# IFPR Disclosures

Fairstone Private Wealth

2023

Contents

# Executive Summary

Fairstone Private Wealth Ltd (FPW) (FRN 457558) is an investment management firm with discretionary permissions. FPW is categorised by the FCA as a limited licence firm. FPW is considered a MIFIDPRU firm but not a collective portfolio management investment firm.

The firm does not provide safekeeping and administration services (custody).

The firm does not provide the following services: deal on its own account; underwrite issues; place financial instruments or operate a multilateral trading facility.

The firm does not and is not authorised to hold client money or securities.

FPW forms part of the Fairstone Capital Group Limited (FCGL) with other regulated and non-regulated entities. For capital adequacy purposes FPW is considered as a separate standalone entity.

These disclosures have been prepared based on current operations, systems and controls across all FPW regulated activities.

# Governance

### Applying the Senior Managers & Certification Regime

Through the embedding of the Senior Managers and Certification Regime, Fairstone aims to maintain and further codify its governance standards and ensure clarity of individual accountability.

### Delegation

The Groups governance and management framework allows the delegation of authority, to the Executive who themselves are responsible as Senior Management Function (SMF) holders for their individual Statement of Responsibilities (SOR) and if applicable Prescribed Responsibility's (PR).

### Responsibilities Map

| **Independent Non-Executive Chairman** David Hickey | | | |
|---|---|---|---|
| **SMFs** | | SMF 9, 12 | |
| **Prescribed Responsibilities** | | | |
| **Business Activities** | | Discretionary Fund management | |
| **Other Responsibilities** | | Oversight of Strategy and progress against business plan. Chair of Board committees | |
| **Chief Product Officer** Adam Smith | **Finance Director** Simon Pile | **Chief Risk Officer** Tom Taylor | **Non-executive Director** Mark Parsons |
| SMF 1 | SMF 2, 3 | SMF 3, 4, 5, 7 | SMF 10, 11, 14 |
| **Regulatory Director** Ursula Sweis SMF 17 D MLRO | | | |

### Group Committees

| Committees of the Board | Relevant Prescribed Responsibility | Purpose |
|---|---|---|
| Risk Committee | D, K, I, S | Assist the regulated boards in the oversight of risks and risk assessment framework to mitigate effectively current and probable future challenges/issues |
| Audit Committee | J, J3 | Assist the regulated boards in the oversight of financial reporting and the internal control framework |
| Remuneration and Nomination | This is not a standalone committee, and is covered by the Board(s) | Assist the regulated boards in appointing and retaining the correct resource to deliver the boards strategy. Ensure appropriate reward and retention structures are in place |

## Directorships

Directors holding other executive and non-executive positions.

| | Group | External |
|---|---|---|
| David Hickey | 4 | 2 |
| Mark Parsons | 2 | 1 |
| Adam Smith | 1 | 0 |
| Tom Taylor | 20 | 2 |
| Simon Pile | 16 | 0 |

# Equality, Diversity and Inclusion Policy

## Policy Statement

Diversity, Inclusion and Equality are critical to the future of our business and foster innovation, growth and productivity.

Having an Equality, Diversity and Inclusion policy isn't just something we do for its proven business benefits, it is also the right thing to do, to make Fairstone a great place to work for everyone. Equality, Diversity and Inclusion are paramount to our way of working, and each Fairstone colleague is accountable and responsible for contributing to an equitable and fair culture.

We define equality, diversity and inclusion as:

- Equality at Fairstone means we do not discriminate based on any individual characteristic and colleagues should expect this in all aspects of their work lives.
- Diversity at Fairstone means that we actively seek out and value differences. We want our workforce to reflect the wide range of communities we serve, so we can serve them even better.
- Inclusion at Fairstone means that we are working to create a culture in which each colleague feels welcome and that they belong.

No issues have been identified with adherence to the policy.

# Remuneration

## Purpose

The Fairstone Private Wealth Limited (FPW) Policy is to support the firms adherence to SYSC19G and the requirements of the IFPR. The Scheme is to support the good delivery of client outcomes.

The FPW Remuneration Policy is intended to supplement Group Remuneration policy. If any elements of the FPW Remuneration policy conflict with the Group Remuneration policy, then the FPW policy should take precedent due to the higher required standard applied to it.

FPW is regulated by the FCA under reference 457558. FPW is now classified as a non-SNI firm and within the scope of the MIFIDPRU Remuneration Code. As such the firm is deemed to be exempt under SYSC19G.1.1: for Shares, Instruments and alternative arrangements (19G.6.19-21); Retention Policy (19G.6.22-23); Deferral (19G.6.24-29) and Discretionary pension benefits (19G.6.35) due to the value of its on-balance sheet assets and off-balance sheet items over the last four years.

### General Principles

This policy relates to individuals operating a majority of their time to provide services to FPW, individuals employed by FPW or any person with a significant influence over the activities.

The performance year is based on full calendar years. This version of the policy relates to the full calendar year 2022.

The policy covers the remuneration for both employed and self-employed individuals. The policy is subject to the oversight and approval by the FPW Board.

### Scope

The individuals assessed as being in scope for the policy are:

- SMF function holders operating a majority of their time to provider services by FPW
- Any other individual deemed to be material risk taker under SYSC19G.5.1-8

The policy applies to the practices and procedures relating to variable and fixed remuneration.

### Policy Statements

FPW will ensure that overall remuneration and remuneration processes follow all applicable current and future Group HR policies and procedures. This includes that any Remuneration is gender neutral, non-discriminatory on the basis of protected rights.

FPW will ensure that overall remuneration is appropriately weighted between Fixed and Variable elements. Fixed element should be based on the professional capability and organisational responsibility as specified in the job description. The fixed element should be sufficient to meet the expected income requirements of the role holder. Variable remuneration should not exceed 100% of Fixed remuneration.

FPW will ensure remuneration is linked to business and individual performance to encompass aligning remuneration to long term strategy, an appropriate risk and control framework and client outcomes.

FPW will utilise the independent oversight of the FPW Board to provide additional assurance and balance any potential conflicts of interest.

FPW will only offer Retention Awards where linked to a defined event or at a specified point in time.

FPW will only offer severance or redundancy pay on a case specific basis as defined by, and subject to direct oversight by the FPW Board.

### Procedures

Remuneration levels to be set in accordance with Group procedures.

Remuneration changes to be processed in accordance with Group procedures.

## Variable Remuneration

### Policy Statements

The value of potential variable remuneration available in each performance year is set in conjunction with overall group performance and reflects a multiyear framework.

FPW will not operate any discretionary pension benefits.

FPW will not operate any guaranteed variable remuneration.

FPW will ensure that any variable remuneration is based on a performance assessment against actual rather than potential delivery.

FPW will ensure that any variable remuneration payments can be subject to malus or clawback for a period of three years after payment where performance has deemed to be negligent or fraudulent. Negligence should be based on reasonable evidence of employee misbehaviour or material error and/or linked to a material downturn in performance, a material failure of risk management and/or significant losses.

FPW do not deem any deferment to be required due to the nature of the business model and the protection provided by malus and clawback provisions.

### Procedures

Any remuneration activity is directly overseen by the FPW Board, including an independent non-executive director.

Any assessment of performance will include performance against specific individual objectives. If performance is not at the required level or deemed to be negative, based on group procedures, then any variable remuneration will be reduced accordingly. Variable remuneration can be reduced to zero.

Any assessment of performance will consider both financial and non-financial factors including client outcomes. If performance is not at the required level or deemed to be negative, based on group procedures, then any variable remuneration will be reduced accordingly. Variable remuneration can be reduced to zero. The factors considered should be set at the start of the performance year and sufficiently broad. Performance assessment should not be based predominantly on any single area to remove any ability for individuals to hedge or insure.

Any remuneration payments will always be processed through Group payroll to protect against any methods which may seek to avoid the MIFIDPRU Remuneration Code.

Any remuneration payment can be withheld if there are any outstanding and overdue Compliance Assurance or Audit actions.

## Performance Assessment

A range of metrics will be used to establish that firm and individual performance is at the required level. Metrics will be specified for each relevant objective set for an individual for a performance year through HR select.

### Client Performance Monitoring

Each individual covered under the Policy will have an objective relating to the firm's client performance.

As a minimum considered criteria will be:

| Indicator | Measure | Rationale |
|---|---|---|
| Client Persistency | Proportion of Clients retaining ongoing service | Indicates quality of advice and appropriateness of agreed service |
| Product Persistency | Proportion of Clients retaining products recommended and proceeded | Indicates quality of advice and appropriateness of client outcomes |
| Complaints | Number of Complaints received including errors and omissions | Indicates issues with advice or service quality |

## Material Risk Takers

Based on the criteria set out under SYSC 19G.5.3R the following individuals are deemed to have a material impact on the risk profile of the firm

| Name | Role | Rationale |
|---|---|---|
| Adam Smith | Chief Product Officer | Member of senior management |
| Callum Tyrrell | Head of Core Advice | Managerial responsibility for advising on investments |
| Oliver Stone | Head of Portfolio Management | Managerial responsibility for managing investments |
| Ben Camp-Bell | Head of Product | Managerial responsibility for arranging deals in investments |

MRTs are notified of their status on an annual basis with a copy of the relevant Remuneration Policy.

## Quantative Disclosure

| | Senior Management + Other MRT | Other MRTs | Other Staff |
|---|---|---|---|
| Fixed Remuneration | 491,126 | N/A | Not reportable |
| Variable Remuneration | 95,599 | N/A | Not reportable |
| Total | 586,725 | N/A | |

- No guaranteed payments awarded during the financial year.
- No severance or redundancy payments awarded during the financial year.
- The exemption set out in MIFIDPRU 8.6.8R(7)(b) was relied upon for obligation MIFIDPRU 8.6.8 (4), (5)(a), (5)(b) and (6) to prevent individual identification.

# ICARA Summary of Position

## Composition of Regulatory Own Funds

| | Item | Amount | Source based on reference numbers/letters of the balance sheet in the audited financial statements |
|---|---|---|---|
| 1 | OWN FUNDS | 1,783 | - |
| 2 | TIER 1 CAPITAL | 1,783 | - |
| 3 | COMMON EQUITY TIER 1 CAPITAL | 1,783 | - |
| 4 | Fully paid up capital instruments | 1 | - |
| 5 | Share Premium | - | - |
| 6 | Retained Earnings | 1,782 | - |
| 7 | Accumulated other Comprehensive income | - | - |
| 8 | Other resererves | - | - |
| 9 | Adjustments to CET1 due to prudential filters | - | - |
| 10 | Other funds | - | - |
| 11 | (-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1 | - | - |
| 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 | - | - |

## Reconciliation of regulatory own funds to balance sheet in audited financial statements

| | Item | Balance sheet as in audited financial statements | Cross reference to own funds |
|---|---|---|---|
| Assets | | | |
| | Sundry Debtors | 159 | |
| | Cash at bank and in hand | 2,415 | |
| | Total Assets | 2,574 | |
| Liabilities | | | |
| | Sundry Creditors | 1,018 | |
| | Accruals | -226 | |
| | Total Liabilities | 792 | |
| Shareholders' Equity | | | |
| | Ordinary Shares | 1 | |
| | Retained Earnings | 1,062 | |
| | Profit current year | 720 | |
| | Total Shareholders' Equity | 1,782 | |

### Current own funds requirement

| | | |
|---|---|---|
| Own fund requirement (higher of PMR, FOR and KFR) as at ICARA process reference date | (a) | £485,000 |
| CET own funds held | (b) | £1,504,000 |
| AT1 own funds held | (c) | £0 |
| T2 own funds held | (d) | £0 |
| Total own funds held (b+c+d) | (e) | £1,504,000 |

### Own funds threshold requirement identified from the ICARA process

| | | |
|---|---|---|
| Own funds required for day-to-day business operations next 12 months | (f) | £485,000 |
| Own fund required for orderly wind-down | (g) | £535,000 |
| *Own funds threshold requirement* (greater of (f) and (g)) | (h) | £535,000 |
| Additional capital required (h-e) | (i) | £0 |

### Liquid assets threshold requirement identified from the ICARA process

| | | |
|---|---|---|
| Basic liquid assets requirements (1/3 of FOR) | (j) | £162,000 |
| Liquid assets required for day-to-day business operations next 12 months | (k) | £n/a (cash generative on a monthly basis) |
| Quarter 1<br>Quarter 2<br>Quarter 3<br>Quarter 4 | | £-<br>£-<br>£-<br>£- |
| Liquid assets required for orderly wind-down | (l) | £535,000 |
| Liquid assets threshold requirement (sum of *basic liquid assets requirement (j)* plus higher of (k) and (l)) | (m) | £697,000 |
| Total liquid assets held | (n) | £1,770,000 |
| Surplus | (o) | £1,073,000 |

### Completeness of the review

The process has been set to support senior management in making an informed decision on the amount of capital required to be held by FPW. The base assessment of firm risks has been produced by FPW management based on an approach set by FCGL. The approach to is to score each relevant risk allowing for:

- Whether the risk is business related, conducted related or both.
- How likely the risk is of materialising.
- The severity of a potential risk event where the risk has materialised.
- The ability of management controls or other actions to mitigate the likelihood and severity of any risk event.
- The assessment has been reviewed and challenged by senior management with those risks deemed to be material agreed.
- Each material risk has been subject to a stress test based on a severe but plausible potential event. The methodology for each stress test is to follow a series of set stages to form a considered view as to amount of additional capital, if any, the firm should hold. Materiality is defined as a residual risk score at 18 or above.
- The results of the stress test have been reviewed and challenged by both second line, and senior finance personnel

**ICARA reference date - 31 December 2022**

**ICARA Review Date - 27 February 2023**

# Risk Management

## Risk assessment

In line with IFPR categories the firm has conducted an assessment of the types of risks posed by its regulated activities to the firm's clients, to the wider market, and to the firm itself:

### Risk to Clients (RtC)

| Risk Event | Potential loss area/scenario | Non-financial mitigation in place (*e.g. – processes, procedures*) | Sufficient to adequately mitigate risk? |
|---|---|---|---|
| Investment Performance Issues | Sub-standard investment management which lead to client loss are likely to generate a claim liability against FPW. Any severe operational failures are likely to create both operational and reputational risk. | Investment policy adherence. Investment Committee approval. Group Investment Committee oversight. Product strategy set with multiple investment approaches including external sub advisers | Yes |
| Portfolio Execution Errors | Errors in portfolio execution which lead to client loss are likely to generate a claim liability against FPW. Any severe operational failures are likely to create both operational and reputational risk. | Portfolio Execution Process including cross check and rebalance log. Portfolio monitoring | Yes |

### Risk to Market (RtM)

The firm does not believe its activities present wider risks to the market given its activities are restricted to portfolio management. The firm does not undertake activities such as dealing in investments as principal and therefore does not itself take market positions or have any exposures in this regard.

### Risk to Firm (RtF)

| Risk event | Potential loss area/scenario | Non-financial mitigation in place (*e.g. – processes, procedures*) | Sufficient to adequately mitigate risk? |
|---|---|---|---|
| MPS Model becomes uncompetitive | Limited growth potential and/or increased client attrition significantly reduces revenue | Regulatory and market horizon scanning | Yes |
| FCGL distribution capability reduces | Limited growth potential and/or increased client attrition significantly reduces revenue | Group strategy | Yes |
| Market risk | Economic downturn which in turn impact investment markets and assets under management significantly reduces revenue | Client assets managed on a diversified basis | Yes |

Where non-financial mitigation (e.g. – through enhanced controls, processes, and procedures) is not considered to have adequately mitigated the risks we have considered below the impact on both overall financial resource requirements and liquidity.