JAMES HAY WRAP MANAGERS LIMITED

REGULATORY DISCLOSURE

2022

Contents

1. Overview

1.1 Regulatory framework

In January 2022, the UK financial services regulator, the Financial Conduct Authority (FCA) introduced the Investment Firms Prudential Regime (IFPR), which is the regulatory framework for governing the amount and nature of capital that investment firms must hold. The new prudential requirements for investment firms are now set out in the FCA Prudential sourcebook for MIFID investment firms (MIFIDPRU) and look to manage the potential harm firms can pose to consumers and markets.

The IFPR is directly applicable to James Hay Wrap Managers Limited (JHWM), which is a MIFIDPRU investment firm, and includes MIFIDPRU 8, a new framework for annual regulatory disclosures. This document sets out those disclosures relating to its business that JHWM is required to make publicly available under the IFPR.

1.2 JHWM structure and composition

JHWM is a company incorporated in England and Wales. The immediate parent undertaking is James Hay Holdings Limited (JHH), a company incorporated in England and Wales.
JHH’s immediate parent company is Nucleus Financial Platforms Limited (NFPL), a company incorporated and registered in England and Wales. Plutus Topco Limited, a company incorporated and registered in Jersey is the ultimate parent company in the Group.

JHWM is regulated by the FCA, reference number 225574 and has its registered office at Dunn's House, St Paul's Road, Salisbury, Wiltshire, SP2 7BF.

1.3 Frequency of disclosure

JHWM’ disclosure under MIFIDPRU is made annually at the same time as the publication of its Report and Financial Statements. JHWM may also make an additional disclosure where particular circumstances demand it, for example, in the event of a major change in its business mode or where a merger has taken place., for example, in the event of a major change to its business model.

1.4 Location of disclosure

The disclosure is published on the Nucleus website www.nucleusfinancial.com in the section named ‘Regulatory information and disclosures’. A link to the disclosure is also included on our platform site for James Hay under ‘Regulatory disclosure 2022'.

1.5 Comparison with previous Disclosure Period

The introduction of the IFPR requires that, for the first time, disclosure is published at the MIFIDPRU firm level rather than at the Group level. To provide a comparison of financial information disclosed between the two years would not be meaningful as the previous Pillar 3 disclosure was applicable to the Group as a whole.

2. Risk management objectives and policies

2.1 Overview

The Board's objective regarding risk management is to deliver the Group's strategy and business plan supported by a robust, scalable and enterprise-wide governance, risk management and control framework.

Our framework is concerned with:

- Demonstrating its proportionate and effective in the governance and performance of risk management for an authorised and regulated investment firm.
- Evidencing our business strategy and business planning processes are aligned with the risk management framework.
- Supporting the Board set and monitor risk appetite.
- Demonstrating we manage our risk appetite tolerances and limits across agreed risk categories.
- Demonstrating we meet all applicable regulatory principles and requirements on an ongoing basis and do so based on strong and effective risk management culture and structures.
- Embedding a risk aware culture with risk management recognised as a management competence, critical to the delivery of our business strategy and performance targets.
- Demonstrating that we always treat our customers fairly.

We use a clearly defined risk framework to effectively identify, assess, manage and report the Group's risks. The framework is set out in our internal policies and process documentation and is subject to annual review and challenge by the Risk Committee.

2.2 Three lines of defence model

In assigning risk management responsibilities, the Group operates an approach to risk management that is commonly referred to as the 'three lines of defence' model. The activities within each of the three lines are:

2.2.1 First line of defence

Business lines have responsibility for identifying, assessing and managing their risks through a sound set of policies, processes and controls. Business lines are also responsible for the development and deployment of appropriate mitigating actions and embedding of systems and controls. Activity in the first line of defence extends to the relationships and management of our outsourced partners.

2.2.2 Second line of defence

The roles of the second line risk and compliance functions are to develop and maintain the Group risk and compliance management policies and frameworks. Review of the effectiveness of the risk management practices performed by operational management is evidenced through effective assurance reporting to management and the Board Committees. The second line also provides support and advice to the business risk owners in reporting risk related information within the Group, including management information on risk and assurance matters to the Audit and Risk Committees and the Board. The Risk Committee receives regular reporting from the second line functions on business performance against risk appetites across the risk universe.

2.2.3 Third line of defence

The Group has an external partner as an appointed internal audit function to serve as its third line of defence on a fully outsourced basis. Through the model the Group obtains independent assurance on the effectiveness of its control environment for material processes. Internal audit, through a risk-based approach, provides assurance to the Audit Committee and the Board on how effectively risks are assessed and managed, and the effectiveness of the risk management framework. Findings arising from these audit processes are reported to the Audit Committee. BDO were engaged as internal auditors for the Group throughout 2022.

2.3 Risks of harm and uncertainties

JHWM has carried out an assessment of its risks of harm to its clients, the market and the Firm, including those that would threaten its strategy, business model, future performance, solvency, or liquidity. JHWM's potential risks of harm are categorised in line with the risk management framework and aligned to level 1 risk exposures across the Group. In assessing changes during the Disclosure Period, consideration was given to the impact of the invasion of Ukraine and the impact that has had, and is likely to have, on the global macroeconomic environment. The Board and JHWM's senior management regularly discuss emerging risks

2.4 Own Funds Requirements

In assessing its own funds requirement JHWM has measured the potential harm that might be incurred to its clients, the markets it operates in and its position within the Group.

JHWM has considered a broad range of categories of risks including:

i. strategic;
ii. operational;
iii. liquidity;
iv. market performance;
v. technology;
vi. compliance;
vii. financial crime;
viii. conduct; and
ix. operational resilience.

2.5 Liquidity Risk

The importance of maintaining sufficient liquidity to meet all foreseeable funding requirements is recognised in the group liquidity management framework which sets the model, process and requirements for appropriate level of reserve liquidity for unforeseen events.

The Board approves liquidity risk appetite statements annually and these are monitored by Finance daily and reported monthly through the CFO and through risk appetite reporting by the second line.

Our liquidity management approach considers a range of factors relating to:

- Managing liquidity to meet foreseeable funding requirements (including under stressed conditions) - this is demonstrated as part of the business plan/ reforecast and ICARA process and then monitored on a daily and monthly basis via short-term cash flow forecasting and the CFO report to the Board;
- Maintaining reserve liquidity for unforeseen events – we have set minimum liquidity surpluses of 10% of the determined minimum liquidity requirement in each of the legal entities and at group level. Any breach of these buffers will be normally allowed to occur for 30 days only, during which time the board will be kept informed of the plan to restore liquidity resources to minimum levels.
- Retaining access to short term funding – to support, at a minimum, working capital requirements related to customer pre-funding. Any changes in, or cancellation of, the facility must be notified to the Board.

2.6 Concentration risk

The concentration risks identified for JHWM are:

Client money concentration
JHWM places its client money with a range of third-party banks. A concentration exposure to banking counterparties could give rise to an increased level of risk. JHWM minimises this risk by maintaining robust treasury policies, regular monitoring of banking counterparties and managing the client money portfolio to minimise client exposure to individual banking institutions. All client money is held in segregated client money accounts with appropriate trust status.

Corporate cash concentration
JHWM places its own money with a range of third-party banks. A concentration exposure to banking counterparties could give rise to an increased level of risk. As with client money, JHWM minimises this risk by maintaining robust treasury policies, regular monitoring of banking counterparties and managing the counterparty portfolio.

3. Governance

3.1 Board of Directors

The Board of JHWM is made up of an independent Chairman and a number of other non-executive and executive directors who provide a balance of skills, experience and independent knowledge to enable the Board, as a whole, to discharge its duties and responsibilities. The Board meets at least six times a year and sets the Group's strategic aims, risk appetite and specifies key management objectives that are to be achieved within an agreed budget. The Board has delegated responsibility for the day-to-day management to the Chief Executive Officer (CEO) and, through him, to senior management. The Board has also delegated some additional responsibilities to committees established by it whose powers, obligations and responsibilities are set out in written Terms of Reference. The CEO and senior management have considerable experience in the financial services sector and are responsible for the operational management of the organisation. This specialist knowledge is backed up by the general business skills of each of these, and by the broad-based skills and knowledge of each of the Non-Executive Directors. The Board of Directors at 31 December 2022 was made up of the following individuals:

Role	Board Member	Directorships	External Directorships
Chairman and Non-Executive Director	Gordon Wilson	4	3
Non-Executive Director	Judith Davidson	2	1
Non-Executive Director	Kathryn Purves	4	3
Non-Executive Director	Richard Hoskins	4	3
Chief Executive Officer	Richard Rowney	3	2
Chief Financial Officer	Mike Regan	1	0

3.2 Board diversity

The Group's Board Diversity Policy's key objective is to develop a diverse and inclusive culture where colleagues are engaged, empowered, work together, and live the Group's values. The composition and effectiveness of the JHWM Board plays a critical role in achieving this objective by setting the tone from the top. The Policy also notes the Group's view that diversity amongst board members is of great value, and a far wider subject than gender alone. When assessing new appointments, the Nominations Committee carefully reviews the combined skills and experience of existing Board members to determine the characteristics needed. All appointments to the Board are made on merit against a set of objective criteria, in the context of the skills, experience, independence and knowledge which the Board requires to be effective.

3.3 Board committees

The Board has established four principal committees:

Risk committee – is responsible for assisting the Board in fulfilling its oversight responsibilities and obligations in relation to the Group's risk management framework, including the Group risk appetite and policy frameworks. The committee also oversees compliance monitoring and financial crime activity.

Audit committee – is responsible for assisting the Board in fulfilling its oversight responsibilities and obligations in relation to the Group's external and internal audit and financial reporting arrangements. The committee also oversees Group CASS management frameworks and functions.

Nomination committee – is responsible for leading the Board appointment process, considering the requirements of the Group and making recommendations to the Board. This responsibility covers both executive and non-executive directors and other senior leadership positions.

Remuneration committee – is responsible for considering and recommending to the Board overall remuneration practice and policy for the Group that is aligned with its long-term strategic objectives, its risk appetite, values and long-term interests.

All Board committees meet as required during the year. Our nomination and remuneration committees meet not less than twice a year and our audit and risk committees meet not less than four times a year.

3.4 Executive committee

The Executive Committee is responsible for managing the JHWM business in line with the business' strategic aims and objectives and ensuring alignment with corporate policies and practices. It also aims to ensure that regulatory requirements are met, and that time is focused on business performance and improvement initiatives against conduct framework and investor outcomes. The committee is also responsible for managing financial performance and budgets, the risk framework and the adequacy of systems and controls, provides oversight of regulatory related matters and provides oversight to all sub committees to ensure there is appropriate escalation of issues in place. The Executive Risk and Compliance Committee is a sub-committee of the Executive Committee.

4. Own funds

4.1 Composition of regulatory own funds

Under the IFPR, regulatory capital or own funds are made up of a firm's common equity tier 1 capital (CET1), additional tier 1 capital and tier 2 capital. The entire base of JHWM's regulatory capital is made up of CET1, which is the most robust category of financial resources against which all requirements can be measured. The value of JHWM's total own funds or CET1 capital at 31 December 2022 was £2.2m and is comprised of issued share capital and retained earnings, adjusted for intangible assets.

JHWM's objectives when managing capital are to:

1. comply with the regulatory capital requirements set by the FCA under MIFIDPRU;
2. safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
3. maintain a strong capital base to support the development of its business.

Table 1 shows the reconciliation of CET1, additional Tier 1, Tier 2 items, and the applicable filters and deductions applied in order to calculate the own funds of the firm.

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**	2,165	
2	**TIER 1 CAPITAL**	2,165	
3	**COMMON EQUITY TIER 1 CAPITAL**	2,165	
4	Fully paid-up capital instruments	1.500	Table 2 – share capital
5	Share premium	-	
6	Retained earnings	665	Table 2 – 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 ADDITIONAL TIER 2	-	
29	Tier 2: Other capital elements, deductions and adjustments	-	

4.2 Reconciliation of own funds to balance sheet in audited financial statements

Table 2 shows the reconciliation of own funds with the capital in the balance sheet in JHWM's audited financial statements.

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements			
		Balance sheet as in published/audited financial statements (£000s) **As at 31 December 2022**	**Cross reference to Table1**
Assets – Breakdown by asset classes according to the balance sheet in the audited financial statements			
1	Intangible assets		
2	Deferred expenses		
3	Tangible fixed assets		
4	Investments		
5	Trade and other receivables	1,767	
6	Cash and cash equivalents	1,055	
	Total Assets	**2,822**	
Liabilities – Breakdown by liability classes according to the balance sheet in the audited financial statements			
1	Trade and other payables	589	
2	Provision for liabilities	68	
3	Provision for deferred tax liability		
	Total Liabilities	**657**	
Shareholders' Equity			
1	Called up share capital	1,500	Table 1 - Note 4
2	Retained earnings	665	Table 1 - Note 6
	Total Shareholders' equity	**2,165**	

Own funds: main features of own instruments issued by the firm
JHWM's own funds comprises issued share capital and audited retained earnings, adjusted for intangible assets.

5. Own funds regulatory requirements

5.1 Overview

The level of regulatory capital that must be held by JHWM is referred to as the own funds threshold. The own funds threshold requirement is determined by the higher of the following:

1. permanent minimum capital requirement (PMR): £0.15m
2. fixed overheads requirement (FOR): £0.49m
3. total K-factor requirement (KFR): £0.46m

In addition, JHWM conducts a range of scenario testing to identify additional risks to determine its own assessment. This led JHWM to conclude a higher own funds threshold requirement of £0.8m.

JHWM ensures it continues to maintain compliance with the overall financial adequacy rule[1] through regular monitoring of:

1. own funds held by JHWM compared with the own funds threshold requirement calculated according to MIFIDPRU; and
2. the liquid assets held by JHWM compared with the liquid assets thresholds calculated according to MIFIDPRU.

5.2 Permanent minimum capital requirement

JHWM's PMR is fixed at £0.15m consistent with MIFIDPRU.

5.3 Fixed overheads requirement

JHWM's FOR is one quarter of its previous financial year's annual relevant expenditure. From this sum, JHWM deducts the value of discretionary staff costs, leaving a net value of £1.9m for fixed costs. JHWM's FOR was therefore £0.49m

5.4 K-factor requirement

JHWM's KFR is the sum of:

• K-ASA requirement – this is 0.04% of JHWM's daily average assets held on behalf of clients during the previous nine months excluding the most recent three months;

• K-CMH requirement – this is 0.4% of JHWM's daily average client money held in segregated accounts during the previous nine months excluding the most recent three months; and

• K-COH requirement – this is 0.1% of JHWM's daily average value of the orders that it handled on behalf of clients during the previous six months excluding the most recent three months. This includes equity and fund trades.

K-factor	JHWM daily average	Co-efficient	Requirement
K-ASA	£739.9m	0.04%	£0.3m
K-CMH	£39.8m	0.40%	£0.16m
K-COH	£0.7m	0.10%	£0.0m
Total KFR			**£0.46m**

5.5 Liquid assets threshold requirement

JHWM's liquid assets threshold requirement is calculated as one third of its FOR plus an assessment of the additional amount required to fund ongoing business operations, withstand potential stress or ensure an orderly wind down. This is held as instant access cash.

Overall financial adequacy rule:

A firm must, at all times, hold own funds and liquid assets which are adequate, both as to their amount and their 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.

6. Remuneration policies and practices

6.1 Remuneration Committee

The Remuneration Committee is the committee of the Board responsible for ensuring that the Group's overall reward philosophy for all staff is consistent with achievement of the Group's strategic objectives, aligned to the Group's purpose, values and risk appetite. The Remuneration Committee also oversees, challenges and approves the Group's overall remuneration approach ensuring it is in the best interests of the Group and relevant stakeholders (including customers and shareholders).

The principal purposes of the Remuneration Committee are:

1. to ensure that our obligations are being met in terms of the setting and implementation of remuneration policy and practice.
2. to ensure that our directors and executive management are motivated and fairly rewarded for their individual contributions to our overall performance and are encouraged to operate within Group risk appetite.
3. to demonstrate that both remuneration policy and practice is set by a committee which has no personal interest in the outcome of its decisions and who will give due regard to the delivery of sustained growth in shareholder value and to the financial and commercial health of the Group.
4. to ensure that the Remuneration Committee and Board have sufficient oversight and awareness of our people and reward strategy, culture and associated policies.
5. to ensure that we can recruit and retain high calibre executive management through fair and attractive, but not excessive, remuneration packages.

6.2 Remuneration Policy

The Remuneration Policy is designed to ensure that remuneration supports the Group's strategic objectives, is appropriately positioned against the external market, and provides fair rewards that will attract, retain, and motivate individuals of the highest calibre required to run an organisation of the scale and complexity of the Group.

Remuneration packages are comprised of the following elements:

1. **Base salary** – reflects the individual's responsibilities, experience and contribution;
2. **Pension** – provides adequate pension saving arrangements for directors and employees;
3. **Benefits** – to support the wellbeing of directors and employees and provide flexibility to suit a diverse workforce;
4. **Discretionary Bonus Scheme (DBS)** – rewards achievement of the Group's business plan, key performance indicators and an individual's personal contribution;
5. **Long term Incentive Plan (LTIP)** – long term incentive plan which enables the Group to reward senior leaders, over the long-term. Vesting of awards is subject to specific malus provisions; and
6. **Management Incentive Plan –** certain senior managers are provided with the opportunity to invest in the overall group.

6.3 Design of variable remuneration

The Group rewards employees who deliver against its strategy and their personal objectives, and demonstrate behaviours aligned to the Group's values. The service contracts of Group employees outline that individuals may be paid a discretionary bonus for each financial year and that bonus payments are discretionary and non-pensionable. Individual performance is assessed against objectives and ratings are assigned by line managers based on delivery against objectives and behaviours against role level competency requirements aligned to our values. Ratings are used to assist line managers in assessing performance and behaviours. Calibration of ratings is undertaken by line managers to ensure fairness and consistency in their assessment of performance. The overall size of aggregate bonus awards is determined by the Remuneration Committee and is calculated based on various business performance metrics and taking account of market rates of pay. All bonus schemes and long-term incentive plans described are also subject to malus and clawback provisions as appropriate.

The DBS is designed to ensure participants are appropriately motivated to support the Group in achieving its strategic goals. Executive directors and ExCo members participate in the DBS. Group performance is assessed against a combination of financial/growth measures, client and delivery measures, and personal objectives.

Material risk takers (MRT) – bonuses over £100,000 are subject to deferral of a sum of 30%, with one third of any deferred bonus being paid in in the three bonus years following the bonus. Whilst the Board and members of the ExCo are MRTs because of the nature of their roles and responsibilities, below the level of senior management the MRT criteria under SYSC 19G.5.1G also captures those with managerial responsibility for specific business units or control functions. These individuals will either be directly accountable to the Board, or to a member of the Board or to senior management.

6.4 Long-term incentive Plans

A total of £134,132 was paid out in long-term incentive plan payments to 4 MRTs (these are included in the figures in 6.5.

6.5 Remuneration 2022

In the performance year ending 31 December 2022, which is the Disclosure Period, there were 17 MRTs, compared to a total of 20 in 2021. In total, MRTs received aggregate remuneration of £3.5m for the performance year ending 31 December 2022 (2021 – £4m). This figure is split between senior management and other MRTs as follows: 10 members of senior management received total remuneration of £2.4m and 7 other MRTs received total remuneration of £1.1m

During the year the total amount of severance payments awarded was £64,671 and 2 MRTs received severance payments. The highest severance payout to an MRT was £26,332.