Brooks Macdonald Group plc

Pillar 3 Disclosures 2021

30 June 2021

BROOKS MACDONALD

Contents

1. Introduction and context

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

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 the application of regulatory measurement rules to cover: (a) an 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 overheads (operational risk). 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'), requires 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 resources and risk management objectives and policies.

This document has been prepared in accordance with the requirements of CRD IV. The Pillar 3 information and supporting calculations in this document are based on 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 most recent financial statements were for the year ended 30 June 2021 and they are available on the Group's website at www.brooksmacdonald.com.

2. Group overview

The Group is an independent, AIM-listed investment management firm, with a network of 13 offices across the UK and Channel Islands. At 30 June 2021 the Group had Funds Under Management ('FUM') of £16.5bn and over 420 employees.

The ultimate parent company, Brooks Macdonald Group plc, does not undertake any regulated activity. Several of the Group's trading subsidiaries are regulated by the Financial Conduct Authority ('FCA'), the Jersey Financial Services Commission ('JFSC') and the Guernsey Financial Services Commission ('GFSC') as set out in the table below. As a result, the Group is subject to consolidated supervision by the FCA and the Pillar 3 disclosure is prepared on the same consolidated basis as the group financial statements in the Annual Report and Accounts.

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	
Brooks Macdonald International Fund Managers Limited ('BMIFM')	✔	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 International Nominees (Guernsey) Limited	No	N/A	Non-trading entity
Cornelian Asset Managers 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 41 to the 2021 Annual Report and Accounts.

The Group comprises seven 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, BMF and BMFC) – providing discretionary fund management services to clients introduced by intermediaries and to direct private clients, to whom we also provide wealth management advice; and

- International (BMI, BMRSI and BMIFM) – providing discretionary fund management services to clients and their introducers across the UAE, South Africa and Europe from offices in Jersey, Guernsey and soon the Isle of Man (subject to regulatory approval).

Further details can be found in the 'Strategic report' included in the 2021 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.

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

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

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

3.2. Three Lines of Defence

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

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

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

3.3. Overarching risk appetite statement

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

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

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

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

Client Outcome

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

Control Environment

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

Financial Performance & Resources

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

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

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

3.4. Key risks

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

Risk	Definition	Key risks identified by RMF
Credit	The risk of loss arising from a client or counterparty failing to meet their financial obligations to a Brooks Macdonald entity as and when they fall due.	• Cash deposits with external banks • Client credit risk • Counterparty credit risk • Custodian-related credit risk • Indirect counterparty risk in respect of referrals
Liquidity	The risk that assets are insufficiently liquid and/or Brooks Macdonald does not have sufficient financial resources available to meet liabilities as they fall due or can secure such resources only at excessive cost. Liquidity risk also includes the risk that the Group is unable to meet regulatory prudential liquidity ratios.	• Corporate cash deposited with external banks • Client cash deposited with external banks (CASS rules) • Failed trades • Indirect liquidity risk associated with client portfolios • Indirect liquidity risks associated with dealing • Indirect risk in respect of the liquidity of individual holdings in a fund • Indirect risk in respect of the overall liquidity of our funds
Market	The risk that arises from fluctuations in the value of, or income arising from, movements in equity, bonds, or other traded markets, interest rates or foreign exchange rates that has a financial impact.	• Failed trades • Indirect market risk associated with advising on client portfolios • Indirect market risks associated with dealing • Indirect market risk associated with managing client portfolios
Business and strategic risk	The risk of having an inadequate business model or making strategic decisions that may result in lower than anticipated profit or losses or exposes the Group to unforeseen risks.	• Adviser concentration • Acquisitions • Business growth • Extreme market events • Investment performance • Product governance • 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 • Third party suppliers • Operational maturity • Pandemic • 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 risk • Financial crime • Governance • Legacy issues • Regulatory, tax and legal compliance

4. Own funds disclosures

The Group holds only Common Equity Tier 1 ('CET 1') capital resources. 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 table below summarises the components of the Group's and BMAM's own funds and presents a reconciliation of their audited financial statements for the year ended 30 June 2021 to regulatory own funds.

Own funds (in £'000s)	Group As at 30 June 2021	BMAM As at 30 June 2021
Equity per Statement of Financial Position		
Share capital	161	3
Share premium	78,703	395
Retained earnings[1]	46,672	46,413
Other reserves[2]	8,467	5,218
Total equity (i)	**134,003**	**52,029**
Regulatory adjustments		
Intangible assets[3]	(89,897)	(25,243)
Associated deferred tax liabilities	8,454	4,091
Total regulatory adjustments (ii)	**(81,443)**	**(21,152)**
Total regulatory own funds (i) + (ii)	**52,560**	**30,877**

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, acquired client relationships and contracts acquired with fund managers. This balance is net of any accumulated impairment losses.

5. Regulatory capital requirements

5.1. Overall capital requirement

The Group refreshes its ICAAP documentation at least annually and, as part of the RMF, outlines its approach to assessing and calculating its regulatory capital requirement, taking into account 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 the 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 appropriate 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 met and the parent company of the Group holds sufficient distributable reserves.

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) the 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 fee income), 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 2021	Exposure by risk weighting					RWE 30 Jun 2021
		0%	20%	75%	100%	250%	
Non-current assets							
Intangible assets [1]	89,897	89,897	–	–	–	–	–
Property, plant and equipment	2,756	–	–	–	2,756	–	2,756
Right of use assets	5,979	–	–	–	5,979	–	5,979
Financial assets measured at fair value through other comprehensive income	500	–	–	–	–	500	1,250
Deferred tax assets [2]	2,736	–	–	–	–	2,736	6,840
Total non-current assets	**101,868**						**16,825**
Current assets							
Financial assets at fair value through P&L	624	–	–	–	624	–	624
Trade and other receivables [3, 4, 5]	28,449	–	1,382	21,138	5,929	–	22,059
Current tax receivables	32	32	–	–	–	–	–
Cash and cash equivalents	54,899	–	54,899	–	–	–	10,980
Total current assets	**84,004**						**33,663**
Total assets	**185,872**						**50,488**
Total own funds required (8%)							**4,039**

BMAM Credit Risk Exposure Amount by Balance Sheet line item (in £'000s)	Balance Sheet 30 Jun 2021	Exposure by risk weighting					RWE 30 Jun 2021
		0%	20%	75%	100%	250%	
Non-current assets							
Intangible assets [1]	25,243	25,243	–	–	–	–	–
Property, plant and equipment	2,331	–	–	–	2,331	–	2,331
Right of use assets	5,498	–	–	–	5,498	–	5,498
Deferred tax assets [2]	1,956	–	–	–	–	1,956	4,890
Total non-current assets	**35,028**						**12,719**
Current assets							
Trade and other receivables [3, 4, 5]	29,198	–	1,177	17,088	10,933	–	23,984
Cash and cash equivalents	24,592	–	24,592	–	–	–	4,919
Total current assets	**53,790**						**28,903**
Total assets	**88,818**						**41,622**
Total own funds required (8%)							**3,330**

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% (using the central government risk weight based method). All others assumed to be Corporate exposure of unknown credit rating (100%).
5. Accrued income from fund management fees (receivable from the Authorised Corporate Director) 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 to accrued client fee income not yet billed.

The tables below 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	
Central Government	0%	32	–	–	–
Regional Government	20%	11	2	–	2
Public Sector	20%	106	21	–	21
Institutions	20%	56,163	11,233	–	11,233
Retail	75%	21,138	–	15,853	15,853
Corporates	100%	14,665	–	14,665	14,665
CIU	100%	624	–	624	624
Equity	250%	500	–	1,250	1,250
Other	250%	2,736	–	6,840	6,840
Total		**95,975**	**11,256**	**39,232**	**50,488**
Credit Risk Capital (8%)			**900**	**3,139**	**4,039**

BMAM Credit Risk Exposure by Exposure Class (in £'000s)	Weight	Balance Sheet Value	Credit Risk Exposure by Credit Quality Step		Total
			1	Unrated	
Public Sector	20%	106	21	–	21
Institutions	20%	25,662	5,133	–	5,133
Retail	75%	17,088	–	12,816	12,816
Corporates	100%	18,762	-	18,762	18,762
Other	250%	1,957	–	4,890	4,890
Total		**63,575**	**5,154**	**36,468**	**41,622**
Credit Risk Capital (8%)			**412**	**2,917**	**3,330**

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 the exchange rates of 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 £525,000[1] (FY20: £534,000). An increase of 1% would have an equal and opposite effect.

[1] The reduction in interest assumes interest rates can fall below 0% and is calculated based on average monthly cash position during FY21.

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 2021***	***BMAM*** ***As at 30 June 2021***
(i) Initial capital requirement	***€125k***	***€125k***
Credit risk	4,039	3,330
Market risk (foreign currency risk)	45	-
(ii) Total Pillar 1 credit and market risk	***4,084***	***3,330***
(iii) Pillar 1 fixed overhead requirement	***19,472***	***15,330***
Pillar 1 requirement [higher of (i), (ii) and (iii)]	**19,472**	**15,330**

As per CRD IV requirements, the Pillar 1 fixed overhead requirement is based on the audited annual report for the period ending 30 June 2020, being the most recently available audited results at 30 June 2021.

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 Group must satisfy its own funds 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 2021**	**BMAM** **As at 30 June 2021**
Fixed overheads exposure amount	243,400	191,625
Own funds	52,560	30,877
Common Equity Tier I ratio	**21.6%**	**16.1%**
Total capital ratio	**21.6%**	**16.1%**

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 the business 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 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. 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 2021 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 FIT Remuneration. During the year ended 30 June 2021 the Committee met on six occasions.

6.3. Link between pay and performance

In the financial year to 30 June 2021, 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.

6.4. Quantitative remuneration disclosure

6.4.1. 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. The Remuneration Committee reviews and approves both the criteria used to identify MRTs and the resulting list of staff identified each year.

6.4.2. Remuneration by fixed and variable component

An analysis of the fixed and variable elements for the 37 staff classified as MRTs during the year ended 30 June 2021 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)	10	27	37
Fixed remuneration for the period	2,455	4,138	**6,593**
Variable remuneration for the period:			
- Cash	1,341	1,281	2,622
- Deferred bonus shares	670	641	1,311
- Conditional share awards (LTIP)	1,980	-	1,980
Total variable remuneration	**3,991**	**1,922**	**5,913**
Total Remuneration	**6,446**	**6,060**	**12,506**

The performance conditions for the LTIPs are set out in the Remuneration Report of the 2021 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 37 staff classified as MRTs during the year ended 30 June 2021 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	2,505
International	720
Group Functions	9,281
Total Remuneration	**12,506**

6.4.4. Sign on bonuses and severance payments

One severance payment totalling £30,000 was made to an MRT during FY21. No MRTs were awarded sign-on bonuses during the year.

6.4.5. Overall quantitative threshold

Two individuals were awarded total annual remuneration in excess of €1m during the year ended 30 June 2021.

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
A Shepherd [1]	CEO Designate	–
B Thorpe	Chief Financial Officer	–
L Cross [2]	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

[1] Appointed 13 July 2021
[2] Appointed 13 July 2021