nuveen
A TIAA Company

ICAAP – Pillar 3 Disclosure

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A1.1 Introduction

The Capital Requirement Regulation (“CRR”) is a regulation that sets out the requirements in line with Basel III and embeds a single European rulebook into the regulatory framework. This framework of rules is built on 3 pillars.

The Pillar 3 disclosure is a requirement of the EU Capital Requirements Directive (CRD), as implemented by the Financial Conduct Authority (“FCA”) in the UK.

The three pillars are as follows:

Pillar 1 – sets out the minimum capital requirements that regulated entities are required to meet, in respect of credit, market and operational risk. These are made up of base capital resource requirements, credit risk and market risk capital requirements; and the fixed overhead requirement.

Pillar 2 – requires that a firm conduct an overall assessment of their capital adequacy by considering all risks to which a firm is exposed, and whether additional capital should be held over and above the Pillar 1 requirements. This process is delivered via the Internal Capital Adequacy Assessment Process (ICAAP).

Pillar 3 – Seeks to improve market discipline by requiring regulated entities to disclose certain information on their risks, risk management framework and capital resources and requirements.

Summary of capital and capital requirements	NREML Limited Licence 31 Dec 2016 (£m)
Capital after deductions	23.3
Pillar 1 capital requirement	11.1
Surplus	12.2

A1.1.1 Basis of Disclosure

Nuveen Real Estate Limited (the “Group” or NRE”) is subject to regulatory and prudential oversight in the various locations it operates. The FCA is the group’s primary regulator. NRE is an indirect subsidiary of Teachers Insurance and Annuity Association (“TIAA”) and is the parent company of the regulated corporate entities falling under the CRR.

The Group continues to follow the CRD III rules and as such the Pillar 3 disclosures set out in this document are made in accordance with the requirements of Chapter 11 of the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU).

The requirement for Pillar 3 disclosures relates to BIPRU firms and in accordance with the requirements therein, these disclosures have been prepared in respect of the individual Limited License Investment Firm (“LLIF”) and other UK regulated entities within the group. Similarly, risk management and control framework information is presented for the Group level, as NRE operates a Group-wide Risk Management framework.

A1.1.2 Frequency, verification and location of disclosures

As a minimum these disclosures are made on an annual basis, or more frequently if there are any material updates to the firm's internal capital adequacy assessment. NRE has a financial year end date of 31 December. These disclosures reflect the position as at 31 December 2016. Ongoing disclosure will be made as soon as practicable after the completion of the year-end audit. These disclosures explain the basis of preparation of certain capital requirements and provide information about the management of certain risks. They do not constitute any form of audited financial statement and have been produced purely for the purposes of Pillar 3.

The Board of NRE (Nuveen Real Estate Limited, or "NREL"), along with the boards of directors of each legal entity, are responsible for the system of internal control and for reviewing its effectiveness. Such a system can provide reasonable but not absolute assurance against financial misstatement or loss and is designed to mitigate, not eliminate risk.

The Pillar 3 disclosures are published on the Group website (www.nuveen.com).

A1.2 Risk Framework

This section describes the Risk Management Framework ("RMF") and related policies and procedures that have been implemented by NRE to identify and manage its risk and to protect the interests of its clients.

The Board considers risk assessment and the existence of effective controls to be fundamental to achieving the Group's corporate objectives within an acceptable risk and reward profile. Since inception of NRE on 1 April 2014, and up to the date of this report, there has been in place an ongoing process for identifying, evaluating and managing significant risks within the Group's control which accords with the guidance set out in 'Internal Control: Guidance to Directors'.

Ultimate responsibility for managing risks lies with the Board of Directors, who are supported by other senior managers that have responsibility for specific risks which are managed daily.

NRE operates a 'three lines of defence' approach with regard to risk management. The first line of defence ensures that day-to-day responsibility for risk management is at the business unit level where risk is seen as part of the overall business process and a robust framework of identification, evaluation, management and monitoring exists. The second line of defence involves the Risk and Compliance functions and the third line is Internal Audit. All three lines report into the Board.

Quarterly risk reports are provided by the Head of Risk to the Board and these include material business risks such as strategic, credit, market and operational risks. The Risk function maintains an incident management process and reports regularly to the Executive Leadership Team. The Board considers the reporting framework gives it sufficient information upon which to assess the effectiveness of the Group's system of internal controls and to assess the actual and potential risks facing the Group.

The Board has overall responsibility for the Group's system of internal controls and for reviewing their effectiveness. The systems of internal controls are designed to manage, rather than eliminate, risks. They will not therefore provide absolute assurance against material loss or misstatement.

The effectiveness of the Group's system of internal controls is reviewed at least annually by the Board in order to safeguard the Group's assets as well as clients' and shareholders' interests. This review covers all material controls including financial, operational and compliance controls and risk management systems. The Board has delegated certain responsibilities to the Executive Leadership Team.

Additional independent assurance is provided by the Internal Audit function.

A1.2.1 Risk Appetite Statement

It is both necessary and desirable for NRE to accept, tolerate or be exposed to a level of risk in pursuit of achieving its corporate objectives. However, it is also necessary to ensure that the amount of risk taken is within acceptable boundaries that are commensurate with the financial strength and regulatory obligations of the business. Good risk management does not imply avoiding all risks at any cost; rather it implies making informed and coherent choices regarding the risks the business wants to take in pursuit of its strategy and objectives, having regard to the methods used to manage and mitigate those risks.

A comprehensive Risk Appetite Statement (“RAS”), with a range of qualitative and quantitative risk thresholds allows the Board to clearly express the risk parameters within which corporate strategy should be executed. Appropriate reporting on the risk parameters within the RAS should provide the Board with a clear picture of the extent to which the execution of corporate strategy does, or does not, fall within the risk appetite.

This RAS has been developed and agreed by the Board and it is inextricably linked with strategy, business plans and shareholder and client expectations; it is a fundamental component of the overall risk management framework. The RAS will also inform capital management plans, both with regard to capital capacity to absorb unexpected losses and the maintenance of appropriate capital buffers. Any changes to the RAS, as required to reflect changes in the direction, objectives and associated strategy of NRE’s business, or prompted by changes in market and regulatory factors, will be approved by the Board.

The Board empowers the Executive Leadership Team (“ELT”) to take-on risk actively in order to achieve business objectives, but within the risk boundaries outlined in this RAS. Risks taken must be well understood and adequately measured to ensure that the risk exposure is appropriate for the returns anticipated both for each individual risk and, when aggregated, with all the other risks to which TH RE is exposed. Furthermore, the risks taken must be consistent with NRE’s obligations to stakeholders. The objective is to safeguard NRE’s and clients’ assets and comply with client mandates and the terms of funds’ constitutional documentation, whilst allowing sufficient operational freedom to seek a satisfactory return.

NRE operates an effective governance structure, which ensures that risk-taking is controlled and reported in an appropriate manner; the effective management of risk is integral to all the Group’s operations. NRE takes a considered approach to risk to ensure that both its tangible and intangible assets are protected at all times. In the event of a loss of intangible assets, which could include brand, reputation and good standing, there could be a much more debilitating and longer lasting effect on future business growth and this will influence the firm’s risk appetite.

A1.2.2 Risk Principles and Strategy

The business will be guided by the following risk principles:

• Management will only take risks that contribute to the achievement of the overall objective and the execution of its business strategy; risks not fulfilling these criteria will not be taken.

• Only those risks are taken where management has the demonstrable expertise to understand and manage them.

• All risks taken must have an associated expected reward that is commensurate with the amount of the risk taken; the Business has no appetite for unrewarded risks.

• Management will take risks that enable it to diversify revenue streams and income streams.

• Risk appetite guidelines are set to manage the business' exposure to risk within acceptable levels, and in relation to current resources and capacity. These guidelines are expected to allow the business to withstand adverse outcomes without jeopardizing the overall corporate mission.

Risks that are agreed to by NRE senior management must be aligned to corporate objectives and strategies. Therefore, NRE's risk management strategy will align with current and future goals in mind. Risks will be taken with the discussions, approvals, and appropriate resources needed.

No risk will be taken that will compromise our core values, legal or regulatory obligations. For example, NRE adopts a zero tolerance approach towards both internal and external fraud, in any form, or financial crime, and NRE requires strict adherence to the appropriate Compliance and Human Resources policies, particularly with regard to rules over Personal Account Dealing and the acceptance of gifts and entertainment.

Actual levels of risk taken versus risk guidelines will be monitored on an ongoing basis, and business plans adapted as appropriate to stay within the guidelines.

A1.3 Material Risks

The material risks to which the Group is exposed are set out below:

A1.3.1 Operational Risk

Operational Risk is the risk that the Group will sustain losses as a result of inadequate of failed internal processes, people, systems or external events. In addition, the Group could also suffer loss through reputational damage arising from operational failures. The Group operates a system of controls which are designed to ensure that operational risks are mitigated and dealt with in a timely manner if they do arise.

As part of the Group's Internal Capital Adequacy Assessment Process ("ICAAP"), the Group Risk function facilitates a series of workshops to gather opinion to identify the key risks and to provide an assessment as to the potential frequency and impact of each risk. Individuals are selected on the basis of their experience in the relevant business area, knowledge of business processes and controls and the specific risk categories being reviewed.

The outputs from these workshops are then statistically modelled to produce a 1 in 200 year capital impact estimate for the Group, being the capital required to cover direct losses to Nuveen Real Estate or clients. The model aggregates all risks and calculates an operational risk value for each risk category.

Throughout the year, the risk function will ensure that any incidents, whether they incur a loss or not, are properly captured and subject to a follow up process which identifies any improvements that are required to the internal control environment to mitigate the risk of a recurrence.

The operational risk model outputs, as well as the overall ICAAP are subject to review and challenge by senior management.

A1.3.2 Market Risk

Market risk is the current or prospective risk to earnings or value from adverse movements in equity and commodity prices, interest and / or foreign exchange rates (see below). This risk includes foreign exchange risk, defined as the current or prospective risk to earnings and capital arising from adverse movements in currency exchange rates. NREML and NMAL's only market risk for the purpose of Pillar 1 is foreign exchange risk.

A1.3.3 Foreign Exchange Risk

Foreign exchange risk is the risk that NREML will incur losses as a result of adverse movements in currency exchange rates. NREML is exposed to non GBP income and expenses, assets and liabilities in the normal course of business. The Group mitigates this risk through natural hedges i.e. matching of foreign currency assets and liabilities, and by limiting its net exposure to an individual non-GBP currency.

A1.3.4 Credit Risk

Credit risk is defined as the risk that a counterparty will not meet its obligations under a financial instrument or contract leading to a financial loss in NRE's operating entities. NREML is exposed to credit risk primarily on its trade receivables and from its financing activities, including deposits, with banks and financial institutions. NREML uses the standardised approach to calculate credit risk. The firm's exposure to credit risk is detailed in the table below:

Summary of capital and capital requirements	8% Credit Risk Requirement (£m)	Risk Weighted Assets (£m)
(a) Risk weighted exposure for credit risk	2.4	44.4
(b) Risk weighted exposure for foreign exchange risk	0.4	4.7
of (a) and (b)	**2.8**	**45.3**

A1.3.5 Liquidity Risk

Liquidity risk is the risk that NREML or NMAL may be unable to meet its payment obligations as they fall due.

The liquidity of the Group is managed on a daily basis within the group finance function, which ensures that NRE always has sufficient cash or highly liquid assets available to meet its liabilities. The Group has stress tested its liquidity position over the next 12 months as part of a review of its working capital. NRE has no contractual obligation to provide liquidity to its clients or funds. The Group is not exposed to any risk associated with its clients' funds.

A1.3.6 Regulatory / Legal Risk

The risk that a change in laws or regulations will materially affect the Group, or the markets in which it operates. The Group is subject to regulations in a number of different jurisdictions, and currently the pace of change is significant. This may impact the Group either directly or indirectly by reducing clients' appetites for products, or by increasing the capital requirement.

Regulatory developments are continuously monitored and assessed for their impact.

A1.4 Capital Resources

At 31 December 2016, and throughout the previous 12 months, all LLIFs in the Group complied with their individual capital requirements as set out by the FCA. The table below shows the capital resources of Nuveen Real Estate Management Limited at 31 December:

Capital Resources	31.12.2015	31.12.2016
Tier 1 Capital		
Share capital	82.5	82.5
Share premium	0.0	0.0
Capital contribution	6.5	6.5
Audited reserves	(3.4)	(1.2)
Current year material loss	0.0	0.0
Less material holdings	0.0	0.0
Own funds (Tier 1 + Tier 2)	**85.6**	**87.8**
Less: Intangible assets	(68.4)	(64.2)
Less: Illiquid assets	(1.5)	(0.3)
Own funds	**15.7**	**23.3**

A1.5 Capital Requirements

The Pillar 1 capital requirement is calculated as the higher of:

• base capital requirement (€50,000)

• sum of market and credit risk

• fixed overhead requirement

Summary of capital requirements	31.12.2015	31.12.2016
Pillar 1	0.00	0.00
(a) Base capital requirement	0.04	0.04
(b) Fixed overhead requirement	5.92	11.1
Other requirements:	0.00	0.00
(c) Credit risk requirement	1.7	2.4
(d) Foreign currency PRR	0.3	0.4
(e) Sum of (c) and (d)	2.0	2.8
Total requirement – higher of (a), (b) and €	5.92	11.1

The Group calculates its Pillar 1 credit risk requirement using the simplified standardised approach as set out in BIPRU 3.5

The Group calculates its Pillar 1 market risk requirement in line with BIPRU 7. It does not operate a trading book, and therefore the only market risk to which it is exposed is Foreign Currency PRR calculated in line with BIPRU 7.5.

A1.6 ICAAP

The Group's Individual Capital Adequacy Assessment Process (ICAAP) methodology is designed to capture the key risks faced by the business under Pillar 2. The Group updates its ICAAP semi-annually.

The ICAAP is presented to the Board, giving an assessment of the amounts, types and distribution of capital resources that NRE considers appropriate for the nature and level of risks to which it is or might be exposed. The Group's most significant risk relates to Operational Risk and the Groups approach to monitoring and mitigating this risk is set out in this document.

Detailed stress and scenario testing has been carried out on the business approved forecasts, to consider those risks and events that would cause a decrease to the Group's revenue rather than an immediate loss from an operational event. The Group has considered its long-term capital position, against a worst case combination scenario of the stress events, considering the impact of these events if they were to occur concurrently.

The Group performs reverse stress testing designed to identify those scenarios were the business plan is considered to become unviable. Furthermore, the Group has performed wind-down analysis to ensure that sufficient capital is held, to wind down the Group in an orderly fashion.

A1.7 Remuneration Disclosures

This section sets out the remuneration related disclosures for the NRE Group. It captures the disclosures NREML as well as Nuveen Management AIFM Limited ("NMAL"). NRE operates a Group –wide remuneration policy, which applies to all employees across the Group. This section provides details of this remuneration policy and satisfies the Pillar 3 remuneration disclosures for the period ended 31 December 2016.

The Group remuneration policy complies with the remuneration code as set out in SYSC 19C, and SYSC 19B where it applies on an individual basis to the AIFM's within the Group.

The Group is considered a tier 3 firm for the purposes of the Remuneration Code and is committed to establishing, implementing and maintaining remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management.

NRE has a Remuneration Committee comprised of executives from the NRE's parent entity, TIAA. The Committee meets on a regular basis to consider remuneration matters across the Group. It operates under a formal term of reference which is reviewed on an annual basis. The Remuneration Committee is responsible for the determination, regular review of, and implementation of the overarching policy for remuneration that applies to the Group and, by definition, NREML. The Committee is also responsible for determining and reviewing annually individuals who have a material impact on the risk profile of NREML and NMAL and determining total remuneration packages for these individuals. In considering remuneration policy, the Committee seeks to ensure remuneration is structured in a way that attracts, motivates and retains high calibre staff, rewards individual and corporate performance and is aligned with appropriate risk and compliance standards and the long-term interests of shareholders, and other stakeholders.

The guiding principles behind the setting and implementation of NRE Remuneration Policy are as follows:

• Flexibility

• Simple and consistent

• Alignment with shareholders

• Performance driven

• Valuable

• Affordable and

• Risk Management

An annual appraisal process links and performance measurement. It establishes objectives for all employees covering both financial and non-financial metrics. Through performance management NRE aims to:

• Reward and recognise contribution

• Provide feedback and promote continuous improvement

• Provide personal development

• Promote the Groups culture and values, and

• Add value to our clients

The Group has a strategy of aligning employee interests to those of its clients and shareholders via its bonus and reward plans. These plans and the method of their calculation allow risk adjustments to be made. The Group operates a bonus deferral policy which mandates that a proportion of variable remuneration above a certain threshold, £50,000 is deferred using a progressive rate scale. Under the progressive rate scale each higher range incentive has a higher proportion of deferral. Deferrals vest over a 3-year period.

Under the Code, the Group's Remuneration Committee must report annually on the remuneration Policy and practice for employees termed Code Staff. Code Staff are "employees who perform a significant influence function, senior management and risk takers whose professional activities could have a material impact on a firm's risk profile". Code Staff are defined with reference to managerial responsibility to influence the firm's overall risk profile. At the discretion of the Remuneration Committee, other employees may be included as Code Staff if they consider that their role has a material impact on the firm's risk profile. An annual review of the firm's risk profile is conducted to allow the Remuneration Committee to determine the Code Staff population and a record is kept by HR.

In accordance with the Code, NRE has identified individuals who may have a material impact on the risk profile of the Group ("material risk takers" or MRT's). For 2016, 15 individuals fell within the MRT identification criteria.

Similarly, AIFMD also requires identification of individuals whose professional activities have a material impact on the risk profile of NMAL or the AIF funds it manages ("AIFM Code Staff"). In line with the regulations and associated guidance, all senior management, risk takers, control functions and employees receiving total remuneration that takes them into the same bracket as senior management and risk takers were considered when identifying AIFM Code Staff. For 2016, 15 individuals were identified as Code Staff.

As set out above 15 individuals were identified as MRT's for 2016. As a single line asset manager, we consider NRE to be one business area. Aggregate remuneration for MRTs in respect of 2016 totalled £5.3m (comprising salary and variable remuneration). Of this amount £3.3m was fixed and £2.0m was variable.

The breakdown of fixed and variable pay for the 7 individuals identified as senior management was fixed £2.0m and variable £1m. The breakdown of fixed and variable pay for the 8 individuals identifies as "other" MRTs was fixed £1.3 and variable £1m.

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