

# Financial Express Investments Limited (“FEI” / the “Firm”)

## MIFIDPRU 8 Disclosure

September 2023

### *1. Introduction*

The Financial Conduct Authority (“FCA” or “regulator”) in its Prudential sourcebook for MiFID Investment Firms (“MIFIDPRU”) sets out the detailed prudential requirements that apply to FEI. In particular, Chapter 8 of MIFIDPRU (“MIFIDPRU 8” or the “public disclosures requirements”) sets out public disclosure obligations with which the Firm must comply, further to those prudential obligations.

FEI is classified under MIFIDPRU as a non-small and non-interconnected investment firm (“non-SNI MIFIDPRU investment firm”). As such, MIFIDPRU 8 requires the Firm to disclose information on the following areas:

- Risk management objectives and policies;
- Governance arrangements;
- Own funds;
- Own funds requirements; and
- Remuneration policy and practices.

The purpose of these disclosures is to give stakeholders and market participants an insight into how the Firm is run. Disclosing the Firm’s own funds and own funds requirements allows potential investors to assess its strength, whilst the disclosures around risk management, governance and remuneration provide key information regarding the Firm’s culture.

This document has been prepared by FEI in accordance with the requirements of MIFPRU 8 and is verified by the FEI Board (‘the Board’). Unless otherwise stated, all figures are as at the 31 December 2022 financial year-end.

### *2. Risk Management Objectives and Policies*

This section describes FEI’s risk management objectives and policies for the categories of risk addressed by the requirements on the Firm in the following areas:

- Own funds requirements;
- Concentration risks; and
- Liquidity.

## Business Strategy

FEI is a MiFID investment firm, providing model portfolio management services for IFA clients in the UK. As at 31 December 2022 the Firm manages model portfolios with approximately £4bn Assets under Management (AuM). The Firm produces model portfolios based on its recommended fund list. The fund list is based on ratings produced by the wider FE fundinfo group, as well as research and analysis carried out by FEI. A number of model portfolios are available to IFA firms targeted at different levels of volatility, investment time horizon, number of constituent funds, and annual management fees. The portfolios are grouped into ranges, which have specific targets such as generating income and responsible investment.

FEI primarily seeks to grow its revenues by growing its underlying asset base on which it charges a management fee. This is achieved through the prudent growth of its client's assets and through seeking additional asset inflows from prospective customers.

Costs are controlled carefully ensuring long-term profitability. The business seeks to expand its business and product lines, and to continuously improve its controls environment.

Given the Firm's business model, controls and controls assessment, it is the conclusion of the Firm that its overall potential for harm is low.

## Own Funds Requirement

FEI is required to at all times maintain own funds that are at least equal to the Firm's own funds requirement. The own funds requirement is the higher of the Firm's:

- **Permanent minimum capital requirement ("PMR"):** The PMR is the minimum level of own funds required to operate at all times and, based on the MiFID investment services and activities that the Firm currently has permission to undertake, is set at £75,000;
- **Fixed overhead requirement ("FOR"):** The FOR is intended to calculate a minimum amount of capital that FEI would need available to absorb losses if it has cause to wind-down or exit the market, and is equal to one quarter of the Firm's relevant expenditure; and
- **K-Factor requirement ("KFR"):** The KFR is intended to calculate a minimum amount of capital that FEI would need available for the ongoing operations of its business. The only K-factor that applies to the Firm's business is K-AUM (calculated on the basis of the Firm's AUM).
- FEI's own funds requirement is currently set by its FOR, as this is the highest of the three metrics. The potential for harm associated with FEI's business strategy, based on the Firm's own funds requirement, is low. This is due to the relatively stable revenues and asset base.

One of the strategies adopted by the Firm to manage the risk of breach of the Firm's own funds requirement is by maintaining a healthy own funds surplus above the own funds requirement. In the event that the own funds level drops to an amount equal to 110% of the Firm's own funds threshold requirement, the Firm will immediately notify its management body, as well as the regulator. The management body will consider the necessary steps required to be taken in order to increase the own funds buffer; this may include injecting more own funds into the Firm.

## **Concentration Risk**

The potential for harm associated with FEI's business strategy, based on the Firm's concentration risk, is low. The Firm has multiple clients, which provides for a diverse stream of revenue and the largest client is less than 10% of AuM. Moreover, the investors are professional investors that generally invest for the longer term. The Firm therefore considers that its asset base is relatively 'sticky' and not prone to substantial fluctuations, including during stressed market conditions.

## **Liquidity**

The Firm is required to maintain sufficient liquidity to ensure that there is no significant risk that its liabilities cannot be met as they fall due and to ensure that it has appropriate (liquid) resources in the event of a stress scenario.

The potential for harm associated with FEI's business strategy, based on the Firm's basic liquid assets requirement, is low. As with its own funds requirement, this is due to the relatively stable revenues and asset base, and the maintenance a healthy core liquid assets surplus above the basic liquid assets requirement. The Firm retains an amount it considers suitable for providing sufficient liquidity to meet the working capital requirements under various conditions. FEI has always had sufficient liquidity within the business to meet its obligations and there are no perceived threats to this given the cash deposits it holds. Finance implement a number of mitigating controls to optimize the Firm's liquidity position. This includes monthly cash flow forecasting, working capital management, and credit policies. The firm also conducts stress testing and scenario analysis to assess the impact of economic conditions. These assessments and potential issues are communicated in a timely manner to senior management in the finance department. Additionally, it has historically been the case that all debtors are settled promptly, thus ensuring further liquidity resources are available to the Firm on a timely basis. The Firm would also be able to call on the parent for further capital as required.

## **Risk Management Structure**

FEI has established a risk management process, which includes a dedicated Risk Committee, in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. The risk management process is overseen by the Senior Manager responsible for risk, with the FEI Board taking overall responsibility for this process and the fundamental risk appetite of the firm. The Compliance team has responsibility for the monitoring of the Firm's (non-investment) risk controls and for the maintenance of the risk register.

The Board meets on a regular basis and discusses current projections for profitability, cash flow, regulatory capital management, business planning and risk management. The Board engages in FEI's risks having regard to the relevant laws, standards, principles and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework.

On a quarterly basis the Firm reviews its risks, controls and other risk mitigation arrangements and assesses their effectiveness, the conclusions to which help inform the overall risk appetite of the Firm.

A formal update on operational matters and key risks is provided to the FEI Board on a quarterly basis. Management accounts demonstrating continued adequacy of FEI's regulatory capital are reviewed on a regular basis.

Appropriate action is taken where risks are identified which fall outside of the Firm's tolerance levels or where the need for remedial action is required in respect of identified weaknesses in FEI's mitigating controls.

### *3. Governance Arrangements*

#### **Overview**

FEI believes that effective governance arrangements help the Firm achieve its strategic objectives while also ensuring that the risks to the Firm, its stakeholders and the wider market are identified, managed and mitigated.

The Board has overall responsibility for FEI and is therefore responsible for defining and overseeing the governance arrangements at the Firm.

In order to meet its responsibilities, the Board meets on a quarterly basis. Amongst other things, the Board approves and oversees implementation of the Firm's strategic objectives and risk appetite; ensures the integrity of the Firm's accounting and financial reporting systems, including financial and operational controls and compliance with the regulatory system; assesses the adequacy of policies relating to the provision of services to clients; and provides oversight of the Firm's senior management.

M.I is provided to the Board from various teams including the Finance and Compliance teams and key policies are brought to the Board for review and ratification. These steps provide the management body with information on the functioning and performance of key aspects of the Firm, including the following areas:

- general organizational requirements, including steps taken by the Firm to ensure continuity and regularity in the performance of its regulated activities;
- employees, including steps taken by the Firm to ensure that employees have the necessary skills, knowledge and expertise for the discharge of the responsibilities allocated to them, and to ensure that they are fit and proper persons;
- regulatory framework for meeting compliance and financial crime requirements;
- internal capital adequacy and risk assessment process;
- outsourcing of critical or material operating functions or activities;
- record-keeping controls and arrangements;
- conflicts of interest management;
- remuneration policies and practices; and
- whistleblowing controls.

## The Management Body

The below table provides the number of directorships held by each member of the management body:

Management body member	Position at FEI	Number of directorships held	
		Executive	Non-Executive
<p><b>Rob Gleeson CFA</b></p> <p>After graduating in Economics from Swansea University, Rob joined FE in 2005. Working initially as a data analyst, he was responsible for redeveloping of the company's data systems as well as creating new fund databases. Rob became a fund analyst in 2008 and produced research that was published on Trustnet and in the trade press; he has also written many articles for national newspapers. Rob gained the CFA charter in 2009 and led the creation of FE Investments business in 2010. He currently heads up the investment team and is responsible for developing new products and processes as well as managing the model portfolios.</p>	Chief Investment Officer	1	
<p><b>Peter van Tiggelen</b></p> <p>Peter joined FE in February 2022. As CFO, he is responsible for the company's Finance, Legal and Business Intelligence functions. With extensive international finance experience, including from the United States and Asia, Peter has held several leadership positions in innovative, high-growth businesses in both healthcare and financial technology. Most recently he was CFO of the capital markets technology company Itiviti.</p>	Chief Finance Officer	1	

## Diversity of the Management Body

FEI, as part of the broader FE Fundinfo Group, operates under an Equal Opportunities Policy and accompanying diversity & belonging vision statement.

## **Risk Committee**

Due to the nature, size and complexity of the Firm, FEI does not have an independent risk management function. The management body is responsible for the management of risk within the Firm and their individual responsibilities are clearly defined. Senior management report to the Firm's board on a frequent basis regarding the Firm's risks. FEI has clearly documented policies and procedures, which are designed to minimise risks to the Firm and all staff are required to confirm that they have read and understood them.

FEI has established a risk committee. The purpose of the risk committee is to advise the management body on the Firm's overall current and future risk appetite and assist the Firm's management body in overseeing existing and emerging risks.

## Own Funds

As at 31 December 2022, FEI maintained own funds of £6,781,374. The below regulator-prescribed tables provide a breakdown of the Firm's own funds:

<b>Composition of regulatory own funds</b>			
	<b>Item</b>	<b>Amount (GBP thousands)</b>	<b>Source based on reference numbers/letters of the balance sheet in the audited financial statements</b>
<b>1</b>	<b>OWN FUNDS</b>	<b>6,781</b>	Pg 12
<b>2</b>	<b>TIER 1 CAPITAL</b>	<b>6,781</b>	Pg 12
<b>3</b>	<b>COMMON EQUITY TIER 1 CAPITAL</b>	<b>6,781</b>	Pg 12
4	Fully paid up capital instruments	24	Pg 12
5	Share premium	1,596	Pg 12
6	Retained earnings	5,161	Pg 12
7	Accumulated other comprehensive income	0	
8	Other reserves	0	
9	Accumulated other comprehensive income	0	
10	Accumulated other comprehensive income	0	
11	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	0	
19	CET1: Other capital elements, deductions and adjustments	0	
<b>20</b>	<b>ADDITIONAL TIER 1 CAPITAL</b>	<b>0</b>	
21	Fully paid up, directly issued capital instruments	0	
22	Share premium	0	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	0	
24	Additional Tier 1: Other capital elements, deductions and adjustments	0	
<b>25</b>	<b>TIER 2 CAPITAL</b>	<b>0</b>	
26	Fully paid up, directly issued capital instruments	0	
27	Share premium	0	
28	(-) TOTAL DEDUCTIONS FROM TIER 2	0	
29	Tier 2: Other capital elements, deductions and adjustments	0	

<b>Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements</b>				
		<b>Balance sheet as in published/audited financial statements</b>	<b>Under regulatory scope of consolidation</b>	<b>Cross-reference to above template</b>
		As at 31/12/2022	As at 31/12/2022	
<b>Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements (in £'000)</b>				
1	Debtors	5,151		
2	Cash and cash equivalents	2,157		
xxx	<b>Total Assets</b>	7,308		
<b>Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements (in £'000)</b>				
1	Creditors: amounts falling due within one year	527		
xxx	<b>Total Liabilities</b>	527		
<b>Shareholders' Equity (in £'000)</b>				
1	Called up share capital	24		Item 4
2	Share premium account	1,596		Item 5
3	Retained earnings	5,161		Item 6
xxx	<b>Total Shareholders' equity</b>	6,781		Item 1–3 above

<b>Own funds: main features of own instruments issued by the Firm</b>	
FEI's own funds consists solely of Common Equity Tier 1 Capital.	



#### 4. Own Funds Requirements

FEI is required to at all times maintain own funds that are at least equal to the Firm's own funds requirement. The own funds requirement is the minimum requirement of capital the Firm is required to hold, taken as the higher of the PMR, FOR and KFR.

The below table illustrates the various components of the FEI's own funds requirement:

<b>Requirement</b>	<b>£'000</b>
(A) Permanent Minimum Capital Requirement ("PMR")	75
(B) Fixed Overhead Requirement ("FOR")	1,316
(C) K-factor requirement ("KFR")	947
- K-AUM – <i>risk arising from managing and advising on investments</i>	
<b>(D) Own Funds Requirement (Max[A; B; C])</b>	<b>1,316</b>

FEI is also required to comply with overall financial adequacy rule ("OFAR"). This is an obligation on FEI to hold own funds and liquid assets which are adequate, both as to their amount and 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.

Where FEI determines that the FOR is insufficient to mitigate the risk of a disorderly wind down, the Firm must maintain an 'additional own funds required for winding down', above the FOR, that is deemed necessary to mitigate the risks of a disorderly wind down. Similarly, where the Firm determines that the KFR is insufficient to mitigate the risk of harm from ongoing operations, the Firm must maintain an 'own funds required for ongoing operations', above the KFR, that is deemed sufficient to ensure the viability of the Firm throughout economic cycles.

The Firm's own funds threshold requirement is the higher of:

- the Firm's PMR;
- the sum of the Firm's FOR and its additional own funds required for winding down; and
- the sum of the Firm's KFR and its additional own funds required for ongoing operations.

This is the amount of own funds that FEI is required to maintain at any given time to comply with the OFAR.

To determine the Firm's own funds threshold requirement, FEI identifies and measures the risk of harm faced by the Firm and considers these risks in light of its ongoing operations and also from a wind-down planning perspective. The Firm then determines the degree to which systems and controls alone mitigate the risk of harm and the risk of a disorderly wind-down, and thereby deduce the appropriate amount of additional own funds required to cover the residual risk.

This process is documented and presented to, and ratified by, the FEI Board on at least an annual basis.

## 5. Remuneration Policy and Practices

### Overview

As a non-SNI MIFIDPRU investment firm, FEI is subject to the 'basic' and 'standard' requirements MIFIDPRU Remuneration code. The purpose of the requirements on remuneration are to:

- Promote effective risk management in the long-term interests of the Firm and its clients;
- Ensure alignment between risk and individual reward;
- Support positive behaviours and healthy firm cultures; and
- Discourage behaviours that can lead to misconduct and poor customer outcomes.

The objective of FEI's remuneration policies and practices are to establish, implement and maintain a culture that is consistent with, and promotes, sound and effective risk management and does not encourage risk-taking which is inconsistent with the risk profile of the Firm and the services that it provides to its clients.

In addition, FEI recognises that remuneration is a key component in how the Firm attracts, motivates and retains quality staff and sustains consistently high levels of performance, productivity and results. As such, the Firm's remuneration philosophy is also grounded in the belief that its people are the most important asset and greatest competitive advantage.

FEI is committed to excellence, teamwork, ethical behaviour and the pursuit of exceptional outcomes for its clients. From a remuneration perspective, this means that performance is determined through the assessment of various factors that relate to these values, and by making considered and informed decisions that reward effort, attitude and results.

### Characteristics of the remuneration policy and practices

Remuneration at FEI is made up of fixed and variable components. The fixed component is set in line with market competitiveness at a level to attract and retain skilled staff. Variable remuneration is paid on a discretionary basis and takes into consideration the Firm's financial performance and the financial and non-financial performance of the individual in contributing to the Firm's success. Assessment criteria include the individual's conduct, performance against objectives and elements such as compulsory regulatory training completion. All staff members are eligible to receive variable remuneration. Variable remuneration is not guaranteed and can be zero.

FEI identifies MRT's and informs them of the regulations that impact their remuneration, including the requirement to make public disclosures and the Firm's ability to apply malus and claw-back. MRT's at the Firm include:

- Members of the management body in its management function;
- Members of the senior management team;
- Those with managerial responsibility for a client-facing or client-dealing business unit of the Firm;
- Those with managerial responsibilities for the activities of a control function<sup>1</sup>;

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<sup>1</sup> A control function is defined as a function (including, but not limited to, a risk management function, compliance function and internal audit function) that is independent from the business units it controls and that is responsible for providing an objective assessment of the Firm's risks, and for reviewing and reporting on those risks.

- Those with managerial responsibilities for the prevention of money laundering and terrorist financing;
- Those that are responsible for managing a material risk within the Firm;
- Those that are responsible for managing information technology; information security; and/or outsourcing arrangements of critical or important functions; and
- Those with authority to take decisions approving or vetoing the introduction of new products.

The following types of reward made to colleagues who have been identified as Material Risk Takers are subject to the application of malus and clawback:

- Annual variable remuneration
- Guaranteed variable remuneration
- Retention awards
- Severance pay
- Buy-out awards

FEI ensures that the fixed component represents a sufficiently high proportion of the total remuneration to enable the operation of a fully flexible policy on variable remuneration. This allows for the possibility of paying no variable remuneration component, which the Firm would do in certain situations, such as where the Firm's profitability performance is particularly constrained, or where individual performance has been unsatisfactory.

## Quantitative Remuneration Disclosures

The below table quantifies the remuneration paid to staff in the financial year FY22. For these purposes, 'staff' is defined broadly, and includes, for example, employees of the Firm itself, directors and contractors:

Period: [FY22]				
		Senior Management	Other material risk takers	Other staff
Total number of material risk takers				
Remuneration Awarded	Fixed (£)	448,763	504,583	1,986,930
	Variable (£)	50,000	84,500	583,051
	Total (£)	498,763	134,500	2,569,981
Guaranteed variable remuneration	Amount (£)	0	0	
	# Staff Awarded	0	0	
Severance payments	Amount (£)	0	0	
	# Staff Awarded	0	0	
Highest severance payment awarded to an individual (£)		NA		

MIFIDPRU investment firms are typically required to split the quantitative data in the above table, where relevant, into categories for senior management and other material risk takers. The regulator however allows firms to aggregate or altogether omit the information to be disclosed for senior management and other material risk takers, where splitting the information between these two categories would lead to the disclosure of information about one or two people. FEI has not relied upon this exemption.

## **Governance and Oversight**

The FEI Board is responsible for setting and overseeing the implementation of FEI's remuneration policy and practices. The Board:

- Is appropriately staffed to enable it to exercise competent and independent judgment on remuneration policies and practices and the incentives created for managing risk, capital and liquidity;
- Oversees decisions regarding remuneration, including decisions which have implications for the risk and risk management of the Firm;
- Ensures that the remuneration policy and practices take into account the long-term interests of clients, shareholders, investors and other stakeholders in the Firm; and
- Ensures that the overall remuneration policy is consistent with the business strategy, objectives, values and interests of the Firm and of its clients.

FEI's remuneration policy and practices are reviewed annually by the Board.