KW Investment Management Limited

FRN: 506600

IFPR Disclosure Statement

(To Year-End 31st December 2023)

Contents

1. Introduction

1.1. IFPR Disclosures: Context

The UK Investment Firm Prudential Regime (IFPR) came into effect in 2022. It is a new set of prudential requirements for FCA authorised investment firms. Its aim is to ensure that firms have sufficient capital and liquid resources to mitigate the potential for harm the firm can pose to consumers and markets.

The previous prudential regime for FCA investment firms was based on requirements for globally active systemically important banks. The new rules are focus on the risk posed by Investment Firms. This includes KW Investment Management Limited (KWIM).

This document sets out the public disclosures for KWIM as of 31 Dec 2023; the end of KWIM's financial reporting period. These disclosures will be updated annually and be made available on the firms' website.

1.2. KWIM: Firm Details

KWIM is a Discretionary Investment Manager offering a personal portfolio service to individual private clients and a range of discretionary segregated mandates to institutional clients.

KWIM holds regulatory permissions principally in relation to arranging, advising and providing discretionary management services to retail and professional clients. It is authorised to hold client money/assets. It is subject to the MIFIDPRU section of the FCA Handbook and the IFPR.

The entity is 100% owned by the holding company KW UK Investment Management HoldCo Limited, and in turn, KW UK BidCo Limited, and KW UK Financial Holdings Limited. The overall parent is Kingswood Holdings Limited (KHL), a Guernsey incorporated AIM Listed firm.

1.3. Basis of Disclosure

KWIM is a non-SNI MIFIDPRU firm, and this disclosure is made on an individual entity basis. During reference period (31st December 2022), the Kingswood Group has been restructured and the firm is currently assessing whether Group level disclosures will be required in the future.

This document has been prepared following the disclosure rules set out in MIFIDPRU 8 to pertaining to the UK IFPR.

2. Governance

2.1. Governance Structure

The following committees provide formal governance and oversight and oversight of the activities of KWIM.

Holding Company Boards: The Kingswood Holdings Limited Board, through its subsidiaries, is ultimately responsible for the Governance and Risk Management Framework across the Group. In practice, oversight is delegated to the committees set out below, with escalation of material items to the Board as required.

Audit & Risk Committee: This committee is responsible for assisting the Board in its oversight of risk management across the Group. This includes:

- Oversight & challenge to maintain a supportive risk culture in the Group.
- Reviewing key risk metrics
- Reviewing the key risk register.
- Overseeing and challenging risk appetite.
- Ensure risks are appropriately identified and managed.
- Monitoring the integrity of the group's financial reporting.
- Ensuring effective internal controls are in place.
- Monitoring the performance of external audit (and any internal audit).

Nomination & Remuneration Committee: Oversight and challenge of key appointments and executive remuneration.

KWIM Board: Oversight and challenge of overall business performance, risks, controls and consumer outcomes in respect of KWIM activities.

Executive Committee: Executive responsibility for ensuing the overall performance of the firm and its strategy.

Risk & Compliance Committee: The main executive level committee responsible for the reporting. monitoring, review and challenge of all risk types facing the firm. This committee is attended by the company executives and subject matter experts as required. The committee reports to the regulated entity Boards as well as the Audit & Risk Committee.

2.2. Risk Management Framework

To ensure the effectiveness of Kingswood Group's risk management framework, the Board and Senior Management rely on adequate line functions.

FIRST LINE OF DEFENCE

All businesses within the group have day to day ownership and responsibility for their risks.

- Identifying and assessing risks
- Managing & controlling risks
- Measuring risks and developing key risk indicators
- Mitigating risk and balancing reward
- Reporting and escalation

SECOND LINE OF DEFENCE

Kingswood maintains an independent second line Risk & Compliance function that provides support and independent challenge to the first line. Responsibilities include:

- Design & operation of the Risk Framework
- Risk Assessment
- Risk Appetite
- Risk reporting
- Challenge and oversee the adequacy of controls & action plans.

THIRD LINE OF DEFENCE

There is currently no internal third line. The Group makes use of external consultants to provide a further layer of oversight and challenge on the adequacy of our Risk Management and Compliance Frameworks.

2.3. KWIM Directors

As per MIFIDPR 8.3.1R(2) the firm is required to disclose other directorships held by the management body. This excludes other directorships within the wider Kingswood Group, and those organisations that do not pursue commercial objectives. KWIM Directors as of 31st December 2023

Name	Role	No of other UK Directorships as per MIFIDPRU 8.3.1R(2)
David Lawrence	CEO / Director	0
Harriet Griffin	COO / Director	0
Paul Hammick	CRO / Director	0
Nigel Davies	Head of Fixed Income / Director	0
Paul Hammick	CRO /Director (appointed 16 May 2023)	0

Source: Companies House

2.4. Investment Policy

<u>The Investment Policy Committee (IPC)</u>

This is the senior investment committee within the Kingswood Group. It is chaired by our Chief Economist, and attended by the CIO, Head of Investment Management and members of their teams. The Kingswood CEO and CRO are also invitees.

The role of the IPC committee is to oversee the Investment Philosophy for the Kingswood Group and its regulated investment subsidiaries including KWIM. This includes setting house guidance on strategic and tactical asset allocations and regional positions. It reviews the performance of investment models to ensure they are functioning as expected.

The CEO and CRO (both KWIM Board members) are standing invitees to this committee and receive all working papers and minutes.

<u>The Personal Portfolio Committee</u>

This meets on a monthly basis. Its purpose is to:

- Review the performance of underlying funds in personal portfolios.
- Propose new funds for the PPS and undertake deep dive research as required.
- Make decision on fund allocations in line with model parameters set by IPC.
- Review direct equity holdings and recommend adjustments as required.
- Review performance of PPS portfolios.

<u>Investment Process</u>

Our investment process has one over-arching objective which is to deliver consistent investment outcomes to clients which are in line with their goals.

It does this through a series of methodical steps which provide us with the ability to monitor and evaluate the success of our decision making and to identify where it has added or detracted value.

This provides us with an efficient method for investing clients' money. It also allows clients and ourselves to clearly see how and why their money is being invested in a particular way, and that it is consistent with their goals and aspirations.

The investment portfolios created are based around risk tolerance. Diversification and risk management are incorporated into the process and are key to the success of the portfolios. This process allows us to deliver truly personalised portfolio management, at relatively low cost, and with clearly established risk controls.

The process is circular and has the following key parts to it:

- Translating the client's Investment Profile into the appropriate Investment Strategy
- Construction of the Portfolio best expected to deliver against the Investment Strategy
- Portfolio Monitoring and day to day management

- Measurement of the performance of the portfolio against a variety of measures

The construction of the actual portfolio involves two key parts:

Asset Allocation

Each client portfolio has a strategic asset allocation (SAA) underlying it. This is the allocation we believe most likely long term to achieve the client's goals while keeping risk at an appropriate level.

The Kingswood Investment Policy Committee (IPC) decides both the SAA for each risk strategy and also the house view which drives the tactical asset allocation (TAA). The TAA tilts the allocation towards those asset classes expected to outperform in the medium term, while keeping allocations within the broader constraints of the SAA.

The TAA is as far as possible implemented uniformly across all risk models and styles and its implementation is monitored by the IPC. This process takes the following form:

The Investment Policy Committee decides the one-year view on each asset major asset/sub-asset class.

For sub asset classes, views are relative to that asset class, rather than portfolio as a whole.

Views are translated into active positions at asset and sub-asset class level as absolute % of portfolios and then mirrored across all risk models.

Position sizing of the portfolios are based off the view rather than trying to echo the positioning of each other.

Position sizing will take into account the size of that asset class in the strategic benchmark.

The asset and fund composition of each risk strategy is also monitored by Dynamic Planner, which provides an independent risk profiling service, to ensure that the risk level is maintained in its appropriate range.

Fund Selection

The selection of funds to implement the resulting asset allocation is decided by the Kingswood Personal Portfolio Committee (PPC).

We have a range of Implementation models available for each risk profile:

Core - for clients with no specific requirements regarding the investment vehicles.

ESG - for clients wanting only investments which meet ethical/socially responsible criteria.

Income - for clients wanting an enhanced income.

The funds selected for the portfolios are from the Kingswood approved fund list and have gone through a rigorous selection process which comprises both quantitative screening and detailed qualitative analysis.

The investment managers are responsible for customising the relevant investment strategy to the specific needs of individual clients. The resulting portfolios need to respect the asset allocation and fund allocations decided by the IPC and PPC and there are clear limits on the degree of divergence permitted.

Portfolio Monitoring

The model portfolios are regularly reviewed by the IPC and PPC to ensure they remain appropriate and in line with their risk profile. This involves monitoring both the asset allocation of the portfolio as well as the underlying investments.

Specific client portfolios in turn are monitored on an ongoing basis by the investment managers to ensure they are invested in line with the model portfolios.

Performance Measurement

Performance is monitored on an ongoing basis and is assessed relative to various measures including long term return guidelines, inflation, base rate and the peer group.

2.5. Approach to Diversity

Kingswood are dedicated to ensuring all our people feel a sense of belonging. We represent and appreciate the range of differences in our colleagues and commit to treating everyone with respect and support which is delivered through our values and behaviours. We are proud to be an equal opportunity employer committed to recruiting and maintaining a diverse workforce irrespective of race, religion, age, disability, gender or sexual orientation or bias. We actively encourage development of our talent through our many internal programmes as we recognise that having happy and varied colleagues across the business is our greatest strength. KWIM operates within the context of the **One Kingswood Group Values** centred around:

- support and empowerment
- upholding responsibility
- championing inclusivity
- continuously evolving
- championing respect

3. Own Funds, Own Funds Requirement (MIFIDPRU 8.4)

3.1. Overview of OFAR

The Firm's own funds are CET1 capital. As at 31 December 2023 and during the year, the Firm complied with all capital requirements in accordance with the rules set out in IFPR from its introduction on 1 January 2022.

3.2 Own Funds Requirements (MIFIDPRU 8.5)

K-Factor Requirement
As KWIM is a non- SNI, it is in scope of the K-Factor requirement.

The K Factor Requirement (KFR) is calculated by adding together a mixture of activity and exposure-based requirements, depending on the MiFID investment services and activities a firm undertakes.

The rules and guidance for calculating each component of the overall K-Factor requirement (KFR) are in MIFIDPRU 4.7 to 4.16. A firm's KFR is the sum of each of the K factors that are applicable to the firm's business**.**

The Following K-Factors all apply to KWIM:

K-Factor	Based-on	Calculation
K AUM	Assets Under Management	K-AUM requirement is equal to 0.02% of the firm's average AUM, which is in turn defined as the average of preceding 15 months, excluding last 3 months
K CMH	Client Money Held	K-CMH requirement is equal to the sum of 0.4% of average CMH held in segregated accounts and 0.5% of average CMH held in non-segregated accounts
K ASA	Client Assets Safeguarded and Administer	K-ASA requirement is equal to 0.04% of the firm's average ASA
K COH	Client Orders Handled	K-COH requirement is equal to the sum of 0.1% of COH attributable to cash trades and 0.01% of average COH attributable to derivative trade

The total K-Factor is the sum of all of the above. The following K-Factors all apply only to firms that deal on their own account and therefore are not relevant to KWIM:

- K-NPR = Net Position Risk
- K-CMG = Clear margin Given
- K-TCD = Trading Counterparty Default
- K-DTF = Daily Trading Flow
- K-CON -= Concentration Risk

KWIM calculates its total K-Factors Exposure to be: £346k (Sept 24) This is calculated as follows:

- K-AUM = £308k
- K-CMH = £0
- K-ASA = £1k
- K-COH = £37k

3.3 Fixed Overhead Requirement (FOR)

Per MIFIDPRU 4.5, the FOR is an amount equal to one quarter of the firm's relevant expenditure during the preceding year. It must be based on the latest available audit's accounts which or KWIM is y/e 2022.

KWIM calculates it’s FOR to be £609K.

3.4 Approach to Assessing Adequacy of Own Funds

All investment firms must comply with the Overall Financial Adequacy Rule (OFAR).

The OFAR is the obligation for a MIFIDPRU investment firm to hold Capital (‘own funds’) and ‘liquid assets’ which are adequate both as to their amount and quality to ensure that:

- 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
- Business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

The Overall Financial Adequacy Rule includes the ‘Own Funds Threshold Requirement’ and the Liquid Asset Threshold Requirement’.

Own Funds Requirement (OFR)

The OFR is the minimum capital that a firm must hold in line with new IFPR. For Non-SNI firms like KWIM, this is the highest of:

- Permanent Minimum Capital Requirement (£150k)
- Fixed Overhead Requirement
- K-Factor Analysis

KWIMs OFR is £609k.

Own Funds Threshold Requirement (OFTR)

The OFR above is unlikely to be sufficient to mitigate the risk of harms a firm poses to its customers or markets. As part of its ICARA process, KWIM must assess whether it needs to hold additional capital to:

- Mitigate any risk of harms from its ongoing activities.
- Ensure the business can be wound down in an orderly manner.

<u>Material Harms</u>

In line with MIFIDPRU 7 (Annex1), firms should identify potential harms by considering plausible hypothetical scenarios that may occur given the firms business model. It must use its own knowledge and experience and any other relevant factors to calculate potential impacts. The firm must then consider whether any additional capital and liquidity must be held to address the potential impact of these harms.

<u>Wind Down</u>

There is also a requirement to calculate the level of capital and liquidity required in order to wind the firm down in an orderly and controlled manner. Firms must consider scenarios that would lead to a wind down, and then demonstrate the process by which the firm will be wound down in an orderly fashion.

<u>OFTR Calculation</u>

The OFTR is calculated as the highest of the PMR, the Material Harm Assessment or the costs of Wind Down. Capital resources held must be in excess of the overall OFTR.

Basic Liquid Assets Requirement (BLAR)

The BLAR is the minimum amount of liquid assets KWIM must hold to assist in the orderly wind down of the firm. The FCA takes the view that a lack of liquidity is a significant driver of harm during wind-down. The BLAR provides a minimum level of core liquid assets that the firm must maintain at all times. The BLAR must consist of core liquid assets comprising the sum of:

- One third of a firm’s FOR; and
- 1.6% of the total of any guarantees provided to clients (n/a for KWIM)

Liquid Assets Threshold Requirement (LATR)

As part of this ICARA process, KWIM must produce a reasonable estimate of the maximum amount of liquid assets that the firm would require to:

a) Fund its ongoing business operations during each quarter over the next 12 months; and
b) Ensure that the firm could be wound down in an orderly manner

OFAR & Early Warning Indicators

The OFAR must be set at a level where there is sufficient Capital and Liquid assets held in order to cover a both the OFTR and the LATR.

IFPR rules also specify that an early warning indicator must be set at 110% of the OFAR. If capital or liquidity held falls below this level, notification to the FCA is required.

4. The ICARA Process

KWIM uses the ICARA process to ensure it complies with the overall financial adequacy rule (‘OFAR’).

The purpose of the ICARA process is on identifying and managing risks that may result in material harms. Depending on the nature of the potential harms identified, the firm may need to hold additional own funds or additional liquid assets above the firm’s own funds requirement or basic liquid assets requirement. However, there may also be more appropriate or effective ways to manage the potential harms (for example, through implementing additional internal systems and controls, strengthening governance and oversight processes or changing the manner in which the Group conducts certain business.

ICARA will be a continuous process through which the firm will assess the adequacy of its own funds and liquid requirements.

The ICARA requires KWIM to conduct business model analysis, stress testing, recovery, and wind-down planning.

Key elements of the ICARA include:

- Business model and strategy together with a three-year financial forecast
- Risk Management Framework (‘RMF’) and governance overview
- Material harms
- Financial projections and capital & liquidity planning process
- Available own funds and liquid assets
- Own funds capital requirement
- Compliance with Overall Financial Adequacy Ruel (‘OFAR’)
- Capital stress testing
- Reverse stress testing
- Recovery planning
- Wind-down planning

KWIM Monitors and reports the level of capital and liquidity on a quarterly basis.

5. Remuneration (SYSC 19B & C)

The firm relies on the Group Nomination & Remuneration Committee which responsible for considering Board appointments, reviewing Board structure, size and composition and identifying the need for Board appointments by reference to the balance of skills, knowledge and experience on the Board and the scale of the Enlarged Group.

The Nomination & Remuneration Committee is also responsible for establishing a formal and transparent procedure for developing policy on executive remuneration and to set the remuneration packages of individual directors.

This includes agreeing with the Board the framework for remuneration of the Group Chief Executive, all other executive directors, the Company Secretary and such other members of the executive management of the Company as it is designated to consider. It is also responsible for determining the total individual remuneration packages of each director including, where appropriate, bonuses, incentive payments and share options. No director will play a part in any decision about his own remuneration. The Nomination & Remuneration Committee also plays a crucial role in succession planning by analysing the Board’s needs and planning accordingly.

The Company currently sets the variable remuneration of its staff in a manner which takes into account individual performance, performance of the individual’s business unit and the overall results of the Company.

The Company takes into account the specific nature of its own activities (including the fee-based nature of its revenues) in conducting any ex-ante risk adjustments to awards of variable remuneration.

The Company only has one “business area”, which is its investment management business. For the purposes of this disclosure, all of the Company’s Code Staff fall into the “senior management” category of Code Staff (rather than the “risk taker” category).

As per MIFIDFPRU 8.6.8 (7) we have made this judgement in order to prevent the individual identification of a material risk taker. During the reporting year 2023 the Company’s directly contracted staff is (14).

As a non-SNI MIFIDPRU investment firm, we are required to disclose the total remuneration of all our staff split between fixed and variable remuneration for our performance year end, which is also our financial year-end.

For our year ending 31 December 2023, our total remuneration is split as follows:

Type of Remuneration	**Amount £000s**
Fixed Remuneration	£1,167,206
Variable Remuneration	£257,460
Total Remuneration	£1,424,666