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## 1. Introduction and context

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For accounting purposes, the two group entities, McInroy & Wood Ltd ('MWL'), the parent company, and McInroy & Wood Portfolios Ltd ('MWP'), its wholly owned subsidiary, are consolidated (and referred to as the 'group'), but each is treated independently for prudential purposes.

As a UK investment management firm, MWL is required to comply with the UK Financial Conduct Authority's ('FCA') Investment Firms Prudential Regime ('IFPR'), which is contained within the Markets in Financial Instruments Prudential Sourcebook ('MIFIDPRU'). For the purposes of MIFIDPRU, MWL has been classified as a non-small, non-interconnected ('Non-SNI') firm and is subject to standard disclosure requirements. This paper sets out the disclosures required by MIFIDPRU 8 at a level appropriate to the firm's size and internal organisation, and the nature, scope, and complexity of its activities. This includes:

- Risk management objectives and policies (*MIFIDPRU 8.2*);
- Governance arrangements (*MIFIDPRU 8.3*);
- Own funds (*MIFIDPRU 8.4*);
- Own funds requirements (*MIFIDPRU 8.5*); and
- Remuneration policy and practices (*MIFIDPRU 8.6*).

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## 2. Risk management objectives and policies

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The group's Risk Management Framework takes a bottom-up approach to risk management complemented by a top-down assessment of the risk profile as evidenced by the oversight and reporting of the Risk Committee and challenge by the Board. It consists of risk registers, processes and controls that identify, monitor and manage both embedded and emerging risks, providing a consistent and coherent analysis of the group's business and operating model.

MWL adopts a two lines of defence model:

**Line 1:** Internal controls are captured in the group's risk registers for all material processes/activities (including those relating to administration and accounting procedures). Risks are assessed for likelihood and impact. This assessment drives the setting of triggers and limits and informs the extent of assurance testing (by both 1<sup>st</sup> and 2<sup>nd</sup> lines). Senior managers are responsible for ensuring the processes within their areas of responsibility are managed, controlled and resourced appropriately. They identify, assess and manage the risks within their area on a day-to-day basis, report to the Management Meeting monthly and quarterly to the Risk Committee.

**Line 2:** The Risk & Compliance function (R&C) provides policy direction, advice to Line 1 and oversees and monitors the outputs from the Risk Management Framework to determine whether all key risks are being identified, assessed and controlled by management in a manner commensurate with the group's risk appetite. It is also responsible for independently assessing the adequacy and effectiveness of the processes within the 1<sup>st</sup> line.

Through the application of the Risk Management Framework, the risk profile of the group is monitored, and any material changes are considered in relation to their potential impact on MWL's capital and liquidity requirements. Any resulting changes are presented to the Board for approval.

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## Internal Capital Adequacy and Risk Assessment (ICARA)

MWL must have in place appropriate systems and controls to identify, monitor, and, if proportionate, reduce all material potential harms that may:

- (a) arise from the ongoing operation of the firm's business (regulated and unregulated); and
- (b) result from winding down the firm's business, to ensure that the firm can be wound down in an orderly manner.

These systems, controls and procedures are known as the **ICARA process**. At least every 12 months or following any material change in the business or operating model, the firm must review its adequacy.

As part of the ICARA process, MWL is expected to identify whether it complies with the Overall Financial Adequacy Rule (**OFAR**). This states that a firm must always hold **own funds** and **liquid assets** which are adequate, both as to their amount and their quality, to ensure that:

- (a) the firm is able to remain financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities; and
- (b) the firm's business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

MWL does this by reviewing its funds under management, audited financial statements, budget projections and expected income for the coming year to ensure that a prudent surplus over requirements is maintained.

The ICARA process is fully embedded into the Risk Management Framework, outlined above, and assesses the ongoing processes that MWL uses to quantify the potential harms and material risks, the mitigants and governance in place and the adequacy of financial resources for the business undertaken. MWL does not have a complex business or operating model. It is deemed to be a 'smaller firm carrying on simpler activities'. When quantifying and analysing risks a proportionate approach is taken to reflect this. The consideration of financial resources covers capital and liquidity and addresses both ongoing activities and scenarios under which MWL would wind-down.

As part of the ICARA process MWL monitors various categories of risk, including concentration and liquidity, to assess the relevant harms and to what degree systems and controls alone mitigate risk of harm from ongoing activities and mitigate risk of disorderly wind-down. The result of these assessments is compared with the regulatory requirements to determine whether the firm needs to hold additional Own Funds.

In addition to the above risk of harm assessment, MWL also performs an analysis to consider the amount of liquid assets that it must hold, being the higher of what it needs to fund its ongoing business, taking into account periods of stress and the amount it would require to commence an orderly wind-down. This assessment is compared with the FOR.

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### 3. Governance arrangements

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The activities of MWL are overseen by the Board. The Board recognises the importance of technical skill, integrity and diversity to the future of the firm. By prioritising these qualities, the Board ensures the firm's long-term success and positive impact within the industry. Predominantly due to its size and location, MWL does not set any targets as it is critical that the calibre of people which the firm should recruit is not compromised but that opportunities are available to anyone with the capability of assuming them.

In accordance with its Corporate Governance and Senior Management Policies, the Board of Directors of MWL defines, oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management of the firm, including 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 its clients.

**Directorships:** The MWL Board is made up of one independent Non-Executive and 12 Executive Directors, reflecting a broad range of experiences. The number of additional directorships\* held by each is as follows:

Director	No. of additional Directorships
David Cruickshank (Non-Executive)	1
Guido Bicocchi	0
Wendy Ferguson	1
John Marshall	0
Campbell McAulay	0
Will Lindsay	1
Cameron MacKinnon	0

Director	No. of additional Directorships
Hugo Swann	0
Elizabeth Wild	1
Charles White	0
Tim Wood	1
Joy Young	0
Gregory Perdon	0

\* executive and non-executive excluding directorships held in (1) organisations which do not pursue predominantly commercial objectives and (2) other MInroy & Wood group companies.

The Board is supported by three delegated committees: (1) Audit; (2) Risk; and (3) Remuneration and Nominations. The Board and Risk Committee are chaired by the independent Non-Executive Director. MWL is not required to have a Risk Committee by MIFIDPRU 7.3.1R.

The Risk Committee is responsible for supporting the Board in meeting its responsibilities to establish and maintain an effective system of risk management. It reports to the Board to facilitate focused and informed Board oversight of and discussions on risk-related matters. The Board retains ultimate accountability for the firm's key risks and for the overall effectiveness of its risk management arrangements.

#### 4. Own Funds

The capital resources of the firm, known as Own Funds, are shown in the following prescribed tables.

Composition of regulatory Own Funds		
Item	Amount (GBP thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements
<b>OWN FUNDS</b>	10,245	Company Balance Sheet
<b>TIER 1 CAPITAL</b>		
<b>COMMON EQUITY TIER 1 CAPITAL</b>		
Fully paid-up capital instruments	863	Company Balance Sheet
Share premium	972	Company Balance Sheet
Accumulated other comprehensive income	8,410	Company Balance Sheet
(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1		
CET1: Other capital elements, deductions and adjustments	(-)40	Company Balance Sheet
<b>ADDITIONAL TIER 1 CAPITAL</b>	-	
<b>TIER 2 CAPITAL</b>	-	

Own Funds: reconciliation of regulatory Own Funds to balance sheet in the audited financial statements			
	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 (GBP thousands)	As at period end	
<b>Assets</b> – Breakdown by asset classes according to the balance sheet in the audited financial statements.			
Fixed Assets	2,145	-	-
Debtors	968	-	-
Investments	2,239	-	-
Cash	9,604	-	-
Deposits	100	-	-
Investment in subsidiary	40		
<b>Total Assets</b>	<b>15,096</b>	-	-
<b>Liabilities</b> – Breakdown by liability classes according to the balance sheet in the audited financial statements.			
Creditors	(-)4,612	-	-
Deferred Tax	(-)239	-	-
<b>Total Liabilities</b>	<b>(-)4,851</b>	-	-
<b>Shareholders' Equity</b>			
Share Capital	863	-	-
Share Premium	972	-	-
Profit & Loss Account Reserves	8,410	-	-
<b>Total Shareholders' equity</b>	<b>10,245</b>	-	-
<b>Own Funds: main features of own instruments issued by the firm</b>			
The firm does not issue instruments in its own name.			

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## 5. Own Funds requirement

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To evidence compliance MWL must disclose its:

- K-factor requirement, which is the K-AUM requirement, £431k; and
- Fixed Overhead Requirement (**FOR**), which is £272k.

## 6. Remuneration policy and practices

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MWL must disclose a summary of its approach to remuneration for all staff. This must cover Senior Managers, material risk takers and all other staff. MWL is governed in such a way that the only employees that fall within the definition of material risk takers<sup>1</sup> are its 12 Executive Directors, who are also its Senior Managers. No other employees have authority to influence the risk profile of the firm.

Executive Directors' remuneration consists entirely of fixed salary, pension contributions and private healthcare benefits. Directors do not participate in any bonus or profit-sharing arrangement. MWL's remuneration policy is to pay all employees amounts it considers appropriate to their responsibilities. By virtue of their status, employees who are directors are always assumed to be applying their best efforts towards discharging their responsibilities and their remuneration does not reflect any assessment of their relative outputs individually. The Chief Executive bears the heaviest responsibilities within the group and their remuneration reflects that fact.

The remuneration of employees who are not directors consists of fixed salary, pension contributions and private healthcare benefits. They are also eligible to participate in the firm's discretionary profit share scheme which was set up to allow non-director staff to benefit in the success of the firm and to reflect their performance and effort. The scheme is non-contractual, and employees are aware that payments will vary and may be zero in any given period.

The Remuneration Committee oversees the remuneration policy for all employees which is designed to support the long-term business strategy and values of MWL, as well as promote effective risk management and good customer outcomes. This includes an annual salary review and any profit share payments. The Remuneration Committee recommends the profit share pool to the Board, taking account of the firm's finances, capital requirements and outlook and oversees the individual profit share payments made to staff. There are no amounts of deferred remuneration, nor have any guaranteed bonuses, retention awards or discretionary pension benefits been awarded. No sign-on or severance payments have been made, or contracted for, in relation to any employee, including Executive Directors.

The aggregate remuneration of staff for the year to 30<sup>th</sup> April 2024 is as follows:

Remuneration	Number	Total £'000s	Fixed £'000s	Variable £'000s
Executive Directors	12	1,937	1,937	-
Other staff	64	3,670	3,025	645

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<sup>1</sup> As defined in SYSC19G.5.1R