)	(7.0)
– Deduction from Tier 1	(4.5)	(4.7)
<b>Net Tier 1 Capital</b>	<b>39.5</b>	38.3
<b>Net Tier 2 Capital</b>	-	-
<b>Total Capital Resources</b>	<b>39.5</b>	38.3
<b>Capital Resources Requirement</b>		
<b>MIMEL Group</b>		
Higher Of		
– Credit Risk; plus	4.0	3.9
– Market Risk <sup>1</sup> ; and	0.9	1.1
– Fixed Overheads Requirement <sup>2</sup>	7.3	5.9
<b>Total Capital Resources Requirements</b>	<b>7.3</b>	5.9
<b>MIMEL Group Risk Weighted Assets</b>	<b>91.1</b>	74.2
<b>Total Capital Ratio</b>	<b>43.4%</b>	51.6%

Note that any figure labelled as "-" throughout this document relates to a zero balance, whereas figures labelled as £0.0m relate to non-zero balances which round to £0.0m (to the nearest hundred thousand).

<sup>1</sup> The Market Risk Requirement is entirely Foreign Currency PRR as calculated in accordance with BIPRU 7.5.

<sup>2</sup> The Fixed Overheads Requirement is calculated in accordance with GENPRU 2.1.53 as a quarter of a firm's relevant fixed expenditure.

MIMEL's (being a significant subsidiary of the MIMEL Group) Capital Resources and Capital Resources Requirement comprised the following elements:

Table 3: Capital Adequacy - MIMEL (Solo)

	31 March 2021	31 March 2020
	£'m	£'m
<b>Capital Resources</b>		
<b>Tier 1 Capital Resources</b>		
– Equity	50.0	50.0
– Profit and loss account and other reserves including material interim net losses	1.5	2.4
– Material Holding <sup>1</sup>	(20.1)	(21.0)
<b>Net Tier 1 Capital</b>	<b>31.4</b>	31.4
<b>Net Tier 2 Capital</b>	-	-
<b>Total Capital Resources</b>	<b>31.4</b>	31.4
<b>Capital Resources</b>		
<b>GENPRU</b>		
Higher Of		
– Credit Risk; plus	3.1	3.1
– Market Risk; or	0.3	0.3
– Fixed overhead requirement <sup>2</sup>	4.0	3.4
<b>Total Capital Resources Requirements</b>	<b>4.0</b>	3.5
<b>Risk Weighted Assets</b>	<b>49.9</b>	43.6
<b>Total Capital Ratio</b>	<b>62.9%</b>	72.0%

<sup>1</sup> The Material Holding represents MIMEL's equity investment in its subsidiary MIM Austria KAG.

<sup>2</sup> The Fixed Overheads Requirement is calculated in accordance with GENPRU 2.1.53 as a quarter of a firm's relevant fixed expenditure.



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# 5. Risk Assessment

## Credit Risk

- As a member of the Macquarie Group, MIMEL is subject to a global framework for the approval, management and reporting of credit risk exposures such as cash balances at third party banks. This includes the assessment of credit risk using Macquarie's economic capital model that is consistent with the advanced approaches under Basel III. Further information about MIMEL's approach to credit risk, including the approach to impairments and provisions, can be found in Macquarie Group's Annual Report (see Section 1).
- The MIMEL 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 nature of the credit risks encountered by the MIMEL Group (primarily fee receivables, intercompany settlements and cash balances) are not complex, and the likelihood of these credit risks materialising is low.
- The MIMEL Group has no exposures that would be subject to counterparty credit risk capital requirements.
- The MIMEL Group has no specialised lending exposures that would be subject to credit risk capital requirements.

## Concentration risk

- The MIMEL Group is exempt from the large exposures regime and does not have a regulatory cap on the levels of concentration it can take to a counterparty or group of connected counterparties.
- However, as a member of the Macquarie Group, the MIMEL Group is subject to Macquarie's policies that limit large exposures to single counterparties.
- Overall concentration risk is considered immaterial to the MIMEL Group.

## Market Risk

- As a member of the Macquarie Group, the MIMEL Group is subject to a global framework for the approval, management and reporting of market risk exposures.
- The MIMEL Group does not take on any principal positions and all market risks on fund holdings are borne directly by investors, with no direct risk to the MIMEL Group.
- The MIMEL Group does however have exposure to foreign exchange risk from fee receivables and will therefore be exposed to adverse currency movements. The MIMEL Group calculates market risk in accordance with BIPRU 7.5. MIMEL's market risk requirement is entirely attributed to foreign currency PRR.

## Fixed Overhead Requirement

- MIMEL calculates its fixed overheads requirement as an amount that is equal to one quarter of the firm's relevant fixed expenditure in accordance with GENPRU 2.1.53 R.

## Approach to other risks

### Operational Risk

- Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
- Macquarie's Operational Risk Management Framework ("ORMF") is designed to identify, assess and manage operational risks within the organisation. The key objectives of the framework are:
  - Risk identification, analysis and acceptance.
  - Execution and monitoring of risk management practices.
  - Reporting and escalation of risk information on a routine and exception basis.

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- The Framework incorporates six primary pillars in the management of operational risk:
    - Operational Risk Policies
 

Policies and guidelines are established to support the management of operational risks.
    - New Product and Business Approval (NPBA) process
 

A robust change management process to ensure operational risks inherent in new products, businesses, processes or systems and major organisational projects are identified, addressed and managed prior to implementation.
    - Incident Reporting and Escalation
 

Operational risk incidents are analysed to identify lessons learned and ensure appropriate actions have been taken towards the relevant risk.
    - Risk and Control Self-Assessment (“RCSA”) and Control Assurance
 

The RCSA is a formal process of risk self-assessment, designed to identify operational and compliance risks that exist in the business, and to record and assess the performance of the controls in place to mitigate those risks. Control assurance is a proactive investigation to provide comfort that critical controls are adequately designed and operating effectively.
    - Operational Risk Capital Framework
 

To assess the Operational Risk Capital requirements (under the ICAAP), Macquarie uses a scenario-based methodology. It’s framework for managing operational risk capital has been developed to establish the level of capital required to be held for operational risk exposures and as a tool to encourage appropriate management of Macquarie’s day-to-day operational risk.
    - Business-aligned Operational Risk Management
 

Business Operational Risk Manager (BORMs) are appointed by the Macquarie business division heads to be their representative on operational risk management matters, and act as their delegate in ensuring that operational risk is addressed appropriately within the Group.
  - Structure and Organisation of the Operational Risk Function
 

Most Macquarie operational risk staff operate at the business level. These BORMs are responsible for embedding operational risk management within their business.

RMG Operational Risk and Governance is a division of RMG and is responsible for ensuring the ORMF remains appropriate and that skilled resources are available to support it. It is also responsible for Macquarie’s operational risk capital measurement methodology.

### **Interest rate risk in the non-trading book**

- Net interest income/expenditure has a relatively insignificant impact on the MIMEL Group’s P&L and therefore exposure to changes in interest rates is minimal.

The following risks are not applicable to the MIMEL Group:

- Securitisation.
- Trading book exposures in equities.
- Retail exposures

The external credit ratings of the MIMEL 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 MIMEL Group complies with Macquarie Group’s policy with regards to balance sheet netting arrangements.

As at 31 March 2021 and 31 March 2020, there was no credit risk mitigation in the MIMEL Group.

## 6. Exposure Classification and Credit Risk Mitigation

Table 4: Exposure split by class

Exposure Class	Risk Weight	31 March 2021	31 March 2020
		Final Exposure £'m	Final Exposure £'m
Central Governments <sup>1</sup>	0%	0.1	0.1
	100%	0.1	0.7
	250%	0.2	-
Claims on Institutions and corporates with a short term credit assessment	20%	9.0	6.0
	50%	0.3	0.2
Corporates	100%	42.0	42.6
Equity	100%	4.4	3.4
Other items	100%	0.3	0.5
<b>Total</b>		<b>56.4</b>	<b>53.5</b>

Table 5: Exposures split by class and geographic locations

Exposure Class	Geographic Location	31 March 2021		31 March 2020	
		Final Exposure £'m	Credit Risk Capital Requirements £'m	Final Exposure £'m	Credit Risk Capital Requirements £'m
Central governments or central banks	Europe	0.4	0.1	0.8	0.1
Claims on institutions and corporate with a short-term credit assessment	Australia	0.3	0.0	0.2	0.0
	Europe	9.0	0.1	6.0	0.1
Corporates	Australia	0.1	0.0	37.3	3.0
	Europe	41.9	3.4	4.5	0.4
	United States	0.0	0.0	0.8	0.1
Equity	Europe	4.4	0.4	3.4	0.3
Other items	Europe	0.3	0.0	0.5	0.0
<b>Grand Total</b>		<b>56.4</b>	<b>4.0</b>	<b>53.5</b>	<b>3.9</b>

<sup>1</sup> Exposure with Central Government relate to tax assets

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Table 6: Exposure split by Credit Quality Step

<b>Exposure Class (£'m)</b>	<b>Unrated</b>	<b>1</b>	<b>2</b>
Central governments or central banks	0.4		
Claims on institutions and corporate with a short-term credit assessment		8.7	0.6
Corporates	42.0		
Equity Exposures	4.4		
Other items	0.3		
<b>Total</b>	<b>47.1</b>	<b>8.7</b>	<b>0.6</b>

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## 7. Disclaimer

- The material in this document has been prepared by Macquarie Investment Management Limited, Company number 09612439 (“MIMEL”) purely for the purpose of explaining the basis on which MIMEL 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 MIMEL’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. MIMEL 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 MIMEL’s control. Past performance is not a reliable indication of future performance. Unless otherwise specified, all information is as of 31 March 2021.
- 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:
  - different mix of business exposures 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.

## 8. Appendix

### Capital instruments' main features template (1)

1	Issuer	MIMEL
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/a
3	Governing law(s) of the instrument <i>Regulatory treatment</i>	UK
4	Transitional CRR rules	CET1
5	Post-transitional CRR rules	CET1
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	50
9	Nominal amount of instrument	50
9a	Issue price	1
9b	Redemption price	1
10	Accounting classification	Called Up Share capital
11	Original date of issuance	28-May-15
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity Date
14	Issuer call subject to prior supervisory approval	N/a
15	Optional call date, contingent call dates and redemption amount	N/a
16	Subsequent call dates, if applicable <i>Coupons / dividends</i>	N/a
17	Fixed or floating dividend / coupon	N/a
18	Coupon rate and any related index	N/a
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/a
25	If convertible, fully or partially	N/a
26	If convertible, conversion rate	N/a
27	If convertible, mandatory or optional conversion	N/a
28	If convertible, specify instrument type convertible into	N/a
29	If convertible, specify issuer of instrument it converts into	N/a
30	Write-down features	N/a
31	If write-down, write-down trigger(s)	N/a
32	If write-down, full or partial	N/a
33	If write-down, permanent or temporary	N/a
34	If temporary write-down, description of write-up mechanism	N/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/a
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/a

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