Brooks Macdonald Group plc

Pillar 3 Disclosures 2020

30 June 2020

BROOKS MACDONALD

Contents

1. Introduction and context

The purpose of the Pillar 3 disclosures is to provide information on Brooks Macdonald Group plc's ('the Group') risks, capital and risk management arrangements.

The Capital Requirements Regulation ('CRR') and Capital Requirements Directive ('CRD') of the European Union (collectively CRD IV) give details of the amount and quality of capital that investment firms must maintain:

- **Pillar 1 –** Sets out the minimum capital requirements calculated through application of regulatory measurement rules to cover: (a) initial fixed capital requirement, set at €125k under CRD IV based on the highest requirement of the Group's regulated entities; (b) credit and market risk; and (c) fixed overhead (operational risk) requirement. The minimum Pillar 1 requirement is the highest of (a), (b) or (c).
- **Pillar 2 –** Is designed to supplement the Pillar 1 requirements through the Group's assessment of the capital required in relation to the actual risk profile of the business, including those risks partially or not covered by the Pillar 1 calculations. The Pillar 2 assessment included within the Internal Capital Adequacy Assessment Process ('ICAAP') includes requirements for the Group to undertake scenario analysis and stress tests, considering the impact of a range of events of varying nature, severity and duration on the financial position of the Group and assessing the amount of capital and liquid funds required to support these.
- **Pillar 3 -** Requires firms to disclose to the public certain details of their risks, capital and risk management arrangements.

This document has been prepared in accordance with the requirements of CRD IV. The Pillar 3 information and supporting calculations in this document are for the consolidated prudential group. It has been reviewed by the Group Risk and Compliance Committee ('RCC') and approved by the Group's board of directors ('the Board').

The Group publishes its Pillar 3 disclosures on an annual basis alongside its financial statements. The last financial statements were for the year ended 30 June 2020 and they are available on the Group's website at www.brooksmacdonald.com.

2. Group overview

The Group is an AIM-listed integrated wealth management group with an average headcount of 435 staff (as at 30 June 2020) and is based in the UK with an offshore business in the Channel Islands. The Group has grown over recent years to over £13.7bn Funds Under Management ('FUM') as at 30 June 2020, driven by success in capturing business from Independent Financial Advisers ('IFAs') referring the discretionary fund management of their clients. In addition, the recent acquisition of Cornelian Asset Managers Group Limited ('CAMG') added £1.2bn of FUM during the year ended 30 June 2020.

The parent company, Brooks Macdonald Group plc, does not undertake any regulated activity. Four of the UK incorporated Group companies are regulated by the Financial Conduct Authority ('FCA') and two of the trading subsidiaries incorporated in the Channel Islands are regulated by the Jersey Financial Services Commission ('JFSC') and the Guernsey Financial Services Commission ('GFSC') as set out below.

Financial group subsidiary	Regulated firm	Regulator(s)	Notes
Brooks Macdonald Asset Management Limited ('BMAM')	✔	FCA	IFPRU Significant Firm €125,000
Cornelian Asset Managers Limited ('CAM')	✔	FCA	IFPRU Significant Firm €125,000
Brooks Macdonald Financial Consulting Limited ('BMFC')	✔	FCA	Exempt CAD firm, subject to IPRU (INV)
Brooks Macdonald Funds Limited ('BMF')	✔	FCA	BIPRU limited licence €50,000
Brooks Macdonald Asset Management (International) Limited ('BMI')	✔	JFSC/GFSC	
Brooks Macdonald Retirement Services (International) Limited ('BMRSI')	✔	JFSC	
Levitas Investment Management Services Limited	No	N/A	Non regulated activity (Fund sponsorship)
Cornelian Asset Managers Group Limited	No	N/A	Non trading entity
Braemar Group Limited	No	N/A	Non trading entity
Secure Nominees Limited	No	N/A	Non trading entity
Brooks Macdonald Nominees Limited	No	N/A	Non trading entity

Further details of the companies are given in note 44 to the 2020 Annual Report and Accounts.

The Group comprises six core regulated entities as detailed above. Collectively these companies form an independent investment management group, providing a wide range of investment and wealth management services to private clients, pension funds, charities, professional intermediaries and trustees; financial planning advice to high net-worth individuals and families; and multi-asset and specialist funds to the retail sector. The Group provides its services through three core businesses:

- UK Investment Management (BMAM, CAM and BMF) – providing discretionary fund management services and open-ended investment company products to clients and their introducers as well as other discretionary managers across the UK;

- Financial Planning (BMFC) – providing wealth management advice services to UK clients from the London office; and

- International (BMI and BMRSI) – providing discretionary fund management and wealth management advice services to clients and their introducers across Europe, South Africa and the UAE from offices in Jersey and Guernsey.

Further details can be found in the 'Strategic report' included in the 2020 Annual Report and Accounts.

3. How we manage risk

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

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 ICAAP.

Assess controls
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 '3 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 includes development and implementation of the overarching risk management policy and framework, challenging (and supporting) the first line to ensure risks are identified and that controls are operating effectively, and to identify control deficiencies and action plans if these are not identified by the first line.
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 Group's internal audit function is outsourced to a Big Four firm.

3.3. Overarching risk appetite statement

The Group's Overarching Risk Appetite ('ORAS'), as defined by the Board, sets out the acceptable level of current & 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 • UK political risk
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.	• Client service • Investment performance • 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 • Data security • Change management • Cyber • IT infrastructure and capability • Key suppliers and outsourcing • Operational maturity • Pandemic • People • Resilience and BCP

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.	• Extreme reputational risk • Financial crime • Governance • Legacy issues • Regulatory, tax and legal compliance

4. Own funds disclosures

The sole category of capital resources held by the Group is Common Equity Tier 1('CET 1') capital. In accordance with the templates in Annex IV of the CRD, 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 below tables set out a reconciliation of the Group's audited financial statements for the year ended 30 June 2020 to regulatory own funds.

Own funds (in £'000s)	Group As at 30 June 2020	BMAM As at 30 June 2020
Share capital	161	3
Share premium	77,982	395
Retained earnings[1]	39,000	43,899
Other reserves[2]	6,398	4,626
Total eligible equity	**123,541**	**48,923**
Intangible assets[3]	(76,882)	(8,295)
Own funds	**46,659**	**40,627**

Notes: 1. Retained earnings are inclusive of full year profits for the period which have been audited at date of publication.

2. Other reserves comprise merger and share-based payment reserves.

3. Intangible asset deductions comprise goodwill, computer software, acquired client relationships and contracts acquired with fund managers. This balance is net of any impairment and any associated deferred tax liabilities.

The below table provides a reconciliation of own funds to the amounts reported in the financial statements of the Group and BMAM:

Reconciliation of Own Funds to Total Equity (in £'000s)	Group As at 30 June 2020	BMAM As at 30 June 2020
Total equity at balance sheet date	123,541	48,923
Intangible assets	(83,804)	(8,295)
Associated deferred tax liabilities[1]	6,922	-
Intangible asset deduction	**(76,882)**	**(8,295)**
Own funds	**46,659**	**40,627**

[1] Of the total Group deferred tax liabilities of £8.3m, £0.3m relates to capital allowances on research and development with the remainder relating to the Group's intangible assets. The £0.3m of capital allowances on research and development has been recognised in BMAM.

5. Regulatory capital requirements

5.1. Overall capital requirement

The Group refreshes its ICAAP documentation at least annually and, as part of the Group's RMF, outlines the Group's approach to assessing and calculating its regulatory capital requirement, taking into account regulatory capital calculation methodologies (Pillar 1) and the impact of firm-specific risks (Pillar 2). The collaborative process involves a range of senior management and all Board members.

The calculation of Pillar 1 (Section 5.2) and Pillar 2 (Section 5.4) capital requirements allows the Group to determine, and subsequently monitor, the appropriate amount of capital to be held based on its risk profile. The Group's capital requirement is determined by taking the higher of Pillar 1 and Pillar 2 capital requirements and, if applicable, any additional Individual Capital Guidance ('ICG') or scalar issued by the FCA.

Stress tests are considered and modelled in determining the suitable amount of internal capital for the Group. Internal capital is forecast to be in a surplus position throughout the next three years and the actual surplus amount is reported formally to management on a monthly basis.

The Group monitors its capital and liquidity ratios on a monthly basis. The capital requirements and common equity ratios are prepared in accordance with the CRR. Dividends are only paid if capital and liquidity requirements are first met.

5.2. Pillar 1 capital requirement

In accordance with CRD IV, the Group calculates its Pillar 1 capital requirement as the highest of (i) the firm's initial capital requirement, which was set at the point the firm became authorised, (ii) the sum of the credit risk capital requirement and market risk capital requirement or (iii) its fixed overhead requirement.

5.2.1. Initial capital

Each of the regulated entities in the Group has a fixed initial capital requirement based on their various permissions. The Group's four UK regulated entities are BMAM and CAM, both IFPRU limited licence €125k firms, BMF, a BIPRU €50k firm, and BMFC, an exempt CAD firm with initial capital of €50k. The Group's initial capital requirement is equal to the highest initial capital requirement of its regulated entities, meaning that the Group has an initial capital requirement of €125k.

5.2.2. Credit risk

Credit risk is the risk of loss arising from a client or counterparty failing to meet their financial obligations to a member of the Group as and when they fall due. Exposures to credit risk arise principally from UK exposures surrounding:

- Firm cash deposited with banking counterparties; and
- Clients' and/or market counterparties' ability to fulfil contractual obligations. These risks are primarily associated with trade and other receivables (including accrued fees), deferred tax assets, available-for-sale assets and property, plant and equipment.

Credit risk is calculated under the Standardised Approach as per Article 107 of the CRR, whereby the credit risk exposure of an asset is equal to its accounting value less credit risk adjustments. Credit risk adjustments include the exclusion of amounts pledged for client account funding.

The below tables outline the Group's Risk-Weighted Exposure ('RWE') for each asset on the balance sheet, after credit risk adjustments. The Group applies the Standardised Approach as set out in Chapter 2, Section I of the CRR.

Group Credit Risk Exposure Amount by Balance Sheet line item (in £'000s)	Balance Sheet 30 Jun 2020	Exposure by risk weighting					RWE 30 Jun 2020
		0%	20%	75%	100%	250%	
Non-current assets							
Intangible assets [1]	83,804	83,804	–	–	–	–	–
Property, plant and equipment	3,181	–	–	–	3,181	–	3,181
Right of use assets	6,991	–	–	–	6,991	–	6,991
Financial assets measured at fair value through other comprehensive income	500	–	–	–	–	500	1,250
Deferred tax assets [2]	1,524	–	–	–	–	1,524	3,810
Total non-current assets	**96,000**						**15,232**
Current assets							
Financial assets at fair value through P&L	549	–	–	–	549	–	549
Trade and other receivables [3, 4, 5]	26,081	–	996	19,697	5,388	–	20,360
Cash and cash equivalents	50,168	–	50,168	–	–	–	10,034
Total current assets	**76,798**						**30,943**
Total assets	**172,798**						**46,175**
Total own funds required (8%)							**3,694**

BMAM Credit Risk Exposure Amount by Balance Sheet line item (in £'000s)	Balance Sheet 30 Jun 2020	Exposure by risk weighting					RWE 30 Jun 2020
		0%	20%	75%	100%	250%	
Non-current assets							
Intangible assets [1]	8,295	8,295	–	–	–	–	–
Property, plant and equipment	2,857	–	–	–	2,857	–	2,857
Right of use assets	6,449	–	–	–	6,449	–	6,449
Deferred tax assets [2]	1,010	–	–	–	–	1,010	2,526
Total non-current assets	**18,611**						**11,832**
Current assets							
Trade and other receivables [3, 4, 5]	43,523	–	992	19,557	22,974	–	37,840
Cash and cash equivalents	14,235	–	14,235	–	–	–	2,847
Total current assets	**57,758**						**40,687**
Total assets	**76,369**						**52,519**
Total own funds required (8%)							**4,202**

Notes:

1. Intangible assets are deducted from Own Funds and do not form part of the credit risk calculation. The amount shown is net of impairments but gross of associated deferred tax liabilities.
2. Deferred tax assets are not deducted from Own Funds and instead are risk weighted at 250%.
3. Trade receivables include cash pledged to fund client account shortfall under CASS 7, which is treated as an exposure to institution and held at a risk weighting of 20%.
4. Prepayments of local council tax rates (regional government exposure) and FCA and JFSC fees (public sector exposure) are weighted at 20% (implied credit quality of UK Government). All others assumed to be Corporate exposure of unknown credit rating (100%).
5. Accrued income from fund management fees (receivable from the ACD) and from platform commission (receivable from platform provider) is treated as an exposure to Corporate (100%). All other accrued income is held at 75% (Retail) and reflects the Group's exposure for accrued client fee income not yet billed.

The below tables summarise risk-weighted exposure by the credit risk exposure classes of Article 112 of the CRR and by credit quality step. In making its credit quality assessment, the Group uses credit assessments from External Credit Assessment Institutions ('ECAIs') in accordance with Article 113.

Where a credit rating cannot be readily determined, credit risk exposures are weighted at 100% by default.

Group Credit Risk Exposure by Exposure Class (in £'000s)	Weight	Balance Sheet Value	Credit Risk Exposure by Credit Quality Step		Total
			1	Unrated	
Regional Government	20%	35	7	–	7
Public Sector	20%	74	15	–	15
Institutions	20%	51,054	10,211	–	10,211
Retail	75%	19,697	–	14,773	14,773
Corporates	100%	15,560	–	15,5610	15,560
CIU	100%	549	–	549	549
Equity	250%	500	–	1,250	1,250
Other	250%	1,524	–	3,810	3,810
Total		**88,994**	**10,233**	**35,942**	**46,175**
Credit Risk Capital (8%)			**819**	**2,875**	**3,694**

BMAM Credit Risk Exposure by Exposure Class (in £'000s)	Weight	Balance Sheet Value	Credit Risk Exposure by Credit Quality Step		Total
			1	Unrated	
Regional Government	20%	35	7	–	7
Public Sector	20%	71	14	–	14
Institutions	20%	15,121	3,024	–	3,024
Retail	75%	19,557	–	14,667	14,667
Corporates	100%	32,280	-	32,280	32,280
Other	250%	1,010	–	2,526	2,526
Total		**68,074**	**3,045**	**49,474**	**52,519**
Credit Risk Capital (8%)			**244**	**3,958**	**4,202**

5.2.3. Foreign exchange risk

The Group's only market risk for the purposes of Pillar 1 is foreign exchange risk. This arises because companies in the Group hold assets and liabilities in currencies other than the reporting currency. Movements in exchange rates against these currencies may give rise to losses on conversion.

Although the market risk capital component is below 2% of own funds and therefore falls below the de-minimis rule contained in Article 351 of the CRR, the Group considers it prudent to include the market risk capital component in its Pillar 1 capital assessment.

5.2.4. Interest rate risk

The Group may elect to invest surplus cash balances in short-term cash deposits with maturity dates not exceeding three months. Consequently, the Group has a limited exposure to interest rate risk due to fluctuations in the prevailing level of market interest rates. A 1% fall in the average monthly interest rate receivable on the Group's cash and cash equivalents would have the impact of reducing interest receivable and therefore profit before taxation by £534,000[2] (FY19: £346,000). An increase of 1% would have an equal and opposite effect.

[2] The Group's total bank interest for FY20 was £210,000. The reduction in interest assumes interest rates can fall below 0% and is calculated based on average monthly cash position during FY20.

5.2.5. Pillar 1 resources

The Group's Pillar 1 calculation is based on the requirements of CRD IV. The calculation is driven by the fixed overhead requirement, being the highest of (i) initial capital, (ii) the sum of credit and market risk and (iii) the fixed overhead requirement.

In £'000s, unless stated	*Group* As at 30 June 2020	*BMAM* As at 30 June 2020
(i) Initial capital requirement	***€125k***	***€125k***
Credit risk	3,694	4,202
Market risk (foreign currency risk)	8	1
(ii) Total Pillar 1 credit and market risk	***3,702***	***4,203***
(iii) Pillar 1 fixed overhead requirement	***18,056***	***13,734***
Pillar 1 requirement [higher of (i), (ii) and (iii)]	**18,056**	**13,734**

As per CRD IV requirements, the Pillar 1 fixed overhead requirement is based on the audited annual report for the period ending 30 June 2019, being the most recently available audited results at 30 June 2020.

In order to confirm the Pillar 1 requirement, other risks are assessed and, if required, additional capital is held by the Group and its regulated entities.

5.3. Common Equity ratios

The requirement is that the Group must satisfy own fund requirements at all times, which are as follows:

- Common Equity Tier 1 capital ratio of 4.5%
- Tier 1 ratio of 6%
- Total capital ratio of 8%

The risk exposure figure is calculated as being 12.5 times the Pillar 1 requirement.

In £'000s	Group As at 30 June 2020	BMAM As at 30 June 2020
Fixed overheads exposure amount	225,704	171,680
Own funds	46,659	40,627
Common Equity Tier I ratio	**20.7%**	**23.7%**
Total capital ratio	**20.7%**	**23.7%**

5.4. Pillar 2 capital requirement

Pillar 2 requires a firm to assess the amount of internal capital it considers adequate to cover all the risks to which it is, or is likely to be, exposed to. It also requires a firm to consider the costs associated with winding down (cost of wind down) and various stress tests (market-wide, idiosyncratic and combined stress tests). Pillar 2 capital requirements are outside the scope of this document.

6. Remuneration

The below remuneration information is provided in accordance with the requirements of Article 450 of Regulation (EU) 575/2013 ('Article 450') and specifically describes the remuneration provisions and practices relating to categories of staff identified as Material Risk Takers ('MRTs') in accordance with Commission Delegated Regulation (EU) no 604/2014. These are categories of staff who execute responsibilities and duties that may have a material impact on the risk profile of the Group.

6.1. Remuneration Policy

The remuneration policy for both the wider Group and its MRTs is determined by the Board's Remuneration Committee. The policy helps support the Group in achieving its strategic objectives, being designed to manage risks and conflicts of interest, as well as supporting the attraction, motivation, retention and reward of employees who make strong contributions to the Group's conduct integrity, risk management and long-term strategic and business objectives. This is essential to the creation of sustainable value for the Group's clients, stakeholders and shareholders.

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. The policy operates in conjunction with both the Group's RMF and its Guiding Principles. The alignment to the remuneration policy of risk policies and behavioural framework standards sets clear expectations on risk appetite adherence, the conduct standards expected from staff and ensures any breaches are sanctioned in conjunction with remuneration outcomes.

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. The Group has designed a remuneration policy for MRT's around its FCA proportionality level 3 status that integrates strong governance and risk management constructs. 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 so that, post award, interests remain aligned to the shareholders' and full scope is provided to apply the Group's Malus and Clawback Policy. 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 Committee report on pages 74 to 88 of the 2020 Annual Report and Accounts includes a detailed description of the remuneration policy in place for the Executive Directors.

Additionally, the policy reflects the Group's position as an equal opportunities employer. The remuneration policy and its execution 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.

6.2. Remuneration Committee

The Remuneration Committee comprises four independent non-executive directors under the chairmanship of John Linwood with effect from 1 August 2019. Each committee member has commercial and governance expertise across a number of business areas, including the wealth and asset management sector. The Committee has been advised by AON and FIT Remuneration. During the year ended 30 June 2020 the Committee met on six occasions.

6.3. Link between pay and performance

In the financial year to 30 June 2020, remuneration for MRTs comprised base salary, performance-based 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 the Group's malus and clawback policy.

6.4. Quantitative remuneration disclosure

6.4.1. MRT definition

BMAM, BMFC, BMI, CAM and the Group fall into proportionality level 3 under the Remuneration Code. As such, the Group applies relevant remuneration codes proportionately, in a manner aligned to the risk profile and activities undertaken by the Group. In accordance with Article 450, the Group has identified a number of MRTs using both qualitative and quantitative assessment criteria. The Remuneration Committee reviews and approves both the criteria used to identify MRTs and the resulting listing of staff identified each year.

6.4.2. Remuneration by fixed and variable component

An analysis of the fixed and variable elements for the 47 staff classified as MRTs during the year ended 30 June 2020 is detailed in the table below, broken down by senior management and other MRTs:

MRT Remuneration by Fixed/Variable Component (£'000s unless stated)	Senior Management	Other MRTs	Total MRTs
Number of MRTs (number)	*13*	*34*	*47*
Fixed remuneration for the period	2,976	5,145	**8,121**
Variable remuneration for the period:			
- Cash	1,039	1,125	2,164
- Deferred bonus shares	519	563	1,082
- Conditional share awards (LTIP)	655	180	835
Total variable remuneration	**2,213**	**1,868**	**4,081**
Total Remuneration	**5,189**	**7,013**	**12,202**

The performance conditions for the LTIP conditional restricted share awards are set out in the Remuneration Report on pages 74 to 88 of the 2020 Annual Report and Accounts. The awards are subject to a three-year vesting period and two-year post-vest holding period.

6.4.3. Remuneration by segment

The total remuneration for the 45 staff classified as MRTs during the year ended 30 June 2020 is split by segment as follows. The 'Group Functions' segment includes support functions and the Group's Board of Directors.

MRT Remuneration by Segment	£'000
UKIM	5,529
International	1,896
Financial Planning	529
Group Functions	4,248
Total Remuneration	**12,202**

6.4.4. Sign on bonuses and severance payments

Severance payments totalling £636,000 were made to 5 MRTs during FY20, the highest single award being £359,000.

No MRTs were awarded sign-on bonuses during the year.

6.4.5. Overall quantitative threshold

No individuals were awarded total annual remuneration in excess of €1m during the year ended 30 June 2020.

6.5. Other directorships

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

Director	Role	Number of outside directorships
A Carruthers	Chairman (Non-Executive Director)	1
C M Connellan [3]	Chief Executive	1
B Thorpe	Finance Director	–
R Price	Senior Independent Director (Non-Executive Director)	3
D Kershaw	Non-Executive Director	1
D Seymour-Williams	Non-Executive Director	3
J Linwood	Non-Executive Director	1
R Burgess	Non-Executive Director	2

[3] C M Connellan's outside directorship is of the Investment Association.