MIFIDPRU Annual Disclosures

SECOR Investment Advisors (UK) LLP (544237)

For the Financial Year Ended 31/12/2023

Contents

1. Overview

Introduction

This Disclosure document sets out the risk management objectives and policies, governance arrangements own funds and own funds requirements of SECOR Investment Advisors (UK) LLP ("SECOR", "the Firm"), as required by MIFIDPRU 8.

Background

The Investment Firms Prudential Regime (IFPR) came into force on 1 January 2022 and applies to all MiFID investment firms authorised in the UK.

Under the IFPR's firm categorisation, SECOR is categorised as a non-small and non-interconnected firm (non-SNI).

The public disclosure is an important part of the IFPR because it increases transparency and confidence in the market and gives stakeholders and market participants an insight into how the Firm is run.

2. Risk Management Objectives and Policies

Risk management is implemented and overseen by SECOR’s Management Committee.

The Firm’s business is investment management and advisory and as such risk is an inherent part of this.

SECOR’s risk management framework incorporates an analysis of the impact of each material risk on the firm, its clients and on the market, the probability of each risk occurring and the procedures in place for mitigation. The Internal Capital Adequacy and Risk Assessment (“ICARA”) process provides periodic management information to Management Committee focusing on business and operational risk management issues, and including any notification that the Firm is likely to breach an early warning indicator regarding the Firm’s own funds and liquid assets requirements.

The Firm considers that the potential for harm associated with its business strategy is low. SECOR does not engage in proprietary trading, underwriting, placing, clearing or settlement activities, hold significant on balance sheet exposures, have tied agents or provide custody services or services to retail clients.

The Firm's business strategy reflects its low risk appetite towards risk. The Firm is remunerated by reference to assets under management or advice which are a predictable source of income. Furthermore, the investment strategies pursued by the Firm on behalf of clients do not employ the use of leverage on a substantial basis.

The firm has applied the following approach to dealing with material harms:

- **Identification:** of all material harms that could result from ongoing operations or winding down.
- **Monitoring and mitigating harms:** considering the systems and controls in place to mitigate material harms.
- **Additional own funds or liquid assets:** assessment of any additional financial resource required above controls to mitigate harms.

Please note the Firm’s risk management objectives and policies for the categories of risk addressed by the below:

Own Funds Risks

The level of own funds required to be held by the Firm is driven by material harms that might be incurred by the firm, its clients and the markets it operates in. Material own funds risk identified in the ICARA process include Credit, Concentration, Key Person, Market Risk and Reputational risk.

The likelihood of a risk crystallising, the financial impact if it materialises and the systems and controls in place to mitigate these risks are reflected in the assessment of own funds requirements in the ICARA process. This determines the own funds necessary for ongoing business operations or to wind down the business in an orderly manner. This assessment is refreshed at least annually or where material changes require and review.

Concentration risk

SECOR is required to monitor and control all sources of concentration risk. The Firm has identified the following concentration risks and has put in place the control strategies discussed below.

The firm monitors its non-K-CON exposures on a daily basis, with forecasts made on a monthly basis.

- **Positions and Exposures**

  The firm does not run a trading book and consequently holds no exposure to counterparties.

- **Intragroup Exposures**

  The firm is not part of a group and consequently holds no intragroup exposures.

- **Client Money**

  The firm does not hold client money, nor does it have permission to do so. Consequently, there are no concentrations in this context.

- **Client Securities**

  The firm does not hold or safeguard client assets, nor does it have permission to do so. Consequently, there are no concentrations in this context.

- **Firm's own cash**

  The firm deposits its cash with two institutions of at least 'A' on the S&P ratings scale.

- **Earnings**

  SECOR considers its highest risk area to be that of concentration in that its revenues are accounted for by two principal clients. Accordingly, and for the short to medium term, the firm’s business model remains at risk from the following potential factors:

  - Late payment of management fees, or other interruption to revenues;
  - Non-adherence to client mandates;
  - Poor performance;
  - A general economic and market downturn; and
  - The loss of a major customer.

Controls and capital provision has been set aside under credit risk to cover concentration risk above. The Firm's assessment in relation to each concentration risk is that, given its control strategies, it does not present a material risk to the Firm, its clients or the market.

Liquidity Risk

This is the risk that the firm either does not have sufficient resources available to meet its obligations when they fall due or can only secure them at an excessive cost.

SECOR’s Director of Finance is responsible for oversight of day to day liquidity and ensuring that funds exist for regular working capital requirements. Any issues are dealt with promptly. Formal budgets and business forecasts (including cash flows) are considered annually and at time of any significant change in revenues and/or costs; given the nature of the business SECOR considers this to be adequate. Intra-day liquidity is monitored by the Director of Finance with the help of the outsourced accounting vendor which ensures that sufficient liquid cash is available to meet liabilities as they fall due. Funding needs are assessed as part of the monthly management accounting process. Management of liquidity on a currency by currency basis is achieved by FX trades to ensure sufficient GBP is held to meet liabilities as they fall due.

SECOR's business model is of a sufficiently simple nature and liquidity risks across business lines should not arise. SECOR has same day access to its bank held cash balances. Alternative sources of funding would be available in the form of loans or equity from the US parent entity. Senior management are satisfied that the firm would have enough time to secure funding from the parent entity on a same day basis if required or would have sufficient time to agree structured payment terms with suppliers or vendors if such were required.

Liquidity provision has been assessed through the Liquid Assets Threshold Requirement.

3. Governance Arrangements

The Firm has governance arrangements, which include a clear organisational structure with appropriate lines of responsibility and effective processes to identify, manage, monitor and report the risks that it is, or might be, exposed to.

The firm's overall management is governed by the firm's Management Committee. The Management Committee meet 3 times a year and will also meet *ad hoc* when circumstances demand. The firm also operates an Investment Approval Committee, Market Outlook Committee and ESG Committee with responsibilities for oversight of areas defined by their terms of reference.

SECOR is managed by its Partners and its reporting lines are defined within the organisation structure.

The Firm ensures that the members of the Partners are of sufficiently good repute; possess sufficient knowledge, skills and experience to perform their duties (as well as a sound understanding of the Firm’s activities and main risks). The Firm ensures that is dedicates sufficient human and financial resources to the induction and training of members of the Partners.

Directorships

The table below relates to the appointments of partners, in both executive and non-executive capacities, held at external commercial organisations as at 31/12/2023.

SMF / Role	Name	Number of Other External Directorships
SMF27 Partner	K. Chang	0
SMF27 Partner SMF9 Chair of Governing Body	D. Kao	0
SMF27 Partner SMF16 Compliance Oversight SMF17 MLRO	E. Davey	0

Diversity

The Firm recognises that diversity of the Partners 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 Partners and senior management. The Firm’s Partners considers diversity aspects including but not limited to:

- Ethnicity
- Gender

- Educational and professional background
- Age
- Geographical provenance

Conflicts of Interest

SECOR has a Conflicts of Interest Policy which identifies the circumstances which constitute or may give rise to a conflict of interest entailing a material risk of damage to the interests of one or more clients, whilst specifying the procedures to be followed and the measures to adopt to manage the conflicts. The Partners reviews SECOR’s conflicts of interest register and policy periodically and at least annually.

4. Own Funds Disclosure

SECOR's regulatory capital consists of Common Equity Tier 1 (CET 1) capital, which is comprised of share capital, other audited reserves and retained earnings.

SECOR is required by MIFIDPRU 8.4 to provide a breakdown of its Own Funds instruments and to provide information on how these reconcile with the Firm's balance sheet. Furthermore, the Firm is required to disclose a description of the main features of the Own Fund instruments it has issued.

The firm does not hold any Additional Tier 1 (AT1) or Tier 2 (T2) Capital. The table below summarises the firm's capital and liquidity situation against its regulatory capital requirements as at 31/12/2023.

	Table 1 - Composition of regulatory own funds	**As at 31/12/2023**
	Own Funds Total	445
	T1 Total	445
	CET 1 Total	445
1	Paid up capital instruments	445
2	Share premium accounts	0
	Capital Redemption reserve	0
3	Retained earnings	0
4	Accumulated other comprehensive income	0
5	Other reserves	0
6	Funds for general banking risk	0
	Less	
7	Losses for the current financial year	0
8	Intangible assets	0
9	Deferred tax assets that rely on future profitability	0
10	Deduction of holdings of CET 1 instruments of financial sector entities	0
	AT 1 Total	0
11	Capital instruments (where the conditions laid down in Article 52(1) are met)	0
12	Share premium accounts (related to the instruments above are met)	0
	Less	
13	Art 56 deductions (inc holdings)	0
	T2 Total	0
14	Capital instruments (where the conditions laid down in Article 63 are met and to the extent specified in Article 64)	0
15	Share premium accounts (related to the instruments above are met)	0
	Less	
16	Art 66 deductions (inc holdings)	0

Table 2 - Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements			
	Balance sheet as in audited financial statements	**Under regulatory scope**	**Cross reference to Table 1**
	As at 31/12/2023 ('000s)	As at 31/12/2023 ('000s)	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements			
Retained earnings		0	3
Accumulated other comprehensive income		0	4
Other reserves		0	5
Funds for general banking risk		0	6
Total			
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements			
Total			
Shareholders' Equity			
Paid up capital instruments		445	1
Share premium accounts		0	2
Total			

Table 3 Main Features of Own Funds Instruments	
Initial Capital	Instrument Type: Amount Recognised in Regulatory Capital: Nominal amount of instrument: Accounting Classification:
Reserves	Instrument Type: Amount Recognised in Regulatory Capital: Nominal amount of instrument: Accounting Classification:
Retained Earnings	Instrument Type: Amount Recognised in Regulatory Capital: Nominal amount of instrument: Accounting Classification:

5. Own Funds Requirements

SECOR must disclose its K-Factor requirement and Fixed Overheads Requirement amounts in relation to its compliance with the requirements set out in MIFIDPRU 4.3 (Own Funds Requirements).

Own Funds Requirement	As at 31/12/2023 ('000s)
Permanent Minimum Requirement (PMR)	75k
Sum of K-AUM, K-CMH and K-ASA	298k
Sum of K-COH and K-DTF	k
Sum of K-NPR, K-CMG, K-TCD and K-CON	k
Fixed Overhead Requirement (FOR)	334k
IFPR Capital Requirement	334k

Overall financial adequacy rule

SECOR must at all times, hold own funds and liquid assets which are adequate, both as to their amount and their 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
- The firm's business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

Risk of harms analysis

The Firm analyses its risk of harms to clients, market and itself through its risk assessment framework. Fundamental to this is the Firm's risk and harms matrix which identifies risks that the firm's business could give rise to. Each categorised risk holds a description of the harm that crystallisation of the risk event could visit on the three broad categories of entities interacting with the firm; clients, market and firm itself. Each categorised risk is then graded with measures of harm and severity of consequence before and after controls and mitigations are put in place.

This methodology also codifies a means of allocating capital provision at the risk category level in order to inform the Firm of its own analysis capital requirement in comparison to its Own Funds requirement.

The current methodology for capital allocation involves the allocation of impact bands on a per risk driver basis, alongside harm mitigation costs. Within each category of risk (i.e. group of drivers), the highest impact is taken as a basis for capital allocation.

Wind Down Capital Requirement

The firm has carried out wind-down simulation within its ICARA with the aim of establishing the amount of regulatory capital and liquidity needed to ensure the firm winds down in an orderly manner. As part of the wind-down simulation, the firm identifies the cost and time for the firm to effectively wind down its operations if a significant stressed event was to either breach the Own Funds requirement or, if for whatever reason, the firm's management body decided to cease operations.

6. Remuneration Policy and Practices

SECOR is subject to the FCA Rules on remuneration as they apply to a Non-Small and Non-Interconnected (Non-SNI) MIFIDPRU investment firm. These are contained in the FCA's MIFIDPRU Remuneration Code located in SYSC19G of the FCA's Handbook.

Approach to Remuneration

Employees have the opportunity to share in the success of the Company in years of good performance and also accept reduced levels of variable (bonus) pay in times of poor performance or losses.

The decisions of the Management Committee on setting remuneration are based on, amongst other things, risk management, supporting business strategy, objectives, values and interests and avoiding conflicts of interest, governance, control functions, and measurement of performance.

Objectives of financial incentives

SECOR's Remuneration Policy provides a framework to ensure all staff are fairly and competitively rewarded in return for a high level of service to the firm and is clients. In setting remuneration levels SECOR recognises the importance of attracting and retaining experienced staff. The amount of fixed remuneration paid to an employee will be based on market rates relevant to the employee's role and their knowledge, experience, and competencies. Discretionary bonuses are made to employees to reward them for good performance with a view to increasing and maintaining their productivity. The principal objective in determining variable bonus awards is to reward individual contribution to the firm whilst ensuring that such payments are warranted given business results.

Decision Making

The Management Committee is responsible for the implementation of the Remuneration Policy as well as the monitoring of compliance risks associated with it. This policy will be reviewed and approved by the Management Committee at least annually to ensure it continues to remain fit for purpose with the input from the firm's Compliance Officer.

Characteristics of Remuneration Policy and Practices

The Firm's Material Risk Takers (MRTs)are all partners and owners of the business. The partners do not draw a fixed salary from the business. Rather, the partners are remunerated through annual profit distributions as owners and drawn to give them a share in the profits of the firm - which they are entitled to under the terms of the LLP agreement. The firm has taken the view from the guidance at SYSC 19G.4.4G that the payment to partners should be considered to be a profit distribution to the owners of the business and should not thus be covered by the Remuneration Policy. The distribution is structured as an automatic allocation with no adjustment for the individual's performance. No current ex-ante and ex-post risk adjustment of remuneration has therefore been applied to MRTs.

Remuneration typically comprises of fixed and variable elements. Fixed remuneration consists of base salary, pension contribution and other benefits such as, private medical insurance, life assurance and income protection which constitutes the fixed payment made to an employee for their services.

For Non MRT staff the firm has defined variable pay as annual discretionary bonus, which is awarded based on company performance, departmental performance and individual performance. The Firm's policy on variable remuneration is to set aside a proportion of the firm's profits to form a bonus pool out of which awards will be made. The total bonus pool amount is determined by reference to the firm's risk-adjusted criteria, which include both quantitative and qualitative measures.

SECOR will ensure that remuneration and similar incentives will not be solely or primarily based on quantitative commercial criteria. Consequently, the Firm will take into account appropriate qualitative criteria (i.e. behavioural measures such as customer feedback) which shall encompass adherence with relevant regulations, fair treatment of clients and the quality of services provided to clients.

The Firm will ensure it always maintains a balance between fixed and variable components of remuneration, so as to mitigate any conflicts of interest between the firm, its staff and its clients.

Guaranteed variable remuneration and Severance pay would only be awarded to MRTs in exceptional cases and would need to be discussed and approved by the Firm's Management Committee.

Material Risk Takers

The firm has identified Material Risk Takers (MRTs) in accordance with the criteria set out in SYSC 19G.5.3 for the definition of material risk takers for remuneration purposes. The firm has developed and applied internal qualitative and quantitative assessments against the defined criteria to identify those individuals that have a material impact upon the firm's risk profile.

For the performance year 2023, there were 3 MRTs identified in SECOR.

Remuneration for year ending 31/12/2023

As outlined above MRTs do not have any Remuneration Subject to the requirements of the MIFIDPRU Remuneration Code.

A breakdown of fixed and variable remuneration for other staff is listed below:

Other Staff remuneration (GBP)	
Fixed remuneration	736
Variable Remuneration	158
Total Remuneration for other staff	894

No guaranteed variable remuneration awards or severance payments were made to MRTs during the financial year.