

ADG Securities LLP

MIFIDPRU 8 Public Disclosure 2024

The following disclosures are made pursuant to the United Kingdom Financial Conduct Authority (“FCA”) Prudential Sourcebook for MiFID investment Firms (“MIFIDPRU”) by ADG Securities LLP (the “Firm”). The Firm is authorised and regulated by the Financial Conduct Authority (FRN:807897) as a non-small and non-interconnected (“non-SNI”) MIFIDPRU Investment Firm. The Firm is a wholly-owned subsidiary of ADG Corporate Ltd.

Each year the Firm will make disclosures on its website following the end of its financial year. For the financial year ending 31 March 2024 In addition to its own resources and systems, the Firm utilises the resources, systems, and personnel of other entities within the ADG Group.

This document is organised into the following sections:

Section 1: Risk Management Objectives and Policies (MIFIDPRU 8.2).

Section 2: Governance (MIFIDPRU 8.3).

Section 3: Own Funds (MIFIDPRU 8.4 and 8.5).

Section 4: Remuneration Policy and Practices (MIFIDPRU 8.6).

Unless otherwise stated, information set out herein is provided as at 31 March 2024.

1. RISK MANAGEMENT OBJECTIVES AND POLICIES

1.1. Risk Management Objective

The Firm's governing body holds ultimate responsibility for managing and overseeing the Firm's risk profile. To effectively safeguard the Firm's operations, the governing body oversees the implementation of a comprehensive risk management framework that proactively identifies, evaluates, and mitigates potential risks. This framework aligns with the Firm's risk appetite, which is carefully calibrated to support the Firm's strategic objectives and investment strategies.

Through the Firm's ICARA process, relevant risks are continuously identified and analyzed. The potential impact of these risks on the Firm's business strategy is thoroughly assessed, taking into account the effectiveness of existing risk mitigation measures. Based on this comprehensive assessment, the Firm has developed a formal statement of risk appetite. This statement outlines the Firm's acceptable level of risk exposure and establishes clear guidelines for managing inherent risks.

To ensure that no residual risks pose a critical threat to the Firm's operations, the governing body mandates that all inherent risks must be effectively mitigated through appropriate controls and mitigation strategies. This commitment to proactive risk mitigation is a cornerstone of the Firm's robust risk management framework, safeguarding its long-term sustainability and success.

1.2. Key Risk Categories

Pursuant to MIFIDPRU 8.2, this section provides a summary of the Firm's risk management approach in addressing the categories of risk covered by MIFIDPRU 4 (own funds requirements), MIFIDPRU 5 (concentration risk), and MIFIDPRU 6 (liquidity risk).

- **Operational Risk**

Operational risk encompasses the possibility of financial loss arising from inadequate or malfunctioning internal processes, personnel, or systems, as well as external events. This definition encompasses legal risk as well. The Firm strives to minimise operational risk through its robust risk governance structure and operational risk framework. As part of its annual ICARA process, the Firm identifies, assesses, and evaluates its critical risks, considering the effectiveness of existing controls. This process informs the Firm's determination of whether additional capital or liquid assets are required to mitigate residual risks.

- **Business Risk**

Business risk encompasses the potential for financial losses arising from the Firm's operating environment, industry dynamics, and overall business strategy. The Firm's primary business risk exposure lies in the possibility of discontinued contractual arrangements with related entities for investment management services. This could occur if escalating costs, driven by government policies, regulations, or tax changes, render these arrangements economically unviable. While this risk is considered low, it is thoroughly evaluated within the ICARA process, including stress testing and contingency planning to ensure the adequacy of the Firm's own funds and liquid assets to navigate such a scenario.

- **Market Risk**

Market risk refers to the possibility of financial losses due to fluctuations in market-driven factors, such as interest rates, credit spreads, foreign exchange rates, commodity prices, and equity prices. Market risk may arise from a variety of activities including market-making and proprietary trading. The Firm's trading strategies to manage market risk include exposure diversification, concentration, illiquidity controls, and hedging.

The management and reporting of the Firm's regulatory exposures and capital requirements against applicable internal limits and thresholds, and regulatory requirements is carried out independently by the Risk and Compliance departments.

Market risk is managed in accordance with the framework set by the Firm's Risk Management Policy.

- **Concentration Risk**

Concentration risk arises from the extent of a Firm's dealings might have a substantial exposure to a specific market or asset class. For instance, if the majority of the Firm's investments are concentrated in a particular sector or in a specific type of financial instrument. The Firm could face increased risks if that market experiences adverse conditions. Additionally, credit concentration risk could occur in relation to cash held with banking service providers and related-entity receivables. This risk is managed through regular funding analysis, ongoing monitoring of the creditworthiness of main banking service providers and appropriate hedging strategies.

- **Liquidity Risk**

Liquidity risk refers to the possibility of a Firm, despite being solvent, lacking sufficient readily available financial resources to meet its obligations as they become due, or being able to access such resources only at excessive

costs. This risk could manifest in the event of a default by a banking institution where the Firm's liquid assets are held. To mitigate this risk, the Firm maintains cash holdings at reputable global banks with strong credit ratings and closely monitors counterparty exposures, with established escalation protocols in place to address material adverse events.

1.3. Risk Management Policies and Procedures

The governing body oversees a comprehensive framework of risk management policies and procedures, which includes:

- Risk Management Guidelines: Tailored investment guidelines for each strategy, specifying defined risk parameters, exposure tolerances, and portfolio management standards.
- Organisational Structure: Functional independence and robust conflict of interest management, ensuring control functions are separate from the business units they oversee.
- Compliance Function: Ongoing training, regular monitoring, and robust policies and procedures to maintain compliance with regulatory requirements.
- Management Information: Timely escalation of material information to senior management and the body.

1.4. Effectiveness of the Risk Management Framework

The governing body continuously monitors and evaluates the effectiveness of the Firm's risk management framework, conducting a comprehensive review at least annually as part of the ICARA process. This review is informed by regular meetings with senior management, where material developments affecting the Firm's risk profile are discussed. The governing body's periodic assessment of the Firm's risk profile ensures that the risk management framework remains appropriate, and that sufficient capital and liquidity are maintained.

2 GOVERNANCE

2.1 Overview of Governance Arrangements

Under SYSC 4.3A.1R, the governing body is responsible for establishing and overseeing a robust governance framework that ensures effective and prudent management of the Firm, including conflict of interest prevention and compliance with regulatory requirements.

The governing body maintains ultimate oversight of the Firm's governance and operations, ensuring:

- Effective and prudent management of the Firm's business activities.
- Appropriate financial and operational controls are in place to safeguard the Firm's operations.
- Compliance with regulatory requirements to maintain ethical conduct and protect market integrity.

To prevent conflicts of interest, the governing body adopts and periodically reviews a conflicts of interest policy that identifies potential conflicts and outlines strategies to mitigate them. *Ad hoc* conflicts are addressed through specific procedures.

The governing body meets regularly to receive reports from senior management, ensuring transparency and accountability. Oversight functions, including compliance, risk management, human resources, and finance,

provide support to the governing body by implementing and maintaining oversight policies and procedures, and providing timely management information.

These arrangements enable the governing body to effectively:

- Monitor and address deficiencies in strategic objectives, governance, and service provision policies.
- Access necessary information to oversee and evaluate senior management decisions.

While the Firm is not mandated to have a dedicated risk committee, due to the firm being under the thresholds set out under MIDIRPU 7.3.1R, the governing body's risk oversight and management are further supported by ADG's Group risk management function.

1.5. Diversity

The Firm recognises that diversity of the governing body improves the quality and objectivity of the decision-making process by bringing new voices to the table. It fosters innovation, creativity, and a better understanding of customer insights through a greater variety of problem-solving approaches, perspectives and ideas. The Firm approaches diversity in the broadest sense, recognising that successful businesses embrace diversity at all levels, including the governing body and senior management. The Firm's governing body considers diversity aspects including but not limited to:

- Ethnicity
- Gender
- Educational and professional background
- Age
- Geographical provenance

1.6. Directorships

In accordance with the FCA Handbook (SYSC):

- (1) Directorships within the Firm and its parent undertakings are counted as a single directorship; and
- (2) Directorships in organisations which do not pursue predominantly commercial objectives are not included.

Name	Internal Directorship within ADG Group	External Directorship
Andrew Guy	1	2
Dominic Guy	1	1
Julian Royle Woods	1	1
William Rhys Rogers	1	1

2 OWN FUNDS

2.1 Composition of Own Funds

As at 31 March 2024, the LLP maintained own funds of £28,050k net of deductions. The below regulator-prescribed tables provide a breakdown of the Firm's own funds.

OF1 - 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	28,050	
2	Tier 1 Capital	28,050	
3	Common Equity Tier 1 Capital	28,050	
4	Fully paid-up capital instruments	28,050	
5	Share premium		
6	Retained earnings		
7	Accumulated other comprehensive income		
8	Other reserves		
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		

2.2 Reconciliation to audited financial information

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

OF2: 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
		31 March 2024	31 March 2024	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Debtors	26,411	26,411	N/A
2	Cash at bank and in hand	4,177	4,177	N/A
	Total Assets	30,588	30,588	N/A
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
1	Creditors: amounts falling due within one year	1,108	1,108	N/A
	Total Liabilities	1,108	1,108	N/A
Shareholders' Equity				
1	Amounts due to members in respect of profits	1,431	1,431	N/A
2	Members' capital classified as equity	28,050	28,050	4

	Total Shareholders' equity	29,481	29,481	
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2.3 Main features of the Firm's own funds instruments

OWN FUNDS: MAIN FEATURES OF OWN INSTRUMENTS ISSUED BY THE FIRM
<u>Members Capital Classified as Equity</u>
<ul style="list-style-type: none"> £28,050,000 of paid up, permanent, members capital

2.4 Own Funds Requirements

The Firm's basic own funds requirement under the IFPR is calculated as the higher of the:

- Permanent Minimum Requirement ("PMR") - The PMR is the minimum own funds a Firm must hold, based on the Firm's permissions and services;
- Fixed Overhead Requirement ("FOR") - The FOR is calculated as one quarter of a Firm's annual fixed expenditure, less allowable deductions;
- K-Factor Requirement ("KFR") - The KFR has been introduced to calibrate the own funds needed to meet the risks of an investment Firm. K-factors are quantitative indicators or factors which represent the risks that an investment Firm can pose to customers, market, and the Firm itself. The total KFR is calculated as the sum of the Risk to Market, and Risk to Firm K-factors;

In addition to the basic own funds requirement, the Firm is also required to calculate its additional ongoing own funds requirement. The ongoing own funds requirement requires Firms to address any Firm specific, residual harms that are not adequately covered by the basic own funds requirement addressed above. This is to ensure that sufficient own funds are held against all sources of harm that the Firm can pose.

Similarly, there is also a wind down requirement which addresses the Firm's requirement under the IFPR to hold the amount of own funds required to support a wind down of the business in an orderly manner.

The above assessments are made through the Firm's ICARA. The ICARA is prepared with input by subject matter experts from across the business, with guidance provided by the Firm's compliance function.

The Firm's senior management and the management body is involved in the process, providing oversight and approving the review of the process. The process is reviewed and formally documented on an at least an annual basis - or more frequently where there is a material change in the Firm's activities or risk profile.

a. Permanent Minimum Requirement

A Firm regulated under the IFPR is subject to MIFIDPRU 4.4, which requires the Firm to hold a minimum own funds amount before any business operations can begin, and during on-going operations. The Firm is required to hold a minimum PMR of £750k at all times.

b. Fixed Overhead Requirement

The FOR is calculated as one quarter of the Firm's annual fixed expenditure in accordance with the rules set out under MIFIDPRU 4.5.

The starting point of the FOR calculation is the total audited expenditure of the Firm, per the most recent audited accounts, less deductions permitted under MIFIDPRU 4.5.3. The Firm's FOR is £186k.

c. K-Factor Requirement

The Firm's K-factor requirement as at 31 March 2024 was £5,415k, broken down as follows:

K-Factors	Capital Requirements Amount £'000s
Assets for which the Firm is responsible:	0
Execution activity undertaken by the Firm:	207
Exposure based risks:	5,208
Total	5,415

3 REMUNERATION

The following disclosures are made pursuant to the remuneration policy and practices requirements under MIFIDPRU 8.6.

The Firm's remuneration policy, developed by the governing body, aligns staff interests with those of the Firm's investors and reflects the Firm's business strategy and competitive environment. It aims to recruit and retain top talent while rewarding performance that contributes to positive outcomes within a strong risk management, compliance, and market conduct framework. Variable remuneration is based on individual, business unit, and overall Firm performance.

The governing body monitors the implementation of the remuneration policy, ensuring a balanced approach to fixed and variable compensation and considering both financial and non-financial factors in performance-based bonuses. The remuneration policy is regularly reviewed, at least annually, to ensure its continued relevance and effectiveness.

3.1 Identification of Material Risk Takers

Material Risk Takers ("MRT") are individuals whose professional activities significantly impact the Firm's risk profile and managed assets, as determined by the remuneration rules.

The Firm conducted a thorough assessment of the criteria for identifying MRTs, considering factors and indicators outlined in SYSC 19G.5. The Firm analysed all roles that could substantially influence the Firm's risk profile or managed assets and considering all types of risk involved in the Firm's professional activities.

The governing body has identified 8 MRTs and 4 senior manager MRTs. These MRTs fall within the following categories:

1. all members of the Firms' governing body and senior management;
2. staff members with managerial responsibility over the Firms' control functions or material business units;
3. staff responsible for a high proportion of revenue; and
4. staff with responsibility for information technology, information security and outsourcing.

These individuals are subject to additional scrutiny and monitoring to ensure alignment with the Firm's risk appetite and remuneration policies.

3.2 Key Characteristics of Remuneration Policies and Practices

The Firm's remuneration framework is tailored to the specific characteristics of its business, the inherent risks it faces, and the nature of the assets it manages. This ensures that remuneration practices align with the Firm's risk profile and strategic objectives. Remuneration is designed to be commensurate with the nature, scale, and complexity of the risks involved in the Firm's business activities.

The framework adheres to the following policies:

1. **Risk Management:** Remuneration incentives are aligned with sound and effective risk management practices, ensuring that rewards are not disproportionately linked to high-risk behaviours.
2. **Business Strategy:** Remuneration structures are aligned with the Firm's overall business strategy, objectives, and long-term interests, fostering alignment between employee actions and the Firm's goals.
3. **Conflict of Interest:** Remuneration policies incorporate measures to prevent and manage conflicts of interest, promoting responsible business conduct.
4. **Governance:** The governing body of the Firm is responsible for the adoption of, and overseeing the implementation of the Remuneration Policy
5. **Control functions:** Where staff who perform a Control Function are eligible to receive variable remuneration, the governing body will make their decisions based on the performance of the control functions.
6. **Remuneration structures:** The Firms' approach to remuneration structure is designed to be consistent with, and promote, effective risk management. Within that, it also aims to facilitate a competitive remuneration package in order to attract and retain talent.
7. **Measurement of Performance:** The governing body assesses individual variable remuneration by considering:
 - The individual's performance, including their contribution to achieving business objectives, adherence to risk management guidelines, and adherence to ethical and responsible conduct standards.
 - The performance of the relevant business unit, including the unit's overall financial performance, risk profile, and compliance with regulatory requirements.
 - The Firm's overall results, including the Firm's profitability, risk profile, and reputation.

3.3 Components of Remuneration

Personnel remuneration comprises fixed components, including salary and benefits, and variable components, primarily bonuses. The Firm strives to strike a balance between fixed and variable remuneration to prevent undue influence on employee decision-making. For MRTs, the governing body has established a maximum fixed-to-variable remuneration ratio, considering the Firm's business activities, associated risks, and the impact of MRTs on the Firm's risk profile.

Salary levels are generally aligned across personnel, with variations based on individual experience and organizational responsibility. Variable remuneration awards are determined by individual, business unit, and Firm-wide performance, encompassing both financial and non-financial factors.

Performance assessment encompasses individual, business unit, and Firm-wide aspects. For individuals, it considers contributions to alignment with business strategy, adherence to risk management guidelines, and compliance with regulations. For business units, performance assessment evaluates revenue generation, efficiency savings, strategic contribution, goal achievement, and compliance performance. For the Firm as a whole, assessment focuses on strategic goal accomplishment, risk appetite adherence, and market reputation.

For investment professionals, variable remuneration is tied to the performance of the investment portfolios they manage, ensuring aligned interests between individuals and the Firm's risk appetite. This aligns financial rewards with long-term risk management considerations.

Variable remuneration is typically determined annually at year-end, aligning remuneration with the Firm's business cycle and enabling consideration of current and future risks. The Firm reserves the right to make ex-post adjustments to variable remuneration awarded to MRTs through clawbacks and malus (in case of deferred bonuses) within three years of the award. This enables the Firm to address material changes in circumstances relevant to the individual's performance during the assessment period.

The Firm does not, in the normal course of business, pay or provide, guaranteed variable remuneration to its staff. The governing body may consider it where each of the following criteria are met:

- it is in the context of hiring a new staff member;
- it is limited to the first year of service of that staff member; and
- the Firm has a strong capital base

Where payments are made in connection with employment termination, amounts awarded will be designed to reflect performance achieved over time and to avoid rewarding failure.

3.4 Quantitative Disclosures

The below table quantifies the remuneration paid to staff in the financial year 1st April 2023 to 31 March 2024. For these purposes, 'staff' is defined broadly, and includes employees and members of the Firm.

Category	Fixed	Variable	Total
Senior Managers MRTs	165,400	0	165,400
Other MRTs	542,250	1,902,649	2,443,899
Other Staff	189,036	0	189,036
Severance Payments			0
Highest severance payment awarded to an MRT:			0