Brooks Macdonald Group plc

Investment Firm Prudential Regime - Public Disclosures 2022

30 June 2022

BROOKS MACDONALD

Contents

1. Introduction and context

The Investment Firm Prudential Regime ('IFPR') is a new regulatory regime for MiFID investment firms that came into effect 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.

2. Group overview

The Group is an independent, AIM-listed investment management firm which provides investment management and financial planning services. It has a staff complement of 450 and is based in the UK with an offshore business in the Channel Islands and Isle of Man. As at 30 June 2022, the Group had £15.7bn in Funds Under Management ('FUM'). 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; however, relevant SNI thresholds have been exceeded on a combined basis (primarily K-AUM), thereby classifying all group MiFID investment firms as Non-SNI's.

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')
Cornelian Asset Managers Limited ('CAM')	✓	FCA	✓	PMR - £150,000	MIFIDPRU ('Non-SNI')
Brooks Macdonald Financial Consulting Limited ('BMFC')	✓	FCA	✓	PMR - £75,000	MIFIDPRU ('Non-SNI')
Brooks Macdonald Funds Limited ('BMF')	✓	FCA	✓	PMR - £75,000	MIFIDPRU ('Non-SNI')
Brooks Macdonald Asset Management (International) Limited ('BMAMIL')	✓	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
Levitas Investment Management Services Limited	No	N/A	-	Non-regulated activity (Fund sponsorship)	Non-regulated activity (Fund sponsorship)

Prudential Group Subsidiary	Regulated Firm	Regulator(s)	Prudential Consolidation Group	Notes	IFPR Prudential Categorisation
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
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. Collectively these companies provide a wide range of investment and wealth management services to private clients, pension funds, 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 two core businesses:

- UK Investment Management (BMAM, CAM, BMFC & BMF) – providing discretionary fund management services and wealth management advice to clients introduced by intermediaries and to direct private clients; and

- International (BMAMIL and BMIFM) – providing wealth management advice and discretionary fund management services to clients and their introducers (where applicable) across 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 2022 Annual Report and Accounts.

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 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. 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 Terms of Reference ('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.

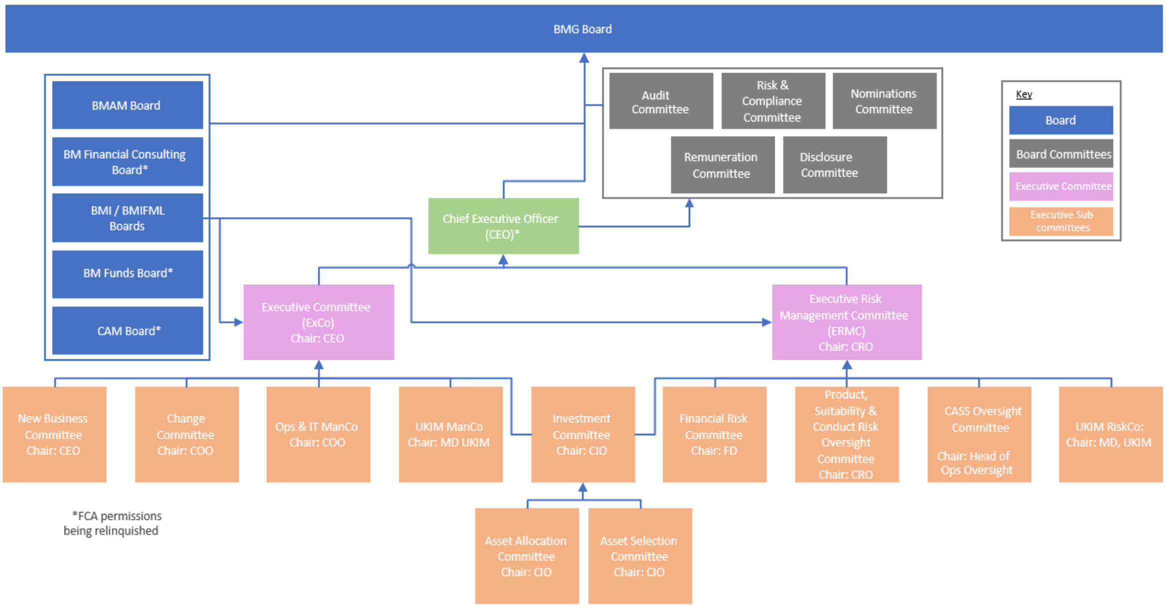
- Remuneration Committee - meets not less than three times a year and exercises independent judgment in the determination, implementation and operation of the overall Remuneration Policy for the Group.

- 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.



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".

3.3. 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 meets monthly to determine the internal 'house view' which is later communicated to investment managers across the organisation. External parties are also used (both independent macro research providers and the research teams of investment banks) to help formulate views made by the Committee.

External scrutiny is completely encouraged and therefore discussions are had in monthly investment forum meetings to debate various different viewpoints between internal teams. The collation of external research is vital and ensures that the Asset Allocation Committee is powered by the idea of macro economics and strategists. Systems of major data providers are also 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 inhouse sector research teams. All investment managements and research analysts are involved in sector research which forms the core of the sector research teams. In addition to this, oversight and peer review from the Asset Allocation Committee ensure an extra layer of control and governance with regards the ideas generated by sector teams. Following these various review procedures, the end result is a pool of researched assets for investment managers to use when constructing portfolios.

Investment Rules

The investment rules used by the Group have been designed to withstand and coordinate with a number of various external market events. Central investment rules are provided to all investment products. For bespoke and management 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 any foreseeable 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 global mutli-asset investor, the Group's approach to assessing ESG factors is tailored to each asset class and the vehicle used to invest in each class. 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.

3.4. Approach to Diversity

Diversity, Equality, and Inclusion ("DEI") 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 our 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 Executive Committee has three women out of eleven, and two out of eight on the Group Board. In September 2022, a further female member joined the Executive Committee.

The Group has been continually building on its DEI strategy to increase diversity, including making female appointments to the Board.

Additionally, the Group is a proud signatory to the Women in Finance Charter, an HM Treasury initiative, which aims to achieve gender balance at all levels across financial services. The Group's gender pay gap reports, prepared in line with the Equality Act 2010 (Gender Pay Gap Information's) Regulations 2017, are published annually on the Group's website. In April 2022, the Group was pleased to report that progress was made on what the Group had reported in 2021.

The Group's emphasis on and commitment to promoting a diverse and inclusive workplace is set out in the 'Group Diversity Policy', which is committed to promoting a culture of equality and diversity in the organisation, that actively values difference, providing an inclusive workplace and eliminating any unfair or unlawful discrimination.

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 DEI 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.

3.5. 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.

3.6. 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.

3.7. 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

3.8. Emerging risks

Risk	Definition	Context
Climate change (Emerging)	The potential financial, reputational and client-related risks associated with ever increasing climate change-related risks.	With the frequency of extreme natural events increasing as a result of climate change, this could have a profound impact on the financial services industry.
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.

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 MiFID legal entity own funds and presents a reconciliation of their audited financial statements for the year ended 30 June 2022 to regulatory own funds.

Table 1: Regulatory own funds summary

Own funds (in £'000s)	Group As at 30 June 2022	BMAM As at 30 June 2022	CAM As at 30 June 2022	BMF As at 30 June 2022	BMFC As at 30 June 2022
Equity per Statement of Financial Position					
Share capital	162	3	572	2,400	2
Share premium	79,141	395	14	-	8,730
Retained earnings[1]	59,160	52,157	3,803	(1,406)	(8,590)
Other reserves[2]	9,962	5,894	-	-	244
Total equity (i)	**148,425**	**58,449**	**4,389**	**994**	**386**
Regulatory adjustments					
Intangible assets[3]	(85,887)	(25,531)	-	-	-
Associated deferred tax liabilities	7,574	3,937	-	-	-
Deferred tax assets that rely on future profitability	(133)	-	-	-	-
Total regulatory adjustments (ii)	**(78,446)**	**(21,594)**	**-**	**-**	**-**
Total regulatory own funds (i) + (ii)	**69,979**	**36,855**	**4,389**	**994**	**386**

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 MiFID legal entities in accordance with the relevant references from the balance sheet in the audited financial statements:

Composition of regulatory own funds											
		BMG		BMAM		CAM		BMF		BMFC	
	Item	Amount (GBP Thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements	Amount (GBP Thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements	Amount (GBP Thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements	Amount (GBP Thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements	Amount (GBP Thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements
1	**OWN FUNDS**	**69,979**		**36,855**		**4,389**		**994**		**386**	
2	**TIER 1 CAPITAL**	**69,979**		**36,855**		**4,389**		**994**		**386**	
3	**COMMON EQUITY TIER 1 CAPITAL**	**69,979**		**36,855**		**4,389**		**994**		**386**	
4	Fully paid up capital instruments	162	Note 28	3	Note 24	572	Note 12	2,400	Note 9	2	Note 10
5	Share premium	79,141	Note 28	395	Note 25	14	Statement of Changes in Equity			8,730	Note 11
6	Retained earnings	59,160	Note 29	52,157	Statement of Changes in Equity	3,803	Statement of Changes in Equity				
7	Accumulated other comprehensive income/losses							(1,406)	Statement of Changes in Equity	(8,590)	Statement of Changes in Equity
8	Other reserves	9,962	Note 28	5,894	Statement of Changes in Equity					244	Statement of Changes in Equity
9	Adjustments to CET1 due to prudential filters										
10	Other funds										
11	**(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1**	(78,446)	Note 14, Note 19	(21,594)	Note 13, Note 16						
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

MIFIDPRU 4.5 sets out the FOR of an investment firm. The way in which the FOR is calculated under IFPR is broadly equivalent to the previous CRR method, in that it represents one quarter of *relevant expenditure* (i.e., fixed overhead costs) in the previous financial year.

The consolidated FOR based on the Group financial statements for the year ended 30 June 2021 is £19.6m. As per regulatory guidance, the FOR is based on the audited annual report for the period ending 30 June 2021, being the most recently available audited results as at 30 June 2022.

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.

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. BMAM and CAM have the permissions to hold client money and assets in the course of MiFID business and therefore under MIFIDPRU 4.4.3R their PMR is £150k. BMFC and BMF do not have these permissions and therefore under MIFIDPRU 4.4.4R their PMR is £75k. On a consolidated basis, the group PMR is therefore £450k.

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	CAM	BMF	BMFC
K-Factor	Sum of K-AUM, K-CMH & K-ASA	5,739	4,646	202	-	-
	Sum of K-COH & K-DTF	-	-	-	-	-
	Sum of K-NPR, K-CMG, K- TCD & K-CON	-	-	-	-	-
		-	-	-	-	-
	Total K Factor Requirement	5,739	4,646	-	-	-
Fixed Overhead Requirement		19,609	14,953	715	-	-

For further reconciliation of legal entity own funds to audited financial statements please see the Appendix (Table 3-7).

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 analyses, 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 2027
- 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 Ruel ('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 manging 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.

4.3. 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. This remuneration disclosure also considers the requirements of the incoming MIFIDPRU Remuneration Code (FCA Handbook SYSC 19G) which will formally apply from the 2023 reporting period, but for which the Group's remuneration policy has been amended in 2022.

The Group has adopted the FCA's transitional provisions ('TP') for disclosure requirements contained in MIFIDPRU TP12 which require the Group to publish relevant disclosures on remuneration that would have been required for the previous performance period had the Group continued to be subject to article 450 of the UK CRR.

4.4. 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. The policy's promotion of sound and effective risk management 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 and behaviours. The policy operates in conjunction with both the Group's RMF and its Guiding Principles. The alignment of the remuneration 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 risk events, 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. The Group has designed a remuneration policy for MRTs 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, the implementation of which is directly overseen by the Remuneration Committee on the basis of information and analysis consolidated by the Group's control and HR functions. 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 in the 2022 Annual Report and Accounts includes a detailed description of the remuneration policy in place for the Executive Directors.

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.

The policy makes clear distinction between the components of remuneration that are fixed and those that are variable. 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 clients. All employees receive a market-benchmarked base salary and an employer's pension contribution, with other components of fixed pay being role-dependent, including car allowances and role-based allowances. The Group has reduced the number and range of role-based allowances in 2022 in order to simplify pay and increase transparency.

All variable pay opportunities offered by the Group are made on a discretionary basis, with no employee having an entitlement to receive variable pay. The Group offers short term annual bonus plans, which are settled in a mixture of cash and parent company shares (Deferred Bonus Shares), and share-based, long term incentive plans (LTIPs) which vest over a minimum of three years and may include forward-looking performance conditions. Eligibility for variable pay plans is determined by role, with long term incentives being offered to more senior profile employees with a greater influence over the future performance of the Group. On occasion, the Group awards joining incentives to new hires to replace awards or opportunities forfeit as a result of joining the Group. Joining incentives are only provided on an exceptional basis and are restricted to the first year of service. The Group may also award exceptional recognition or retention awards.

4.5. 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 FIT Remuneration. During the year ended 30 June 2022 the Committee met on four occasions.

4.6. Link between pay and performance

In the financial year to 30 June 2022, 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 being subject to the Group's Malus and Clawback Policy.

4.7. Quantitative remuneration disclosure

4.7.1. MRT definition

The Group falls 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. In reviewing its MRT identification criteria for 2022, the incoming MIFIDPRU Remuneration Code (SYSC 19G.5) criteria have also been incorporated. The Remuneration Committee reviews both statutory criteria as well as the Group's own risk profile in approving the criteria used to identify MRTs and the resulting list of staff identified each year. The following MRT identification criteria were 2022:

- All employees holding SMF responsibility
- All Executive Committee (ExCo) members (members of 'senior management')
- All executive and non-executive Board Directors of UK regulated entities
- BM Risk and Compliance Committee and Executive Risk Management Committee members
- Group Heads of Risk and Compliance and the MLRO
- Investment Committee and Product, Suitability & Conduct Risk Committee members
- UK Investment Management Team Heads (London and Regional)
- Investment/Fund managers responsible for significant assets under management (AuM)
- Specialist roles either holding management responsibility in an FCA named function, including senior managers in trading, technology, outsourcing, portfolio management, research/market strategy and distribution functions

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

4.7.2. Remuneration by fixed and variable component

An analysis of the fixed and variable elements of remuneration paid to all staff in 2022 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 (no)	Fixed Remuneration[1] £'000s	Variable Remuneration[2] £'000s	Total Remuneration £'000s
All staff	**455**	36,961	14,004	**50,965**
of which:				
Senior Management[3]	16	3,482	4,886	8,368
Other MRTs	18	3,000	1,930	4,930

Notes: 1. Fixed Remuneration shows value of annualised fixed pay for snapshot population at 30 June 2022. Components include base salary, pension contributions, car allowances and role based allowances

2. Variable Remuneration components include annual bonus, LTIPs, joining awards and exceptional recognition and retention awards.

3. Senior Management headcount and fixed remuneration includes fees paid to non-executive directors

For any LTIPs with performance conditions, the performance conditions are set out in the Remuneration Report of the 2022 Annual Report and Accounts. The awards are subject to a three-year vesting period and two-year post-vest holding period.

4.7.3. Sign on bonuses and severance payments

No severance payments, sign-on bonuses (joining awards) or guaranteed remuneration commitments were awarded to MRTs in 2022.

4.7.4. Overall quantitative threshold

Two individuals were awarded total annual remuneration in excess of €1m during the year ended 30 June 2022.

4.8. Other directorships

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

Director	Role	Number of other Non-Executive directorships
A Carruthers	Chairman (Non-Executive Director)	–
A Shepherd	CEO	–
B Thorpe	Chief Financial Officer	–
L Cross	Chief Operating Officer	1
R Price	Non-Executive Director	2
D Kershaw	Non-Executive Director	2
J Linwood	Non-Executive Director	1
R Burgess	Non-Executive Director	2

5. 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 financial statements.

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

Brooks Macdonald Group plc				
		A	B	C
		Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross reference to template OF1
		As at period end	As at period end	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Intangible Assets	85,887		Item 11
2	Property, plant and equipment	2,202		
3	Right-of-use assets	4,971		
4	Financial assets at fair value through other comprehensive income	500		
5	Deferred tax assets	3,002		Item 11
6	Financial assets at fair value through profit and loss	784		
7	Trade and other receivables	30,473		
8	Current tax receivables			
9	Cash and cash equivalents	61,328		
10	**Total Assets**	**189,147**		
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
11	Lease liabilities	6,027		
12	Provisions	1,145		
13	Deferred tax liabilities	7,959		Item 11
14	Deferred consideration	327		
15	Trade and other payables	23,861		
16	Current tax liabilities	833		
17	Other non-current liabilities	570		
18	**Total Liabilities**	**40,722**		
Shareholders' Equity				
19	Share capital	162		Item 4
20	Share premium account	79,141		Item 5
21	Other reserves	9,962		Item 8
22	Retained earnings	59,160		Item 6
23	**Total Shareholders' equity**	**148,425**		

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

Brooks Macdonald Asset Management Limited				
		A	B	C
		Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross reference to template OF1
		As at period end	As at period end	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Intangible Assets	25,531		Item 11
2	Property, plant and equipment	1,902		
3	Right-of-use assets	4,723		
4	Deferred tax assets	2,848		
5	Trade and other receivables	29,941		
6	Cash and Cash equivalents	27,447		
7	Financial assets at fair value through profit or loss	195		
8	**Total Assets**	**92,587**		
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
9	Lease liabilities	5,725		
10	Provisions	961		
11	Deferred tax liabilities	4,304		Item 11
12	Deferred consideration	-		
13	Trade and other payables	23,148		
14	**Total Liabilities**	**34,138**		
Shareholders' Equity				
15	Share capital	3		Item 4
16	Share premium account	395		Item 5
17	Other reserves	5,894		Item 8
18	Retained earnings	52,157		Item 6
19	**Total Shareholders' equity**	**58,449**		

Table 5: Reconciliation of regulatory own funds to balance sheet in audited financial statements (CAM)

Cornelian Asset Managers Ltd				
		A	B	C
		Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross reference to template OF1
		As at period end	As at period end	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Cash and cash equivalents	7,552		
2	Trade and other receivables	627		
3	Right-of-use assets	-		
4	Deferred tax assets	8		Item 11
5	**Total Assets**	**8,187**		
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
6	Lease liabilities	-		
7	Provisions	9		
8	Deferred tax liabilities	-		
9	Deferred consideration	-		
10	Trade and other payables	3,789		
11	**Total Liabilities**	**3,798**		
Shareholders' Equity				
12	Share capital	572		Item 4
13	Share premium account	14		Item 5
14	Other reserves	-		
15	Retained earnings	3,803		Item 6
16	**Total Shareholders' equity**	**4,389**		

Table 6: Reconciliation of regulatory own funds to balance sheet in audited financial statements (BMF)

Brooks Macdonald Funds Ltd				
		A	B	C
		Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross reference to template OF1
		As at period end	As at period end	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Cash and cash equivalents	1,014		
2	Property, plant and equipment	-		
3	Right-of-use assets	-		
4	Deferred tax assets	-		
5	**Total Assets**	**1,014**		
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
6	Lease liabilities	-		
7	Provisions	2		
8	Deferred tax liabilities	-		
9	Deferred consideration	-		
10	Trade and other payables	18		
11	**Total Liabilities**	**20**		
Shareholders' Equity				
12	Share capital	2,400		Item 4
13	Share premium account	-		
14	Accumulated losses	(1,406)		Item 7
15	Retained earnings	-		
16	**Total Shareholders' equity**	**994**		

Table 7: Reconciliation of regulatory own funds to balance sheet in audited financial statements (BMFC)

Brooks Macdonald Financial Consulting Ltd				
		A	B	C
		Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross reference to template OF1
		As at period end	As at period end	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Cash and cash equivalents	417		
2	Trade and other receivables	88		
3	Right-of-use assets	-		
4	Deferred tax assets	-		
5	**Total Assets**	**505**		
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
6	Lease liabilities	-		
7	Provisions	88		
8	Deferred tax liabilities	-		
9	Deferred consideration	-		
10	Trade and other payables	32		
11	**Total Liabilities**	**120**		
Shareholders' Equity				
12	Share capital	2		Item 4
13	Share premium account	8,730		Item 5
14	Other reserves	244		Item 8
15	Accumulated losses	(8,590)		Item 7
16	**Total Shareholders' equity**	**385**		

Table 8 : Main Features of Own Instruments

The table below provides information on the CET1 Instruments used by the Group and other entities:

Issuer	Brooks Macdonald Group plc	Brooks Macdonald Asset Management Limited	Cornelian Asset Managers Ltd	Brooks Macdonald Funds Ltd	Brooks Macdonald Financial Consulting Ltd
Public or private placement	Public	Private	Private	Private	Private
Governing law(s) of the instrument	UK	UK	UK	UK	UK
Instrument type	Ordinary Shares / Common Equity Shares	Ordinary Shares / Common Equity Shares	Ordinary Shares / Common Equity Shares	Ordinary Shares / Common Equity Shares	Ordinary Shares / Common Equity Shares
Amount recognised in regulatory capital (GBP thousands, as of most recent reporting date)	£162 (Reported in GBP thousands and rounded to the nearest thousand) 16,205,542 shares	£3 (Reported in GBP thousands and rounded to the nearest thousand) 2,980 shares	£572 (Reported in GBP thousands and rounded to the nearest thousand) 572,000 shares	£2,400 (Reported in GBP thousands and rounded to the nearest thousand) 2,400,000 shares	£2 (Reported in GBP thousands and rounded to the nearest thousand) 40,127 shares at 5p each (£2,006.30)
Nominal amount of instrument	GBP - 1p per share	GBP - 1p per share	GBP - 1p per share	GBP - 1p per share	GBP - 1p per share
Issue price	GBP - 1p per share	GBP - 1p per share	GBP - 1p per share	GBP - 1p per share	GBP - 1p per share
Redemption price	GBP - 1p per share	GBP - 1p per share	GBP - 1p per share	GBP - 1p per share	GBP - 1p per share
Accounting classification	Equity	Equity	Equity	Equity	Equity
Original date of issuance	Various (2003 – 2022)	01 July 2019	Various (1989-2003)	Various: (2006-2016)	25 September 2018
Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
Maturity date	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Issuer call subject to prior supervisory approval	No	No	No	No	No
Optional call date, contingent call dates and redemption amount	No	No	No	No	No
Subsequent call dates, if applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Coupons/dividends					
Fixed or floating dividend/coupon	Floating dividend	Floating dividend	Floating dividend	Floating dividend	Floating dividend
Coupon rate and any related index	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Existence of a dividend stopper	No	No	No	No	No
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
Write-down features	No	No	No	No	No
Link to the terms and conditions of the instrument	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable