Brooks Macdonald Group plc

Investment Firm Prudential Regime - Public Disclosures

30 June 2023

BROOKS MACDONALD

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1. Introduction and context

The Investment Firm Prudential Regime ('IFPR') constitutes a regulatory framework governing MiFID investment firms, which became enforceable on 1 January 2022. In accordance with IFPR, investment firms are required to publicly disclose information on the firms' own funds (financial strength), behaviour (investment policy) and culture (risk management, governance, and remuneration). Essentially the document provides transparency and assurance to a variety of external stakeholders on how the Firm is run and how business practices are conducted.

In accordance with the requirements of MIFIDPRU, the information and supporting calculations in this document have been based on the consolidated prudential group basis, for Brooks Macdonald Group plc ('the Group'). These disclosures will be updated on an annual basis and will be made available alongside the publication of the audited annual financial statements on the Group website.

1.1. Group overview

The Group is an independent, AIM-listed wealth management firm that offers a wide range of investment management services to high net worth individuals, pension funds, institutions, charities and trusts. It also provides financial planning services and acts as a fund manager to a range of onshore and international funds. The Group had £16.8 billion of funds under management ('FUM') as at 30 June 2023. The Group employs over 500 people and operates across the UK and the Crown Dependencies. The Group's ultimate parent company is Brooks Macdonald Group plc.

The categorisation of the Group firms as small non-interconnected firms ('SNI') has been assessed on an individual basis according to MIFIDPRU 1.2.12G; the relevant SNI thresholds have been exceeded for Brooks Macdonald Asset Management Limited ('BMAM') and the consolidated Group thereby classifying them as non-small non-interconnected firms ('Non-SNI'). Brooks Macdonald Financial Consulting Limited ('BMFC') has been classified as an SNI firm.

The Group's subsidiary legal entities alongside their regulatory classification are outlined in the table below:

Prudential Group Subsidiary	Regulated Firm	Regulator(s)	Prudential Consolidation Group	Notes	IFPR Prudential Categorisation
Brooks Macdonald Asset Management Limited ('BMAM')	✓	FCA	✓	PMR - £150,000	MIFIDPRU ('Non-SNI')
Brooks Macdonald Financial Consulting Limited ('BMFC')	✓	FCA	✓	PMR - £75,000	MIFIDPRU ('SNI')
Brooks Macdonald Asset Management (International) Limited ('BMI')	✓	JFSC/GFSC/ IOM FSA/FSCA	✓	Non-FCA regulated firm	Non-FCA regulated firm
Brooks Macdonald International Fund Managers Limited ('BMIFM')	✓	JFSC	✓	Non-FCA regulated firm	Non-FCA regulated firm
Adroit Financial Planning Limited (AFP)	✓	FCA	✓	Non-MIFIDPRU firm	Non-MIFIDPRU firm

Prudential Group Subsidiary	Regulated Firm	Regulator(s)	Prudential Consolidation Group	Notes	IFPR Prudential Categorisation
Integrity Wealth Solutions Limited ('IWS')	✓	FCA	✓	Non-MIFIDPRU firm	Non-MIFIDPRU firm
Integrity Wealth ('Holdings') Limited	No	N/A	-	Non trading entity	Non trading entity
Levitas Investment Management Services Limited	No	N/A	-	Non-regulated activity (Fund sponsorship)	Non-regulated activity (Fund sponsorship)
Cornelian Asset Managers Limited ('CAM')	No	N/A	-	Non-MIFIDPRU firm	Non trading entity
Cornelian Asset Managers Group Limited	No	N/A	-	Non trading entity	Non trading entity
Braemar Group Limited	No	N/A	-	Non trading entity	Non trading entity
Brooks Macdonald Funds Limited	No	N/A	-	Non trading entity	Non trading entity
Cornelian Asset Managers ('Nominees') Limited	No	N/A	-	Non trading entity	Non trading entity
Integrity Wealth Bidco Limited	No	N/A	-	Non trading entity	Non trading entity
Secure Nominees Limited	No	N/A	-	Non trading entity	Non trading entity
Brooks Macdonald Nominees Limited	No	N/A	-	Non trading entity	Non trading entity
Brooks Macdonald International Nominees ('Guernsey') Limited	No	N/A	-	Non trading entity	Non trading entity

The Group comprises six core regulated entities as detailed above, with BMFC awaiting FCA de-regulation. Collectively these companies offer a range of investment management services to private high net worth individuals, pension funds, institutions, and trusts. They also provide financial planning as well as offshore investment management and acts as fund manager to a regulated OEIC providing a range of risk-managed multi-asset funds and a specialised absolute return fund.

The Group provides its services through two core businesses:

- UK Investment Management - providing discretionary fund management services to UK clients introduced to us by intermediaries and to direct private clients, to whom we also provide wealth management advice.

- International - providing discretionary fund management services to clients and their introducers across the Crown Dependencies, the UAE, South Africa and Europe from offices in Jersey, Guernsey and the Isle of Man.

Further details can be found in the 'Strategic report' included in the 2023 Annual Report and Accounts.

2. Governance Structure

The Group's governance structure ensures that there is appropriate challenge to business objectives and risk management. The Board is ultimately accountable for setting the Group's strategic objectives, together with successful delivery of the strategy and business plans. It also provides leadership on risk management and, through the "tone from the top" message, influences culture and behaviour to drive risk management in the business, enhancing the quality of risk assessment, controlled risk taking and efficiency.

Ultimate accountability for risk management resides with the Board, which has delegated responsibility to the Group Risk & Compliance Committee ('RCC') to assist the Board in maintaining effective systems of risk management, compliance and internal control throughout the Group. As noted above, the RCC provides leadership and direction for the Group's overall risk appetite, risk tolerance and strategy whilst overseeing and advising the Board on the current and potential future Group-wide risk exposures. The RCC is also responsible for reviewing and approving the Group's Risk Management Framework and for monitoring its effectiveness.

The Board has delegated the responsibility for establishing, operating and monitoring the system of risk management and controls on a day-to-day basis to the Chief Executive Officer ('CEO'), supported by the Executive Risk Management Committee ('ERMC'), chaired by the Chief Risk Officer ('CRO'), together with the Investment Committee, chaired by the Chief Investment Officer ('CIO'). Each committee has Terms of Reference ('ToR') in place setting out responsibilities, membership and escalation routes.

Underlying this structure are business, functional and legal entity Risk Management Committees (chaired by the respective Heads) which are responsible for the day-to-day risk oversight and management of each business or functional unit, together with the escalation of material risks, issues and other matters to the ERMC.

Boards & Committees

Boards and committees have been set up with defined ToR and appropriate membership, with processes in place to ensure proceedings are recorded and actions followed up. The Board has delegated specific responsibilities to the following Board committees:

- Audit Committee - meets not less than four times annually and is responsible for the review and challenge of the consistency of the Group's accounting policies and standards and of the integrity of its financial statements; oversight and monitoring of the internal audit function; and assessing the independence of the external auditor.

- Risk & Compliance Committee - meets not less than four times annually and is responsible for assisting the Board in discharging its responsibility to develop and maintain effective systems of risk management, compliance and internal control throughout the Group.

- Remuneration Committee - meets not less than three times a year and exercises independent judgment in the determination, implementation and operation of the overall Remuneration Policy for the Group.

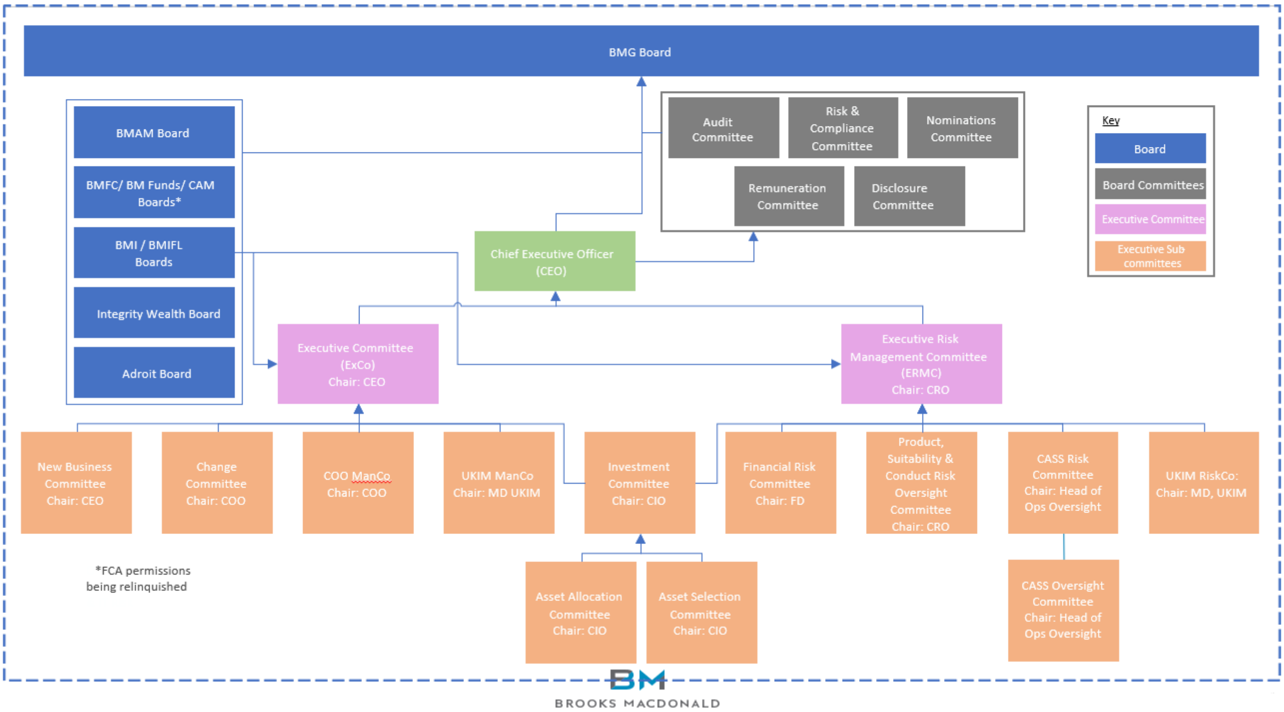
- Nominations Committee - meets not less than twice a year and helps the Board to monitor the balance of skills, knowledge, experience and diversity on the Board, to recommend Board and Board Committee appointments, and to monitor succession planning at the senior management level.

- Disclosure Committee - meets on an ad-hoc basis and is primarily responsible for determining whether specified information is inside information which should be disclosed to the market in accordance with the Group's obligations under AIM Rule 11 and the Market Abuse Regulation.

Committee Structure

The diagram below shows an overview of the Executive and Board level Committees is set out below.

BM Group - Governance and Reporting Structure



Roles & Delegated Authorities

All individuals have responsibility for understanding and managing risks under their control and stewardship. Management has additional responsibility for maintaining the systems of internal control and reviewing their effectiveness. These responsibilities are clearly apportioned and documented in job descriptions, role profiles and performance objectives. The organisation of the business supports individuals performing these roles and reinforces responsibilities through the development of a pervasive risk management and compliance culture and a reward and incentive scheme which encourages desired behaviours which are communicated and demonstrated through the "tone from the top".

2.1. Approach to Diversity

Diversity, Equality, and Inclusion ("DE&I") is a core part of the Group's business strategy. At Brooks Macdonald, the promise is to nurture an inclusive culture that values and supports its people and their views, regardless of their background. Diverse perspectives, experiences and backgrounds make the organisation more creative and dynamic in helping the Group grow. The Group is fortunate to have amongst its people a number of very active and passionate advocates for diversity, equity and inclusion ('DE&I group') who continue to collaborate to gain different views, insights and feedback. As a result of this, there has been a several successful DE&I events across the business that took place during the financial year.

From a gender representation perspective, the Executive Committee has three women out of nine, and two out of seven on the Group Board. The Group has been continually building on its DE&I strategy to increase diversity, including making female appointments to the Board. Accordingly, to support the Group's continued commitment to gender diversity and reducing the gender pay gap, the Group offers parental and adoption leave, supporting with six months' full pay.

Externally, the Group continues to partner with organisations that help to break down barriers, promote social mobility, and provide greater representation of marginalised groups in the wider financial services industry. Over the last financial year, the Group has collaborated with a number of key organisations including:

- LGBT Great
- City Hive
- #10,000blackinterns
- Investment 20/20
- EY Foundation
- Girls Are Investors (GAIN)
- Employers Initiative on Domestic Abuse
- Neurodiversity in Business
- Talking Talent
- Women in Finance Charter

2.2. Board recruitment and diversity

The approach to Board recruitment, which is subject to Board approval, combines an assessment of a broad set of qualities including skills, technical capabilities, and knowledge as well as clear alignment to the Group's guiding principles.

The Nominations Committee is responsible for reviewing the composition of the Board and the Board Committees to ensure they are suitably constituted, with an appropriate balance of skills, experience, knowledge, and diversity. The Committee also recommends Board and Board Committee appointments, and monitors succession planning at the Group's leadership levels to ensure the Group's continued ability to implement its DE&I strategy and operate effectively.

The Committee takes an active role in the setting and monitoring of diversity objectives and strategies undertaken by the Group and embraces the benefit of having a diverse Board drawing on the knowledge, skills, experience, and expertise of directors from a range of backgrounds. Whenever external search consultancies are used in the recruitment of the Board and senior management, they are asked to provide diverse lists of candidates.

3. How we manage risk

3.1. The Group Risk Management Framework ('RMF')

In conjunction with the Risk Management Policy, the objectives of the Risk Management Framework are to:

- Align the business strategy and risk appetite.
- Pursue business objectives through transparent identification and management of acceptable risk.
- Identify and manage transversal/cross-firm risks.
- Prioritise and select optimal business opportunities i.e., with a good risk/reward balance.
- Inform and enhance risk response decisions and escalations as required.
- Learn from, reduce and manage operational losses.
- Promote a culture based upon integrity, ethical values and competence; and
- Create an overall 'risk conscious' firm.

Risk management starts with oversight through an appropriate governance structure using a board and committee structure, with individual and collective roles and delegated authorities and a set of core policies to provide guidance to staff.

Effective risk management relies on insight through robust and timely management information. We manage our risks by learning lessons from past events such as errors, breaches, near misses and complaints, by conducting point-in-time risk assessments in the present and attempting to predict what the future risk landscape might look like through our suite of key indicators.

The risk management methodology within the Group's RMF consists of the following six interlinked steps:

Risk identification
This takes place through regular business monitoring and periodic reviews, including risk mapping exercises and the risks arising from change or new products and services.

Risk appetite
Once we have identified risks, we set an appetite for each material risk. This defines the amount of risk that the Board is prepared to accept in order to deliver its business objectives. Risk appetite reflects culture, strategic goals and the existing operating and control environment.

Risk analysis
Having set the risk appetite, we can assess the impact and probability of each material risk against the agreed risk appetite. This can include the quantification of capital risk as part of the Internal Capital Adequacy and Risk Assessment ('ICARA').

Controls assessment
We also assess the effectiveness of controls in reducing the probability of a risk occurring or, should it materialise, in mitigating its impact.

Additional actions
Where differences exist between our risk appetite and the current residual risk profile, we take action either: to accept, avoid or transfer part or all of those risks which are outside our risk appetite; or to reconsider the risk appetite.

Reporting
Ongoing reporting of risks to senior management provides insight to inform decision-making and allocation of resources to achieve business objectives.

3.2. Three Lines of Defence

All individuals have responsibility for understanding and managing risks under their control and stewardship. Management has additional responsibility for maintaining the systems of internal control and reviewing their effectiveness. These responsibilities are clearly apportioned and documented in job descriptions, role profiles and performance objectives.

The organisation of the business supports individuals performing these roles and reinforces responsibilities through the development of a pervasive risk management and compliance culture and a reward and incentive scheme which encourages desired behaviours which are communicated and demonstrated through the 'tone from the top'. The Group operates a 'Three Lines of Defence' model:

1st line of defence	The first line of defence is the business itself; each staff member has primary responsibility for managing risk, identifying control deficiencies and implementing remedial action plans to prevent the occurrence of control failures and the materialisation of risks.
2nd line of defence	The second line of defence comprises the Compliance and Group Risk teams, whose function is to identify risks by challenging (and supporting) the first line to ensure that controls are operating effectively and to identify control deficiencies and action plans if these are not identified by the first line. The Group Chief Risk Officer has a dotted reporting line to the Chair of the Group Risk & Compliance Committee.
3rd line of defence	The third line of defence is the Internal Audit team, which is independent of the first and second lines. This function provides assurance to senior management that the Compliance and Group Risk functions are operating effectively, as well as carrying out audits within the business to ensure that adequate systems and controls exist in the first line and are operating effectively. Internal Audit identifies risks, control deficiencies and action plans where these have not been identified by the first and second lines. The Internal Audit function is outsourced to KPMG and the Client Lead Partner acts as the Head of Internal Audit reporting to the Chair of the Group Audit Committee.

3.3. Overarching Risk Appetite Statement

The Group's Overarching Risk Appetite Statement ('ORAS'), as defined by the Board, sets out the acceptable level of current and emerging risk we are willing to take to achieve our strategic business objectives. It provides a framework to allow the Group to effectively balance the risk and reward relationship in decision making.

Clients, both existing and prospective, are at the heart of everything we do. As such, we will operate a sustainable business that conducts itself in a reputable and prudent manner, taking into account the interests of our clients through providing products and services suited to their needs and risk profile, which demonstrate value for money.

As the business continues to grow through sustainable organic growth and strategic value-adding acquisitions, the ORAS will help ensure our key stakeholder obligations are met, supported by internal policies and regulatory requirements. We commit to using this framework to ensure we make strategic and business decisions that do not exceed our overarching risk appetite.

In all of the Group's decisions and operations, we balance risk versus reward, and we consider the following three dimensions:

Client Outcome

We will put client interests at the heart of everything we do to ensure appropriate client outcomes.

Control Environment

We will, at all times, operate within our risk appetite, operational risk parameters and regulatory framework, ensuring a robust control and oversight environment.

Financial Performance & Resources

We will optimise profitability and use resources efficiently to drive financial performance.

We will, at all times, maintain adequate capital and liquid assets to meet financial and funding obligations as they fall due.

We will invest in the development and wellbeing of our employees.

3.4. Key risks

We have identified our risks at Group and business line levels to help manage our key risks in a consistent and uniform way with oversight from relevant Committees and Boards.

Risk	Definition	Key risks identified by RMF
Credit	The risk of loss arising from a client or counterparty failing to meet their financial obligations to a Brooks Macdonald entity as and when they fall due.	• Cash deposits with external banks • Client credit risk • Counterparty credit risk • Custodian-related credit risk • Indirect counterparty risk in respect of referrals
Liquidity	The risk that assets are insufficiently liquid and/or Brooks Macdonald does not have sufficient financial resources available to meet liabilities as they fall due or can secure such resources only at excessive cost. Liquidity risk also includes the risk that the Group is unable to meet regulatory prudential liquidity ratios.	• Corporate cash deposited with external banks • Client cash deposited with external banks (CASS rules) • Failed trades • Indirect liquidity risk associated with client portfolios • Indirect liquidity risks associated with dealing • Indirect risk in respect of the liquidity of individual holdings in a fund • Indirect risk in respect of the overall liquidity of our funds
Market	The risk that arises from fluctuations in the value of, or income arising from, movements in equity, bonds, or other traded markets, interest rates or foreign exchange rates that has a financial impact.	• Failed trades • Indirect market risk associated with advising on client portfolios • Indirect market risks associated with dealing • Indirect market risk associated with managing client portfolios
Business and strategic risk	The risk of having an inadequate business model or making strategic decisions that may result in lower than anticipated profit or losses or exposes the Group to unforeseen risks.	• Adviser concentration • Acquisitions • Business growth • Extreme market events • Investment performance • Product governance
Conduct risk	The risk of causing detriment to clients, stakeholders or the integrity of the wider market because of inappropriate execution of Brooks Macdonald's business activities.	• Suitability and conduct risk
Operational risk	The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events. It includes legal and fraud risk but not strategic, reputational and business risks.	• Data quality • Cyber/data security • Change management • IT infrastructure and capability • Third party suppliers • Operational maturity • People • Resilience

Risk	Definition	Key risks identified by RMF
Prudential risk	The risk of adverse business and/or client impact resulting from breaching regulatory capital/liquidity requirements, or market/credit risk internal limits.	• Prudential requirements
Legal and regulatory risk	Legal and regulatory risk is defined as the risk of exposure to legal or regulatory penalties, financial forfeiture and material loss due to failure to act in accordance with industry laws and regulations.	• Reputational event • Financial crime • Legacy issues • Regulatory, tax and legal compliance
Climate risk	The potential financial impacts associated with the transition to a low-carbon economy and the longer-term physical climate risks.	• Resilience • Investment risk • People • Third-Party suppliers • Operation maturity

3.5. Emerging risks

Risk	Definition	Context
Margins pressure (Emerging)	The potential risk to profits as a result of market instability.	A declining bond market (owing to rising interest rates) and an unstable equity market, may have an impact on profit margins.
Geopolitical landscape (Emerging)	In light of an ongoing energy crisis and cost of living issues.	Geopolitical events have a direct impact on market risk listed previously. Prolonged economic downturn also has an impact on client sentiment and thus business and strategic risk as listed previously.
Generational wealth change (Emerging)	The potential decrease in AUM as financial assets is passed down from one generation to the next.	With generational wealth poised to change hands primarily from the baby boomers to Gen X and millennials through the next decade, younger investor may have different priorities and views on how their inheritance is managed.
Cyber threats (Emerging)	The threat of a malicious attack by individuals or organisations attempting to gain access to the company's network to corrupt data, disrupt, and steal confidential information.	With the continuing geopolitical events, the cyberthreat landscape is worsening. There has been an increase in the sophistication of cyber threat activity.
Disruptive technologies (Emerging)	The risk that innovative technologies significantly alter the way businesses operate.	With the introduction of new technologies such as AI, the industry is being impacted particularly in automated trading, investment advice, fraud detection, customer service, and portfolio management.

3.6. Investment Policy

Asset Allocation

To help diversify and manage risk, the Group uses asset allocation guidance to allocate portfolios between various geographies and asset classes. The Asset Allocation Committee typically meets monthly to determine the internal 'house view' which is later communicated to investment teams across the organisation. External parties are also used (both independent macro research providers and the research teams of investment banks) to help formulate the house view.

The investment process operates as an idea meritocracy with all members of the investment team welcome to join a regular 'ideas forum' to test new ideas and debate current positioning. The collation of external research is also vital and ensures that the Asset Allocation Committee is powered by the ideas of a large number of macro economists and strategists. Data terminals and systems are then utilised to test internal views against history and flag opportunities in markets.

Asset Selection

Following direction from the Asset Allocation Committee, communication is provided to in house sector research teams. All members of the investment team are invited to be part of our asset selection research and these individuals form the core of the sector research teams. In addition to this, oversight and peer review from the Asset Selection Committee ensure an extra layer of control and governance is applied to the ideas generated by sector teams. After assets are approved at the Asset Selection Committee, they form part of the pool of researched assets for investment teams to use when constructing portfolios.

Investment Rules

The investment rules used by the Group have been designed to reduce the impact of behavioural biases and extreme market events on consumer outcomes. Central investment rules are produced for all investment products. For bespoke portfolio services, these rules are the key inputs into the Group's risk management system which assesses portfolios daily for deviations from expected volatility, asset allocation, buylist and concentration limits. The executive level Investment Committee is responsible for setting these rules, as well as driving the overall investment philosophy of the firm. Rigorous application of these rules, such as maintaining high level of liquidity, have put the firm in a robust position to weather external market events.

The Group recognises that in order to provide the best outcomes for clients, it is also important to integrate consideration of Environment, Social and Governance ('ESG factors') into the Centralised Investment process. Therefore, the Group has systematically embedded ESG considerations into investment analysis frameworks in order to help identify financial material risks and opportunities. However, as a global multi-asset investor, the Group's approach to assessing ESG factors is tailored to each asset class and the vehicle used to invest in each asset type. The Group has published a Responsible Investment Policy which outlines the firms approach and the key quantitative and qualitative outputs.

Brooks Macdonald Group is also signatory to the United Nations supported Principles for Responsible Investment ('PRI') and is committed to implementing the six principles of the PRI across its investment management activities.

4. Own funds disclosures

4.1. Composition of Regulatory Own Funds

The Group holds only Common Equity Tier 1 ('CET 1') capital resources. In accordance with the templates in Annex 1R of the MIFIDPRU 8, CET 1 capital consists of share capital, share premium, retained earnings, and other relevant reserves after deduction of intangible assets. Retained earnings are inclusive of audited profits for the period. The table below summarises the components of the Group's and BMAM's own funds and presents a reconciliation of their audited financial statements for the year ended 30 June 2023 to regulatory own funds.

Table 1: Regulatory own funds summary

Own funds (in £'000s)	**Group As at 30 June 2023**	**BMAM As at 30 June 2023**
Equity per Statement of Financial Position		
Share capital	164	3
Share premium	81,830	395
Retained earnings[1]	66,238	51,058
Other reserves[2]	9,112	5,850
Total equity (i)	**157,344**	**57,306**
Regulatory adjustments		
Intangible assets[3]	(100,582)	(29,724)
Associated deferred tax liabilities	8,160	4,764
Deferred tax assets that rely on future profitability	(363)	-
Total regulatory adjustments (ii)	**(92,785)**	**(24,960)**
Total regulatory own funds (i) + (ii)	**64,559**	**32,346**

Notes:
1. Retained earnings are inclusive of profits for the year which have been audited at the date of publication.
2. Other reserves comprise merger and share option reserves.
3. Intangible asset adjustments comprise goodwill, computer software and acquired client relationships. This balance is net of any accumulated impairment losses.

Table 2: Composition of regulatory own funds (IFPR)

The table below outlines the regulatory capital of the Group and BMAM in accordance with the relevant references from the balance sheet in the audited financial statements:

		BMG		BMAM	
	Item	**Amount (GBP in £'000s)**	**Source based on reference numbers/letters of the balance sheet in the audited financial statements**	**Amount (GBP in £'000s)**	**Source based on reference numbers/letters of the balance sheet in the audited financial statements**
1	**OWN FUNDS**	**64,559**		**32,346**	
2	**TIER 1 CAPITAL**	**64,559**		**32,346**	
3	**COMMON EQUITY TIER 1 CAPITAL**	**64,559**		**32,346**	
4	Fully paid up capital instruments	164	Note 28	3	Note 26
5	Share premium	81,830	Note 28	395	Note 27
6	Retained earnings	66,238	Note 29	51,058	Statement of Changes in Equity
7	Accumulated other comprehensive income/losses	-		-	
8	Other reserves	9,112	Note 29	5,850	Statement of Changes in Equity
9	Adjustments to CET1 due to prudential filters	-		-	
10	Other funds	-		-	
11	**(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1**	(92,785)	Note 14, Note 19	(24,960)	Note 14, Note 17
19	CET1: Other capital elements, deductions and adjustments	-		-	
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 2	-		-	
29	Tier 2: Other capital elements, deductions and adjustments	-		-	

4.2. K-Factor Requirements and Fixed Overhead Requirement

For non-SNI (non-small and non-interconnected) investment firms, the own funds requirement is the higher of the Permanent Minimum Requirement ('PMR'), the Fixed Overhead Requirement ('FOR') and the K-Factor Requirement ('KFR').

4.2.1. Fixed Overhead Requirement

As set out in the MIFIDPRU 4.5, The Fixed Overhead Requirement (FOR) of MIFIDPRU investment firm is an amount equal to one third of the firm's relevant expenditure (i.e., fixed overhead costs) during the preceding year.

The consolidated FOR based on the Group financial statements for the year ended 30 June 2022 is £19.7m. As per regulatory guidance, the FOR is based on the audited annual report for the period ending 30 June 2022, being the most recently available audited results as at 30 June 2023.

4.2.2. Permanent Minimum Requirement

The PMR is the minimum level of own funds that an investment firm must always hold based on the MiFID activities it has the permission to undertake. The three levels of PMR are £750,000, £150,000, and £75,000. These replace the fixed initial capital thresholds quoted in Euros under CRD IV regulation.

Under MIFIDPRU 4.4.1R, the £750k PMR does not apply as no FCA investment firm in the Brooks Macdonald Group has the permissions to deal on own account, perform underwriting on a firm commitment basis or operate an organised trading facility. From a legal entity perspective, only BMAM have the permissions to hold client money and assets in the course of MiFID business and therefore under MIFIDPRU 4.4.3R the PMR is £150k. BMFC does not have this permission and under MIFIDPRU 4.4.4R the PMR for this entity is therefore £75k. On a consolidated basis, the group PMR is £225k.

4.2.3. K-factors

The UK IFPR introduces a new approach to calculating capital requirements, which seeks to capture the risks that arise from an investment firm's activities where these could pose a threat to:

- the firm's solvency, due to its trading activity and market participation *(Risk-to-Firm)*
- the firm's clients, through its actions or responsibilities and the provision of its services *(Risk-to-Firm)*
- the markets in which the firm operates and the counterparties that it trades with.

This involves the calculation of various 'K-factors', a set of observable and quantifiable proxies for the various risks and potential harm that could be caused. Each K-factor is based on a metric relevant to the investment firm's business (per their MiFID permissions), which is then multiplied by its respective coefficient and aggregated to calculate the K-factor requirement.

As Brooks Macdonald does not have permission to deal as principal (i.e., trade in its own name or on its own account), the *Risk-to-Firm* and *Risk-to-Market* K-factors do not apply, leaving only those representing the *Risk-to-Client*:

- **Client assets under management and ongoing advice (K-AUM)** – this captures the risk of harm to clients where a firm provides discretionary portfolio management and ongoing (non-discretionary) investment advice.

- **Client assets safeguarded and administered (K-ASA)** – this captures the risk of harm where a firm holds client assets and provides custody services, but there is no investment management relationship.

- **Client money held (K-CMH)** – this captures the risk of harm where a firm holds client money in segregated of non-segregated accounts.

- **Client orders handled (K-COH)** – this captures the risk to clients of a firm executing orders in the provision of execution-only dealing services, whether in relation to cash trades or derivatives.

4.2.4. Own Funds Requirements

The table below shows the legal entity K-factor requirement KFR, broken down into three groupings and the amount of the fixed overhead requirement FOR in comparison to the PMR.

Item - Amount (£ GBP thousands)		Group	BMAM
K-Factor	Sum of K-AUM, K-CMH & K-ASA	5,524	4,584
	Sum of K-COH & K-DTF	-	-
	Sum of K-NPR, K-CMG, K-TCD & K-CON	-	-
	Total K Factor Requirement	**5,524**	**4,584**
Fixed Overhead Requirement		**19,674**	**15,626**

For further reconciliation of legal entity own funds to audited financial statements please see the Appendix (Table 3 & 4).

4.2.5. ICARA

The Group will use the ICARA process to ensure it complies with the overall financial adequacy rule ('OFAR'). The focus of the ICARA process is on identifying and managing risks that may result in material harms. Depending on the nature of the potential harms identified, the only realistic option to manage them and to comply with the OFAR may be to hold additional own funds or additional liquid assets above the firm's own funds requirement or basic liquid assets requirement. However, in other cases, there may be more appropriate or effective ways to manage the potential harms (for example, through implementing additional internal systems and controls, strengthening governance and oversight processes or changing the manner in which the Group conducts certain business. ICARA will be a continuous process through, which the Group will assess the adequacy of its own funds and liquid requirements.

As part of ICARA, the Group will have to conduct business model analysis, stress testing, recovery, and wind-down planning. The Group is well positioned to fulfil these requirements given it has historically conducted all the aforementioned analysis, including a Wind-down Plan (which is now mandatory for all firms).

Key elements of the ICARA include:

- Business model and strategy (based on the Medium Term Plan) together with a five-year financial forecast to 30 June 2028
- ICARA fitness assessment, remedial actions and key changes
- Risk Management Framework ('RMF') and governance overview
- Material harms and mitigations
- Financial projections and capital & liquidity planning process
- Available own funds and available liquid assets
- Own funds capital requirement (formerly Pillar 1)
- Additional own funds assessment (formerly Pillar 2a own assessment)
- Compliance with Overall Financial Adequacy Rule ('OFAR')
- Capital stress testing
- Reverse stress testing
- Recovery planning
- Wind-down planning

4.2.6. Own Funds Adequacy and Monitoring

The Group assesses the adequacy of its own funds on a consolidated and legal entity basis on a frequent basis. This includes continuous monitoring of K-factor variables which captures the variable nature of risk involved in the Group's business activities.

A regulatory capital update is additionally provided to senior management on a monthly basis alongside a rolling twelve-month regulatory capital forecast. In addition to this, the Group has implemented a number of 'Key Risk Indicators' which act as early warning signs with the aim of notifying senior management if own funds misalign with the Group's risk appetite and internal thresholds.

4.2.7. Liquid Assets Adequacy and Monitoring

In addition to the ICARA document, a separate assessment of the liquidity risk of the Group is performed annually each year. The Liquidity Risk Management Framework ('LRMF') determines the minimum liquidity level through "extreme but plausible" stress testing. The LRMF ensures that the Group meets the overall liquidity adequacy rule on a consolidated and solo entity basis and be self-sufficient in a liquidity stress event.

As well as identifying the minimum liquidity requirement, the LRMF also sets out principles, systems and controls for managing corporate liquidity risk. This includes arrangements for identifying, monitoring and managing key risks and is supported by the Group's contingency funding plan.

In line with the guidance set out in the LRMF, daily monitoring of the Group's and legal entity liquidity positions is conducted with reporting taking place to management on these metrics on a monthly basis.

5. Remuneration

The below remuneration information is provided in accordance with the requirements of the MIFIDPRU Remuneration Code (section 8.6) and specifically describes the Group's remuneration provisions and practices in place for all its employees, as well as those categorised as Material Risk Takers ('MRTs') within the definition of SYSC 19.G.5 of the FCA Handbook. These are categories of staff who execute responsibilities and duties that may have a material impact on the risk profile of the Group.

Brooks Macdonald Asset Management Limited ('BMAM') is the largest entity within the Group and the only entity classified as Non-SNI, while all other MIFIDPRU entities ('BMFC') are categorised as SNI. The remuneration policy and practices described below is applicable to employees of all entities across the Group.

5.1. Purpose of the remuneration policy

The overarching objective of the policy is to support the Group in achieving its strategic objectives of realising ambitions and securing futures for all the Group's stakeholders. The policy's role is key in attracting, motivating and retaining high quality employees and ensuring they are incentivised in way that supports effective risk management, mitigates any conflicts of interest and delivers long-term shareholder value and outstanding customer outcomes.

5.2. The Remuneration Committee and policy governance

The policy is independently overseen by the Group's Remuneration Committee, comprised of four independent non-executive directors who have no eligibility for any of the components of remuneration governed by the policy. The Remuneration Committee ToR describe the mandate of the Committee and detail the specific governance responsibilities they are responsible for, such as the independent review of the policy no less than annually, as well as the categories of employees they have direct oversight of remuneration decisions for.

The Remuneration Committee has been under the chairmanship of John Linwood from 1 August 2019 and each member has commercial and governance expertise across a number of business areas, including the wealth and asset management sector. There were four scheduled Remuneration Committee meetings during FY23, with members also attending a number of additional ad-hoc meetings. Remuneration consultants from Korn Ferry (UK) Ltd advised the Remuneration Committee during the year.

5.3. Implementation of the policy and alignment to risk management

The execution of the policy ensures a strong link between pay and performance is maintained and that employees are incentivised to deliver long-term, sustainable objectives within appropriate risk parameters. The policy works to actively disincentivise staff from adopting inappropriate risk practices and displaying poor conduct and behaviours. The policy operates in conjunction with both the Group's RMF and its Guiding Principles. The alignment of the policy to risk policies and behavioural framework standards sets clear expectations on risk appetite adherence, the conduct standards expected from staff, with breaches being reviewed as part of the Group's risk adjustment review process. This ensures remuneration funding and outcomes actively factor both crystalised and emerging risks, as well as any inappropriate individual conduct and behavioural issues. In this way, both the overall quantum of incentive funding, as well as individual award outcomes, are reduced in line with guidance from the Group's Risk Adjustment Matrix. The Remuneration Committee directly oversee the implementation of risk adjustments.

The policy also enables the Group to measure and deliver its regulatory and governance obligations by defining the structures and practices that are appropriately and proportionately aligned to financial services and sectoral regulatory remuneration codes. These include consideration for risk adjustments to incentive funding being applied by the Remuneration Committee prior to bonus awards being made and the integration of mandatory deferral into share instruments for MRTs and other higher earners' annual bonus awards. The mandatory deferral of one third of MRT and higher earner bonus awards into deferred shares ensures that the interests of MRTs and higher earners remain aligned with those of shareholders' and customers and that full scope is provided to apply the Group's Malus and Clawback Policy, the implementation of which is directly overseen by the Remuneration Committee. Malus and clawbacks actions are considered as part of the risk adjustment process.

Deferred bonus awards are deferred over a period of three years and vest in equal tranches after 12, 24 and 36 months, subject to continuing employment with the Group.

The Remuneration Report presented by the Remuneration Committee Chair in the 2023 Annual Report and Accounts, includes a detailed description of the remuneration policy in place for the Executive Directors and how this has been applied both in the FY23 reporting period, and will be going forward.

Additionally, the policy, and the practices supporting the policy, are gender neutral. This reflects the Group's position as an equal opportunities' employer and its active support of the Equality Act 2010. The policy seeks to ensure all job applicants and employees are treated fairly and on merit, regardless of their race, gender, marital status, age, disability, religious belief, gender identity or sexual orientation.

5.4. Components of remuneration

The policy makes clear distinction between the components of remuneration that are fixed and those that are variable. In line with the MIFIDPRU Remuneration Code, the Group only classifies components of remuneration as fixed when they are permanent, pre-determined, non-discretionary, non-revocable and not dependent on performance.

The components of fixed pay offered by the Group are:

- Base salary: Is the primary means of remuneration for all the Group's employees and primarily recognises the responsibilities performed by each individual. The level of salary paid reflects the skills and experience required to perform the role, the complexity and breadth of the roles responsibilities and its organisational impact as well as the rate of pay for the role in the external market, with all roles being regularly benchmarked.

- Employer pension contributions: Where employees have a tax protected status in respect of the pensions lifetime allowance or are impacted by the pensions annual allowance, they may be approved to receive employer-funded retirement benefits as a cash allowance (rather than a pension scheme contribution). From FY23, employer pension contribution rates will be 6% of salary for all employees.

- Car allowances: Client-facing roles within the Group's Distribution function who are required to regularly visit clients on-site and have a role-based requirement for a car may be eligible for a fixed value car allowance.

The Group has recently eliminated a range of role-based allowances in order to simplify pay and increase transparency.

The variable pay components offered by the Group are described below. Eligibility for individual variable pay plans is determined by role function, seniority and contractual entitlement. The award of both annual and long-term incentives is wholly at the Group's discretion.

- Annual discretionary incentives: All permanent employees of the Group are eligible for consideration to an annual variable incentive opportunity. Discretionary bonus opportunities are offered to incentivise employees to deliver identified business priorities, sustainable growth, operating efficiencies and outstanding customer outcomes over the one-year operating cycle. All bonus awards are discretionary and dependent upon the financial performance of the Group, the business area or function the individual works within and the individual's risk conduct and behaviours and performance against personal objectives.

- Long-term incentives: Long-term incentives may be awarded to the Group's senior leaders to incentivise sustained performance over the long-term and encourage greater alignment of interests with the Group's shareholders. Awards are made in company shares, usually either in restricted stock or nil price options, and are subject a minimum three-year vesting period. Performance criteria and underpins, as well as tenure conditions are normally applied to long term awards.

- On occasion, the Group may award either joining incentives to new hires to replace awards forfeit as a result of joining the Group or award exceptional retention incentives. These awards are only provided in exceptional circumstances, are subject to Remuneration Committee approval and may be restricted to the first year of service.

The Remuneration Committee has overseen the setting of a maximum ratio between fixed and variable remuneration appropriate to the size of the Group and the nature of its risks and activities. The setting of this ratio aims to support positive conduct and behaviours by ensuring fixed pay levels are set at an appropriately high level relative to the role, and employees are not inappropriately incentivised to achieve variable pay outcomes that may not be in the best long-term interests of the Group and its customers.

5.5. Link between pay and performance

In the financial year to 30 June 2023, remuneration for MRTs comprised base salary, performance-based discretionary incentives, pension, and a suite of non-monetary insured benefits.

Base salaries are set with reference to both external market data and with consideration to providing an appropriate balance of fixed and variable pay that supports behavioural risk mitigation and management objectives with the remuneration policy.

Variable incentive awards for MRTs are determined on the basis of performance appraisals as the Group takes a 'pay for performance' approach. Central to the assessment of performance is the use of a balanced scorecard of qualitative and quantitative factors with the key influences over pay being the MRT's performance, contribution and behaviours – particularly with regard to their alignment to the Group's guiding principles, conduct and risk management. Conflicts of interest are avoided for MRTs within risk and control functions by the omission of financial performance scorecard criteria for the areas under oversight. Awards are determined on a discretionary basis against the pre-agreed criteria and recommending managers are encouraged to consider and reward the creation of sustained value over multiple years, past and future.

Currently, one third of the value of all MRT annual bonus awards is awarded in Deferred Bonus Shares and subject to deferral of up to three years as well as being subject to the Group's Malus and Clawback Policy.

5.6. Quantitative remuneration disclosure

5.6.1. MRT identification criteria

In accordance with the MIFIDPRU Remuneration Code (SYSC 19G.5), in determining its MRT identification criteria the Group has considered the risks inherent in its investment management and financial advice business model, the outsourced nature of its operations platform and the ways in which poor customer outcomes may arise. The current list of MRT identification criteria approved by the Remuneration Committee includes both statutory criteria as well as identifications relating specifically to the Group's own risk profile:

Identifications and criteria aligned to (mandatory) FCA criteria (SYSC 19G.5.3):

1. All Group Board executive directors *(FCA: management body in its management function)*
2. All Group Board non-executive directors and executive and non-executive Board Directors of material UK and International regulated entities *(FCA: management body in its supervisory function)*
3. Members of Group ExCo *(FCA: member of senior management)*
4. Risk takers *(FCA: advising, arranging, managing & dealing in investments)*
    - Global Head of Distribution
    - UKIM: regional office heads and London team heads, IWS and Adroit business unit heads
    - Investment managers/fund managers/advisors responsible for assets in excess of £400m
5. CRO, Group Head of Compliance *(FCA: managerial responsibility for a control function)*
6. MLRO SMF17 *(FCA: managerial responsibility for a control function)*
7. BM Risk & Compliance Committee members and Executive Risk Management Committee members *(FCA: responsible for managing a material risk)*
8. COO *(FCA: responsibility for managing information technology, information security and important function outsourcing)*
9. CIO (voting member of Investment Committee) and Product, Suitability & Conduct Risk Committee members *(FCA: authority to approve or veto new products)*

Identifications and criteria aligned to (mandatory) FCA criteria (SYSC 19G.5.4):

3. Global Head of Distribution *(FCA: <u>for significant revenue</u>, material assets under management or for approving transactions)*

Identifications and criteria aligned to (mandatory) FCA criteria (SYSC 19G.5.5):

1. CIO and MD UKIM (FCA: Heads of key business areas within portfolio management firms)
2. CIO and Head of Research (FCA: Heads of Investment Research)
3. Global Head of Distribution *(FCA: Individuals responsible for a high proportion of revenues)*
4. CIO *(FCA: Chief market strategist, where media profile is linked to reputational risk and risk to market integrity)*
5. Head Dealer *(FCA: Heads of a trading or broking desk)*
6. COO *(FCA: IT, Info Sec and Outsourcing responsibilities, where one role does not oversee all)*

Group activity and risk profile specific criteria (additional criteria for FY2023)

1. Operational Risk Oversight: Head of Operational Oversight & TPA Services
2. Distribution conduct risk oversight: Director, Head of UK Distribution

A quantitative assessment is also under-taken using the Group's definition of higher earners to ensure the roles performed by these employees do not have the potential to impact the Group's risk profile.

Across the full FY23 reporting period, 43 individuals were identified as MRTs.

5.6.2. Remuneration by fixed and variable component

An analysis of the fixed and variable elements of remuneration paid to all staff in the FY23 reporting period is shown in the table below. The value of the fixed and variable components of pay awarded to Senior Management and other MRTs is shown broken out:

Staff Grouping (£'000s unless stated)	Head count (Numbers)	Fixed Remuneration[1] £'000s	Variable Remuneration[2] £'000s	Total Remuneration £'000s
All staff	**486**	**38,497**	**11,430**	**49,927**
of which:				
Senior Management[3]	19	3,801	3,329	7,130
Other MRTs[4]	19	3,221	2,078	5,299

Notes:
1. Fixed Remuneration shows value of annualised fixed pay for snapshot population at 30 June 2023. Components include base salary, pension contributions and car allowances.
2. Variable Remuneration components include FY23 annual bonus awards, LTIPs granted for FY23, joining awards, exceptional share option awards and retention awards.
3. Senior Management headcount and fixed remuneration includes fees paid to non-executive directors.
4. Across the full year, 43 MRTs were identified, although only 38 were employed at snapshot population date of 30 June 2023.

For any LTIPs with performance conditions, the performance conditions are set out in the Remuneration Report of the 2023 Annual Report and Accounts. The awards are subject to a three-year vesting period and two-year post-vesting holding period.

5.6.3. Joining awards and severance payments

No sign-on awards or guaranteed bonus commitments were made to Senior Management or MRTs in the FY23 reporting period.

In view of the small number of severance payments made to MRTs in the FY23 reporting period, and the ability for individual award values to be identified in the event a quantitative disclosure was made, the Company will utilise its exemption under MIFIDPRU 8.6.9 in not making a quantitative disclosure on this subject.

5.7. Other directorships

Certain members of the Group's board of directors hold directorships outside the Group:

Director	Role	Other Executive and Non-Executive Directorship in scope of MIFIDPRU 8.3.1R(2)
R Price	Acting Chairman (Non-Executive Director)	1
J Linwood	Non-Executive Director	2
D Kershaw	Non-Executive Director	2
R Burgess	Non-Executive Director	2
J Rawlingson	Non-Executive Director	2
A Shepherd	CEO	0
A Montague	Chief Financial Officer	0

6. Appendix

The table below reconciles the own funds regulatory calculation with the balance sheet where assets and liabilities have been categorised by asset and liabilities classes respectively. The information in the table below reflects the balance sheet in the audited FY23 financial statements.

Table 3: Reconciliation of regulatory own funds to balance sheet in audited financial statements (Group)

Brooks Macdonald Group plc				
		Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross reference to template OF1
		As at period end June 2023	As at period end June 2023	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Intangible Assets	100,582		Item 11
2	Property, plant and equipment	2,123		
3	Right-of-use assets	4,329		
4	Financial assets at fair value through other comprehensive income	500		
5	Deferred tax assets	2,979		Item 11
6	Financial assets at fair value through profit or loss	825		
7	Trade and other receivables	33,542		
8	Current tax receivables	-		
9	Cash and cash equivalents	53,355		
10	**Total Assets**	**198,235**		
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
11	Lease liabilities	5,141		
12	Provisions	1,322		
13	Deferred tax liabilities	9,012		Item 11
14	Deferred contingent consideration	1,467		
15	Trade and other payables	22,521		
16	Current tax liabilities	645		
17	Other non-current liabilities	783		
18	**Total Liabilities**	**40,891**		
Shareholders' Equity				
19	Share capital	164		Item 4
20	Share premium account	81,830		Item 5
21	Other reserves	9,112		Item 8
22	Retained earnings	66,238		Item 6
23	**Total Shareholders' equity**	**157,344**		

Table 4: Reconciliation of regulatory own funds to balance sheet in audited financial statements (BMAM)

Brooks Macdonald Asset Management Limited				
		Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross reference to template OF1
		As at period end June 2023	As at period end June 2023	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Intangible Assets	29,724		Item 11
2	Property, plant and equipment	1,655		
3	Right-of-use assets	4,038		
4	Deferred tax assets	2,579		
5	Trade and other receivables	32,161		
6	Cash and Cash equivalents	22,089		
7	Financial assets at fair value through profit or loss	232		
8	**Total Assets**	**92,478**		
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
9	Lease liabilities	4,837		
10	Provisions	852		
11	Deferred tax liabilities	5,633		Item 11
12	Deferred contingent consideration	217		
13	Trade and other payables	23,632		
14	**Total Liabilities**	**35,171**		
Shareholders' Equity				
15	Share capital	3		Item 4
16	Share premium account	395		Item 5
17	Other reserves	5,850		Item 8
18	Retained earnings	51,058		Item 6
19	**Total Shareholders' equity**	**57,306**		

Table 5 : Main Features of Own Instruments

The table below provides information on the CET1 Instruments used by the Group and BMAM entity.

Issuer	**Brooks Macdonald Group plc**	**Brooks Macdonald Asset Management Limited**
Public or private placement	Public	Private
Governing law(s) of the instrument	UK	UK
Instrument type	Ordinary Shares / Common Equity Shares	Ordinary Shares / Common Equity Shares
Amount recognised in regulatory capital (GBP thousands, as of most recent reporting date)	£164 (Reported in GBP thousands and rounded to the nearest thousand) 16,399,663 shares	£3 (Reported in GBP thousands and rounded to the nearest thousand) 2,980 shares
Nominal amount of instrument	GBP - 1p per share	GBP - 1p per share
Issue price	GBP - 1p per share	GBP - 1p per share
Redemption price	GBP - 1p per share	GBP - 1p per share
Accounting classification	Equity	Equity
Original date of issuance	Various (2003 – 2023)	01 July 2019
Perpetual or dated	Perpetual	Perpetual
Maturity date	Not applicable	Not applicable
Issuer call subject to prior supervisory approval	No	No
Optional call date, contingent call dates and redemption amount	No	No
Subsequent call dates, if applicable	Not applicable	Not applicable
Coupons/dividends		
Fixed or floating dividend/coupon	Floating dividend	Floating dividend
Coupon rate and any related index	Not applicable	Not applicable
Existence of a dividend stopper	No	No
Convertible or non-convertible	Non-convertible	Non-convertible
Write-down features	No	No
Link to the terms and conditions of the instrument	Not applicable	Not applicable