Whitley Asset Management: MIFIDPRU 8 disclosure for 2022

1. Introduction

Whitley Asset Management Limited ("WAM" or "the Firm") is a privately owned limited company incorporated in the United Kingdon ("UK"), authorised and regulated by the Financial Conduct Authority ("FCA") under firm reference number 230690. The principal activities of the Firm are the provision of investment management services to retail clients. This disclosure is in relation to Whitley Asset Management Limited.

WAM is subject to the prudential requirements of the Investment Firms Prudential Regime ("IFPR") contained in the MIFIDPRU Sourcebook of the FCA Handbook. WAM is required to publish disclosures in accordance with the provisions and guidance outlined in MIFIDPRU 8 of the IFPR. Under the IFPR's firm categorisation, WAM is categorised as a non-small non-interconnected ("non-SNI") MIFIDPRU investment firm.

Unless stated otherwise, the disclosures herein relate to WAM's most recently ended financial year, which ended on 31 December 2022.

Basis of Disclosure

This disclosure for WAM is prepared at least annually on a solo entity (i.e. individual) basis. The disclosed information is proportionate to WAM's size and organisation, and to the nature, scope and complexity of WAM's activities.

WAM is required to provide disclosure on its:

- (i) Risk Management objectives and policies (MIFIDPRU 8.2);
- (ii) Governance Arrangements (MIFIDPRU 8.3);
- (iii) Own Funds (MIFIDPRU 8.4 and 8.5); and
- (iv) Remuneration Policies and Practices (MIFIDPRU 8.6).

WAM's audited financial statements are prepared in accordance with UK GAAP and are available from Companies House.

Significant Changes Since Prior Disclosure

In accordance with when the provisions of MIFIDPRU were first applied to WAM, this is WAM's first such disclosure and therefore there are no significant changes to prior disclosures.

2. Governance Arrangements

Firm Governance

WAM's Board (2 Executive Directors: Edward Whitley and Louise Rettie; 2 non-Executive Directors: Alex Hambro and Fabia Bromovsky) is responsible for determining the risk strategy of the Firm, setting the Firm's risk appetite and ensuring that risk is monitored and controlled effectively through a suitably robust operational risk management framework. It also has ultimate responsibility for the preparation and contents of the ICARA.

As a MIFIDPRU investment firm, WAM is subject to the requirements of the Senior Management Arrangements, Systems and Controls Sourcebook ("SYSC") of the FCA Handbook. In accordance with SYSC, WAM must ensure that the Board defines, oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management of the business, including the segregation of duties in the organisation and the prevention of conflicts of interest, in a manner that promotes the integrity of the market and the interests of WAM's clients.

3. Risk Management Objectives and Policies

Risk Management Framework

WAM's Compliance team review's risk areas at least annually, and this is formalised in the ICARA. Each risk area is assessed in terms of the type of risk exposure, its potential materiality and what mitigating procedures can be put in place to control the risk.

The Firm's Compliance team supports the business and the Board in fulfilling their various regulatory obligations. This support is provided primarily through the provision of advice and training, and carrying out the Firm's internal risk-based monitoring programme. The Compliance team is independent of the Firm's investment function.

The Firm's risk management framework is regularly updated to take into account material changes in WAM's business, capital obligations, or resource requirements. As a small firm, WAM does not have and is not required to establish a separate Risk Committee.

Risk Appetite

The Board regularly reviews the Firm's risk appetite through various channels such as its detailed consideration of the ICARA, WAM's professional indemnity insurance provision and its oversight and review of the Firm's business' strategy.

The Board has a conservative outlook when assessing business risks and formulating business development strategies. The Board wishes to grow the business, whilst continuously striving to provide an excellent service to existing clients and to maintain a strong and robust investment process. The Board understands that reputation is paramount and is unwilling to take any steps which might threaten this.

The Firm does not deal on margin or underwrite any securities or derivatives positions. It cannot have any proprietary trading exposures on its balance sheet as it does not have FCA permission to enter into such transactions. The Firm is not authorised as a lender or deposit taker and does not handle client money nor carry out any safeguarding of customer assets.

The Firm does not deal on its own account other than occasionally in UK Government securities as part of its cash management process.

The Firm has no appetite for losses within its P&L and balance sheet and will avoid action likely to result in losses being incurred. There are no plans for the Firm to change this outlook in the foreseeable future.

The Directors will not permit or approve any action which it perceives to pose a risk to the Firm's reputation and as a result cause any significant loss of revenue or cause any significant unplanned expenditure resulting in the Firm not being able to meet its liabilities.

The Firm's governance for risk management

The Firm is required under the Senior Management Arrangements, Systems and Controls (SYSC) manual of the Financial Conduct Authority Handbook to have in place robust governance arrangements and effective procedures which allow it to identify, manage, monitor and report the risks it is – or has potential to be – exposed to.

In accordance with MIFIDPRU 7.2, WAM's Board, in its supervisory capacity, has the overall responsibility for risk management. The Executive Directors are Edward Whitley and Louise Rettie, and the Non Executive Directors are Alex Hambro and Fabia Bromovsky. The Firm has no Appointed Representatives and there is only one office, at which all staff are based. Given the small size of the Firm, it has determined that it has sufficient adequate resources allocated to the management of all material risks, including the valuation of the Firm's clients' assets.

Whilst the Firm is small, as a non-SNI it is required by MIFIDPRU 7.3 to establish a risk committee. This comprises Edward Whitley and Louise Rettie, supported by Alastair Killham, Operations Manager. The Firm considers risk management to be a key priority, and this ethos is embedded in every decision made at the transaction, portfolio, fund and operational levels. Risk is looked at by senior management regularly and these reviews deliver a complete view of the Firm's risks. A subsection of the Investment Committee is dedicated to overseeing Client Portfolio Risk and this is led by Alastair Killham.

Louise Rettie holds the SMF16 designation and provides Compliance Oversight. She is responsible for the maintenance of the risk-based Compliance Monitoring Programme. She is supported by Kate Horton, the Compliance Manager and they both work closely with qualified, external compliance consultants (B-Compliant Ltd). Where needed, the Firm uses Stephenson Harwood for legal advice.

The Board considers that it has an effective financial and operational control infrastructure; the Firm performs operational and portfolio management at senior level, and the key individuals have been assessed to be sufficiently competent to identify and report all material risks.

The third party funds managed (comprising some 10% of the Firm's year end AUM) have the support of professional administrators via the various Authorised Corporate Directors. The assets for the majority of the Firm's segregated clients are held in custody and administered by Multrees Investor Services. The activities (and the risks attributed to them) of third parties are regularly monitored as part of the Firm's risk management framework.

Client assets are almost all invested in highly liquid quoted holdings, or in blue chip investment funds. Valuation of assets is therefore deemed to be a relatively low risk as there is effectively no scope for uncertainty.

Internal Capital and Risk Assessment ("ICARA") Document

The provisions of MIFIDPRU require WAM to maintain sufficient capital and liquid resources. The approach of the business to assessing the adequacy of those resources to support current and future activities is contained in the Firm's ICARA.

WAM does not hold client money or investments and only deals on its own account for the Firm's own cash management. Thus it is not subject to credit risk and the market risk faced is minimal. The main business risk to which the company is exposed is the reduction of income through significant financial market downturn or loss of clients. This is typical for an asset management business.

In preparing the ICARA, WAM reviews the material risks facing its business. The ICARA process stress tests against these risks, in order to produce a determination on the level of resources that the Firm is required to maintain. This feeds into the Own Funds requirement set out below.

The ICARA is updated on at least an annual basis and may be updated more frequently if a material change occurs in the risk or business profile of the Firm.

Risk Categories and Analysis

As a result of its normal business activities, WAM is exposed to a variety of risks, the most significant of which are described below.

<u>Credit Risk</u>

The potential risk that arises from clients or counterparties failing to meet their obligations as they fall due. Non-payment or delay in fees due: this risk is deemed to be very low as clients authorise the Firm to debit its fees from portfolio accounts when due.

The Firm's free cash is placed on deposit each month. Deposits are normally placed with approved financial institutions depending on available interest rates and may at times be invested in short term Gilts.

<u>Market Risk</u>

The risk that the value of, or income arising from, assets and liabilities varies as a result of changes in interest rates, exchange rates or other market prices.

WAM has no trading book. Market risk is therefore limited to foreign exchange fluctuations where WAM's assets and liabilities are denominated in currencies other than GBP: such non-GBP assets (cash) are minimal. The Firm regularly assesses its foreign exchange needs and exposures and does not actively seek foreign exchange exposures via forward currency hedging activities.

<u>Liquidity Risk</u>

The risk that a Firm may have insufficient liquid resources to cover cash flow shortfalls or fluctuations in funding and be unable to meet its obligations as they fall due.

The Firm has no borrowing and is not dependent on external financing for any aspects of its business. WAM has some exposure in the event that a banking counterparty suffers severe financial distress and is unable to return some or all of the company's cash deposits and thus also holds some cash in government gilts. WAM maintains sufficient assets in liquid form to meet its obligations as they arise and in practice the business has little liquidity risk.

Business Risk

The risk that a firm may not be able to carry out its business plan and/or desired strategy. WAM is a small, privately owned business. Any material structural changes to the Firm's business are subject to discussion at Board level. The principal business risks facing WAM are:

- Reputational risk

There is an underlying risk that clients could complain and/or claim for compensation if they have cause to believe they have been given poor or negligent financial advice or have experienced poor or negligent client administration.

WAM aims always to provide expert advice, fund management and first-class administration. The Firm ensures that processes and systems are in place and that staff are suitably qualified and trained to carry out their duties and as such the risk of complaints and/or claims is minimised. The Firm seeks to maintain a high level of open communication with its clients and works closely with its external compliance consultants to maintain the highest possible standards.

- Revenue risk

The most material business risk faced by the Firm is in not achieving projected revenues. Significant reductions in turnover could arise as a result of various factors such as:

- Reduction in management fees on client portfolios due to dependence on market values;
- Loss of a significant portion of the client base;
- Competitive or economic pressure to reduce fee rates.

The Firm strives to protect its clients' investments. The Firm continuously monitors client assets and seeks to ensure that they are achieving satisfactory growth. The Firm regularly reviews each client's asset allocation, seeking to achieve optimal performance from the portfolios within the client's risk parameters. WAM works hard to retain its client base. WAM's business model is based on building long term relationships with its clients. The directors believe that the Firm's fees are competitive for the service provided and can withstand economic pressures.

- Suitability risk

The Firm works hard to ensure that only suitable advice is given and that all decisions made for discretionary client portfolios are suitable. Client risk appetites and tolerances as well as their capacity for loss are regularly reviewed and discussed with clients to ensure that they are comfortable with their portfolio risk profiles. The Firm has a limited list of investments used for client portfolios and these are kept under regular review to ensure they remain suitable for our client base.

Operational Risk
The risk of loss, or breach of contractual requirements, resulting from inadequate or failed internal processes, people or systems; human error; or, external events.

WAM seeks to mitigate the impact of operational risks by

- maintaining substantial financial resources and ensuring that the business can meet its regulatory capital requirements on an ongoing basis
- identifying and managing sources of risk, stress testing those risks and maintaining insurance or other capital to offset any financial losses created by those risks
- aligning the interests of all staff with the supervision of the operations of the business through remuneration
- maintaining a risk matrix and key operating procedures for all material business activities, and keeping the structure relatively simple.

Concentration Risk
The risk that exposures to specific sectors or asset concentration could result in losses. WAM constructs client portfolios using highly liquid global funds, equities and bonds and seeks to protect client assets from permanent diminution.

4. Own Funds

Table 1: WAM has described its own funds using the following FCA template

	Item	**Amount (£'000)**	**Source based on reference numbers/letters of the balance sheet in the audited financial statements**
1	Own funds	9,137	
2	Tier 1 capital	9,137	
3	Common equity tier 1 capital	9,137	
4	Fully paid up capital instruments		
5	Share premium		
6	Retained earnings	9,137	Profit and loss account
7	Accumulated other comprehensive income		
8	Other reserves		
9	Adjustments to CET1 due to prudential filters		
10	Other funds		
11	(-) total deductions from common equity tier 1	0	
19	CET1: Other capital elements, deductions and adjustments		
20	Additional tier 1 capital	0	

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	0	
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		

Table 2 shows a reconciliation of WAM's regulatory Own Funds with its balance sheet from the audited accounts:

		Balance sheet as in published/ audited financial statements	**Cross-reference to template OF1 (Table 1 above)**
		As at 31st December, 2022 £'000	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements			
1	Tangible Assets	81	
2	Debtors (<1 year)	1,983	
3	Cash at bank and in hand	9,289	
	Total Assets	11,353	
Liabilities - Breakdown by asset classes according to the balance sheet in the audited financial statements			
1	Creditors (<1 year)	2,204	
2	Provisions for liabilities	12	
	Total Liabilities	2,216	
Shareholders Equity			
	Profit and loss account	9,137	Item 6
	Total Shareholders' equity	9,137	

Own Funds requirements

K-Factor Requirement and Fixed Overheads Requirement

WAM is required to disclose the K-Factor requirement (KFR) and the fixed overheads requirement (FOR) amounts in relation to its compliance with the own funds requirements (OFR) set out in MIFIDPRU 4.3.

K-factor requirement:	Amount (£'000)
K-AUM	302
FOR	786
FOR+Additional Capital	1,021

The K-factor relevant to WAM is calculated on the basis of Assets under Management (K-AUM). AUM is the average AUM measured on the last business day of each of the previous 15 months, excluding the most recent 3 months.

Approach to Assessing the Adequacy of Own Funds

WAM is required to disclose its approach to assessing the adequacy of its own funds in accordance with the overall financial adequacy rule ("OFAR") as outlined in MIFIDPRU 7.4.7R.

To comply with the OFAR, a firm must hold the higher of:

- The amount of own funds that the firm requires at any given point in time to fund its ongoing business operations, taking into account potential periods of financial stress during the economic cycle; and
- The amount of own funds that a firm would need to hold to ensure that the firm can be wound down in an orderly manner.

ICARA Process

The Internal Capital Adequacy and Risk Assessment ("ICARA") process provides the means of assessing key risks to which WAM is exposed. It assists the Firm with identifying and managing material harms that the Firm may cause through its activities. The ICARA process further seeks to determine the level of own funds and liquid assets the Firm needs to hold.

The ICARA process has been implemented and is embedded within the Firm's risk management framework. It has replaced the former Internal Capital Adequacy Assessment Process and has been enhanced to improve the effectiveness of the new process.

The following are the key elements that are assessed as part of the ICARA process:

- Business strategy and growth plans
- Comprehensive key risk and harms assessment
- Internal assessment of own funds adequacy
- Internal assessment of liquidity adequacy

- Capital and liquidity planning (i.e. financial, own funds and liquidity)
- Stress testing
- Recovery actions
- Wind-down Plan

As with the previous ICAAP, the adequacy of the ICARA process will be reviewed at least annually or more frequently, should there be any material changes to WAM's risk profile or business strategy.

OFAR Compliance

At all times, the Firm must hold adequate financial resources, both in amount and quality, to ensure that WAM remains financially viable throughout the economic cycle with the ability to address and mitigate any potential harms that may be caused, arising from its ongoing business activities, and that the Firm is prepared for an orderly wind-down while minimising harm to customers or to other market participants, without threatening the integrity of the UK financial system.

As a minimum to meet the OFAR, an FCA standard of determining the adequacy of its financial resources through the internal assessment of its capital and liquidity adequacy, WAM must meet the Own Funds Requirement (OFR) and basic liquid assets requirement ("BLAR").

As a non-SNI firm, WAM has to comply with the provisions of the OFR contained within MIFIDPRU 4.3.2R by holding the highest of:

- Permanent Minimum Capital Requirement (PMR) which is £75,000 (MIFIDPRU 4.4.4R)
- Fixed Overheads Requirement (FOR) – £786,000, one quarter of the Firm's annual fixed overheads (MIFIDPRU 4.5.1.R), unless there is a material change expected to projected expenses during the year (MIFIDPRU 4.5.7R)
- K-factor requirements – (K-AUM, as stated above) - £302,000

In addition, the ICARA process identified additional capital required to cover a conservative wind down plan, in addition to the highest of the requirements above. WAM performs an internal assessment of the own funds and liquid assets required to support its ongoing operations and to support an orderly wind-down of the Firm. The Firm also undertakes regular stress testing and scenario analysis as essential inputs to these assessments of the adequacy of its financial resources.

These assessments, alongside the OFR and BLAR, help to arrive at the appropriate level of financial resources required to be maintained in compliance with the OFAR.

WAM's Own Funds Requirements are therefore determined by the FOR plus Additional Capital for risks identified in ICARA Risk Assessment i.e., £1,021,000.

Wind Down
WAM has a wind down plan, which provides an overarching governance framework for the process of ceasing its operations while ensuring minimal adverse impact to clients, markets or the entity's counterparties. It provides a detailed guide and practical steps to assist the Board and senior management in making timely and effective decisions to wind down the Firm in the event of a severe financial stress. The wind-down plan includes key actions and a timeline from when a wind-down is triggered, through to the preparation, execution and endpoint of the process. The wind-down plan is reviewed and updated annually and is reflected in the ICARA.

5. Remuneration policy and practices

Qualitative Disclosures
The information included in this section is provided in accordance with the FCA requirements set out in MIFIDPRU 8.6 and SYSC19G. In adhering to these requirements, WAM has made disclosures for Remuneration in the following areas

- Remuneration policy
- Remuneration Committee
- Link between Performance and Remuneration
- Quantitative Disclosures (including information on Materials Risk Takers ('MRTs'))

<u>Remuneration Committee</u>
WAM does not currently have and is not required to establish a Remuneration Committee. This would be disproportionate to the size of the Firm.

<u>Remuneration Policy</u>

- Remuneration for all staff is assessed annually by the Directors.
- The Firm ensures that its remuneration policy is gender neutral and complies with the Equality Act 2010.
- The Directors set remuneration practices which are consistent with and promote sound and effective risk management. These are also in line with the Firm's business strategy, objectives and long-term interests.
- The directors take into account:
    - The Firm's risk appetite
    - The Firm's culture and values
    - The long-term impact of the investment decisions taken
    - The need to avoid conflicts of interest
    - The importance of encouraging responsible business conduct
    - The need to promote risk awareness and prudent risk taking
- No variable remuneration is paid to the Firm's non-executive directors (other than small introducers' fees when they effect an introduction which leads to a new client relationship).
- Remuneration – particularly variable remuneration – must not affect the Firm's ability to ensure a sound capital base.

Link between Performance and Remuneration

- Salaries reflect individual's performance in terms of professionalism and experience, but there are no quantitative targets set to individuals for this element of remuneration.
- Variable remuneration is paid in the form of a profit sharing arrangement. A proportion of the Firm's profit before tax each year is allocated to a profit share pool; all staff other than Directors participate in this profit share pool by means of points allocated to their seniority grade within the Firm.
- The Executive Directors receive variable remuneration in the form of dividends and linked bonuses. These are considered and agreed alongside the profit share pool for staff.
- Profit shares/bonuses are paid in cash: no equity in the Firm is offered as part of any reward scheme. Payments are made in two tranches – in March and July of the year following the profits being earned. Payments are only made to those in employment at the time of payment. There is no right to an undeclared profit share. Note: a minor one-off bonus was paid to staff during 2022, comprising shares in the newly launched WAM Global Growth Fund but this is not part of the Firm's ongoing remuneration structure.
- No Executive Incentive Schemes are in place.
- There is no "guaranteed variable remuneration".
- Profit share payments reflect the performance of the company

Quantitative disclosures

In accordance with MIFIDPRU 8.6, WAM has identified its material risk takers (MRTs) in accordance with SYSC 19G.5. This is done via an annual assessment to identify staff whose activities have a material impact on the Firm's risk profile.

The criteria applied to identify MRTs during this reporting period were:

- The staff member is a Member of the Board
- The staff member is a Partner of the Firm
- The staff member is head of a material business unit that undertakes one of the following:
    - arranging (bringing about) deals in investments;
    - dealing in investments as agent;
    - dealing in investments as principal;
    - managing investments;
    - making investments with a view to transactions in investments;
    - advising on investments (except P2P agreements); and/or
    - operating an organised trading facility;
- All staff members holding SMF responsibility
- Staff members with managerial responsibilities for:
    - a control function
    - prevention of money laundering and terrorism financing
    - managing material risks that impact the business
    - information technology

    - information security
    - the staff member is responsible for managing a significant business function
- Staff members identified as MRTs also include:
    - Head(s) of investment research
    - Staff members who are responsible for generating revenues that represent a high proportion of total revenue
    - Senior Advisers that can exert key strategic influence
    - Chief Market Strategists

The Firm had 7 staff classified as MRTs during the 2022 performance year.

Total aggregate remuneration for the Firm for the year ended 31 December, 2022 was £4.56 million, of which £3.56 million was paid to MRTs. This total remuneration includes salaries, benefits and bonuses paid.

Category of Staff	**Total Remuneration £'000**	**Fixed proportion £'000**	**Variable proportion £'000**
Senior Management	2,322	256	2,066
Other MRTs	1,243	466	777
Other Staff	993	568	425

Category of MRTs	**Total amount of guaranteed variable remuneration £'000**	**Number of MRTs receiving guaranteed variable remuneration**	**Total amount of severance payments awarded £'000**	**Number of MRTs receiving severance payments**	**Highest amount of severance payment awarded £'000**
Senior Management	0	0	0	0	0
Other MRTs	0	0	0	0	0
Other Staff	0	0	0	0	0