

STONEHAGE FLEMING INVESTMENT MANAGEMENT LIMITED

Capital Requirements Regulation Statement

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PRIVATE AND CONFIDENTIAL



STONEHAGE
FLEMING

NOW AND FOR FUTURE GENERATIONS

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1. BACKGROUND

The Investment Firms Prudential Regime (“IFPR”) is the FCA’s new prudential regime for MiFID investment firms. The regime came into force on 01 January 2022.

The FCA implemented IFPR through rules contained in the MIFIDPRU sourcebook. Under IFPR, there are two broad categories of FCA investment firm, with firms classified as either a ‘small and non-interconnected investment firm’ (“SNI”), or as a ‘non-SNI MIFIDPRU investment firm’.

The IFPR includes a requirement to publicly disclose key information and metrics. Chapter 8 of MIFIDPRU sets out the disclosure requirements, confirming that these apply to non-SNI MIFIDPRU investment firms, and this document has been prepared in accordance with these rules.

2. SCOPE

Stonehage Fleming Investment Management Limited (“SFIM”, the “Firm”) (FRN 194382) has been classified as a non-SNI MIFIDPRU investment firm, and is subject to the full IFPR requirements.

SFIM provides portfolio management services on either a discretionary or advisory basis to ultra-high net worth individuals and entities.

3. FREQUENCY OF DISCLOSURES

These disclosures will be updated on an annual basis following the publication of financial statements.

Additional disclosures will be made if there is a material change, for example, in the event of a major change to the business model or where a merger has taken place.

4. MEDIA AND LOCATION OF DISCLOSURES

These disclosures are made for the purpose of fulfilling the Firm’s MIFIDPRU disclosure requirements and are not used by the Firm for any other purpose. The disclosures have not been audited nor do they form part of the Firm’s audited financial statements.

These disclosures will be published on the Group website under Legal and Regulatory Information (www.stonehagefleming.com)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

Effective risk management is key to SFIM in being able to deliver its strategic objectives. The primary objectives of the risk management framework is to ensure that there is:

- A strong risk culture for employees to identify, assess, manage and report against the risks the business is faced with;
- An analysis of the likelihood and the impact of those risks;
- A swift and effective response to risk events and potential issues in order to minimise impact;
- A defined risk appetite within which risks are managed; and
- An appropriate balance between risk and the cost of control.

SFIM has adopted the Stonehage Fleming Group Risk Management Framework.

The framework forms an integral part of Stonehage Fleming’s culture and is reviewed regularly with a view to improving as required. The framework assists in the identification, evaluation and management of principal risks. It is designed to manage, rather than eliminate, risk. The Board believes the framework provides a reasonable, but not absolute, assurance against material misstatement or loss.

SFIM maintains a combined risk assessment document (“CRA”); a list of risks, mapped to the SF Group Risk Framework. The CRA lists out the top risks of the business, the controls in place to mitigate those risks and any action steps needed to improve the residual risk level. The CRA is reviewed by the Board annually.

As part of the ICARA process, we have also identified the harms posed by SFIM to its clients and wider markets.

6. GOVERNANCE

The SFIM Board has ultimate responsibility for the effectiveness of risk management. SFIM’s governance model uses a hierarchy of Board and Executive level committees within a three lines of defence model as part of a robust governance framework.

The three lines of defence:

1. The first line of defence is the business, comprising of client-facing, operational and administration departments. It is responsible for managing the day to day risk management.
2. The second line of defence is Risk and Compliance which monitors and facilitates the implementation of effective risk management practices.
3. The third line of defence is Internal and External Audit. Internal Audit is an independent, objective assurance function which helps SFIM achieve its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management and control processes.

6.1 Stonehage Fleming Group Committees

As at 31 March 2022, SFIM’s ultimate parent company, Stonehage Fleming Family & Partners Limited (“SFF&P”), had the following key sub-committees to assist both the SFF&P Group and its underlying operating units in the management of risk:

- The Group Risk & Compliance Committee (“GRACC”) – covering risk management, regulatory oversight, review of compliance policies and procedures, and compliance with the Group Code of Conduct. This committee is supported by local Risk & Compliance Committees in core jurisdictional areas, including the UK.
- Audit Committee – covering financial controls, accounting systems and reporting, reviewing the activities and performance of external auditors, and agreeing the internal audit program each year.
- Remuneration Committee – responsible for the Group Remuneration Policy, the review and approval of remuneration, benefit and bonuses, in particular remuneration of Senior Executives.
- Group Executive Committee - responsible for the implementation of Group Strategy, the delivery of the Group’s financial performance and business development, and the management of human resources of the Group, all within the defined risk parameters.

We note here that towards the end of 2022, there was a change to the names and composition of the above committees. This will be set out in the 2023 disclosure document.

6.2 Group Risk and Compliance Committee

The role of GRACC is to assist the respective Boards in ensuring that the Group has implemented an effective policy and plan for risk and compliance management that will enhance the Group's ability to achieve its strategic objectives.

The primary objectives of GRACC are to:

- Review the effectiveness of the Group's Risk Management Framework;
- Propose the risk appetite of the Group and in doing so consider the type and level of risk the Group is willing to accept in pursuit of its strategic goals;
- Review how the principal risks should be managed or mitigated to reduce the likelihood of their incidence or impact;
- Monitor compliance of the Group with all applicable legal and regulatory requirements.

6.3 Local Boards & Committees

In addition to the various Group committees as noted above, SFIM is also supported by a number of local committees.

6.3.1 UK Risk & Compliance Committee

The committee includes representatives from both the Investment and Family Office divisions. The membership includes the COO and the Group Head of Legal Risk & Compliance. It is chaired by the Head of Risk & Compliance – UK & Investment Division and attended by the Group Head of Internal Audit. It reports up into the Group Risk & Compliance Committee (GRACC), discussed above. The key responsibilities of the committee are to review the UK's Risk Management framework and its effectiveness, as well as to discuss compliance issues affecting all of the UK regulated entities, including SFIM.

6.3.2 Stonehage Fleming Investment Management Board

All key strategic matters, including the oversight of the risk appetite and risk management framework are covered at Board meetings.

As well as the SFIM Board, the Firm has a number of other committees as set out below:

- Global Investment Management Committee
- Risk & Controls Committee
- Investment Committee
- Fund Security Selection Committee
- Outsourcing Committee

7. OWN FUNDS

The Firm's own funds are made up of Common Equity Tier 1 Capital. As at 31 March 2022 and during the calendar year, SFIM complied with all capital requirements in accordance with the rules set out in

the IFPR. Tier 1 capital consisted of fully issued ordinary shares, satisfying all the criteria for a Tier 1 instrument as outlined in the IFPR and audited reserves.

7.1 Composition of regulatory own funds

In accordance with MIFIDPRU 8.4, below is a composition of regulatory own funds as at 31 March 2022.

Composition of regulatory own funds			
	Item	Amount (GBP thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements
1	OWN FUNDS	£21,453	
2	TIER 1 CAPITAL	£21,453	
3	COMMON EQUITY TIER 1 CAPITAL	£21,453	
4	Fully paid up capital instruments	£15,350	11
5	Share premium	-	
6	Retained earnings	£10,389	
7	Accumulated other comprehensive income	£8,390	
8	Other reserves	-	
9	Adjustments to CET1 due to prudential filters	-	
10	Other funds	-	
11	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	-£12,676	
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		

7.2 Reconciliation of Regulatory Own Funds to Balance Sheet in the Audited Financial Statements

The table below shows a reconciliation with own funds in the balance sheet where assets and liabilities have been broken down. The information in the table below reflects the balance sheet in the audited financial statements.

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements				
	Amount (£'000)	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	£12,676		
2	Receivables	£12,968		
3	Cash & cash equivalents	£15,612		
	Total Assets	£41,256		
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
1	Trade & Other Payables	-£5,862		
2	Corporation tax liability	-£1,265		
	Total Liabilities	-£7,127		
Shareholders' Equity /Capital and reserves				
1	Called up Share Capital	£15,350		4
2	Profit for the financial year	£8,390		7
3	Retained earnings	£10,389		6
	Total Shareholders' funds	£34,129		

8. OWN FUNDS REQUIREMENTS

8.1 Own Funds Requirement ("OFR") Summary

Under the new Capital Requirements, firms must always maintain "own funds" at least equal to its own funds requirement.

As SFIM is classified as a non-SNI firm, the own funds calculation is the higher of:

1. the firm's permanent minimum capital requirement (PMR); or
2. the firm's fixed overheads requirement (FOR); or
3. the "K-factor" requirement.

For SFIM, the OFR is equal to the FOR as this is greater than its K-Factors and PMR.

Firm	Permanent Min Capital (A)	Fixed overhead requirement (FOR) at March 2022* (B)	K Factors at June 2022 (C)	Internal Assessment of Additional Capital needed (D)	Total Capital Requirement (Higher of A,B or C + Additional Capital (D))
SFIM	£75,000	£9,047,000	£3,095,000	£1,000,000	£10,047,000

8.2 Internal Capital and Risk Assessment (“ICARA”) Process

Under the IFPR we are required to carry out an internal capital and risk assessment (“ICARA”) process on an annual basis. As part of this process we considered the firm’s business activities, the risks posed by those activities and the potential harm the firm could have towards its clients and the wider financial markets. In addition, stress tests and an orderly wind-down scenario were created. The ICARA is undertaken on a proportionate basis, considering the Firm’s size, and the nature and complexity of its activities.

8.3 Liquidity Requirements

SFIM must hold core liquid assets equal to the sum of one third of its FOR, plus an additional sum for higher spending at specific times in the year. The firm regularly reviews the liquid assets threshold to ensure these remain appropriate to cover the liquidity related risks of the firm. Liquidity stress testing forms part of the ICARA process.

8.4 Additional Capital Requirement

The stress testing and wind-down planning highlighted that SFIM needed to hold additional capital to ensure that even in the most adverse circumstances it remains able to operate, prevent harm to customers and to make redress to clients if this goes wrong.

8.5 Total Capital Requirement

The Stonehage Fleming UK (“SFUK”) Board reviews the overall capital requirements for the UK Group during a minimum of three board meetings a year. There are no differences in the basis of consolidation for accounting and prudential purposes. All companies in the Group maintained surplus capital at all times during the year.

9. REMUNERATION POLICIES AND PRACTICES

The remuneration arrangements and disclosures contained herein, have been prepared according to the rules in place at the start of the 2021/22 remuneration year (start date 1 April 2021), which were known as the BIPRU Remuneration Code.

Under the Code, the Stonehage Fleming UK Group was classified as Tier 3, which allows it to dis-apply some of the technical requirements of the Code and proportionately apply the Code’s rules and principles in establishing the UK Group’s remuneration policy.

The Code required the UK Group to consider its processes and procedures for those senior employees who operate within our regulated companies. This includes senior management and any employees whose activities have a material impact upon the consolidated UK Group’s risk profile.

The UK Group is satisfied that the policies that were in place are appropriate to its size, internal organisation and the nature, scope and complexity of its activities.

9.1 Code Staff Criteria

It has been determined that senior managers, heads of significant business functions and heads of support and control functions within the UK Group are to be classified as Code Staff. This includes senior managers of the UK parent company, Stonehage Fleming UK, and of the underlying UK regulated businesses, such as SFIM. It also includes any employee within Stonehage Fleming UK who receives a fixed salary plus variable remuneration package that takes them into the same remuneration bracket as senior managers and risk takers.

9.2 Decision Making Process for Remuneration Policy

A clear and transparent Remuneration Policy is essential for employees, clients and shareholders to be confident that the governance of remuneration is consistent with best practice and promotes sound and effective risk management.

The SFF&P Remuneration Committee (“RemCom”) had overall responsibility for all matters concerning the remuneration of employees in the 2021/22 year, including reviewing the list of Code Staff and the remuneration they received (both fixed and variable), as well as approving the Remuneration Policy. RemCom consulted the SFUK Board in relation to remuneration matters relating to UK employees.

A key objective is to ensure that remuneration arrangements do not raise risk levels by encouraging inappropriate practices or provide incentives to any employees, which would encourage them to act in ways which could compromise the best interests of clients.

Stonehage Fleming recognises the importance of an effective Remuneration Policy in order to attract, motivate and retain individuals of the necessary ability and experience. It is used to reward individuals on an annual basis, and over the longer term, for their contributions to the success of the underlying businesses and the Stonehage Fleming Group overall. A formal performance appraisal process is carried out annually. Individuals are evaluated against their personal objectives that were set for the year under review and against key competencies (client satisfaction, teamwork, technical, compliance, leadership and communication, and project skills).

In setting Stonehage Fleming’s overall remuneration policy, RemCom considered the Group’s strategic objectives and its duties to shareholders and other stakeholders. One of RemCom objectives was to preserve and enhance shareholder value by ensuring the successful recruitment, retention and motivation of employees.

9.3 Information on the Link between Pay and Performance for Code Staff

Employee remuneration consists of fixed remuneration and depending on both personal and company performance, may include variable elements. The fixed element comprises basic salary, benefits (such as medical insurance, life insurance and income protection), and pension entitlements. The discretionary variable element comprises an annual bonus and long term incentive awards which involve equity options. On an annual basis, the business allocates a fixed proportion of the annual profits for the payment of bonuses. The bonus allocation reflects, inter alia, the performance of the individual employee relative to the business and personal objectives set for the performance year, and is reviewed as part of the annual appraisal process. A rigorous process takes place with the Senior Management team and HR reviewing the annual employee evaluation when considering the proposed bonus allocation.

Employee equity ownership is considered to be an important element of the remuneration package for senior employees and this is achieved through the award of Stonehage Fleming equity options. The

equity options have to be held for three years before they can be exercised at which point the value attributable to the employee is the capital value less the original value of the award.

The amount available for the variable element of the annual bonus pot was approved by Remcom. A sub-committee of Stonehage Fleming (UK) Limited reviewed the bonus recommendations for UK employees and the recommendations were then presented to Remcom for their final review and approval.

No individual was involved in decisions relating to his or her own remuneration.

For the Year Ending 31 March 2022	Senior Management Aggregate Remuneration (£)
No. of code staff	17
Aggregate remuneration	5,817,002.40
Fixed remuneration	3,784,281.40
Variable remuneration	2,032,721.00
Cash	2,032,537.00
Share incentive awards	184.00
Sign-on and severance payments	-
Highest severance award	-

Definitions:

Fixed remuneration consists of base salaries, allowances and pension contributions

Variable remuneration consists of annual bonus and equity option awards valued at the date of grant using Black & Scholes pricing option model

Senior Management consists of the Chair of the Group committees, the directors of Stonehage Fleming (UK) Limited and its subsidiaries, other managers within the UK Group and senior support staff e.g. Finance and Compliance.

Code Staff remuneration is 100% of members remuneration. It is not pro-rated to reflect the time spent in relation to individuals role as Code Staff as opposed to their non-Code Staff responsibilities.

10. APPROACH TO DIVERSITY AND INCLUSION

Stonehage Fleming is committed to having a company and Board made up of individuals that have a variety of qualities, skills, backgrounds and experience to ensure that we have a breath of thinking and are able to challenge perspectives. Stonehage Fleming champions diversity at all levels and has a Diversity & Inclusion Committee in place, headed by the CEO, with membership drawn from across the Group.



