

## **MIFIDPRU Disclosures Introduction**

Downing LLP is an FCA authorised MiFID investment management firm focused on long term investments that seek consistent returns. Downing LLP, is a limited liability partnership and was incorporated in 1984 (Companies House number OC341575). It is headquartered in the United Kingdom (London) and is part of the Downing Investment Firm Group LLP. The parent entity of Downing LLP is a UK investment holding company within the wider Downing Investment Firm Group.

The group's principal activity is fund management together with asset management related services. The Firm's principal activity is investment management with c.£1.9 billion assets under management/administration.

Downing LLP is authorised and regulated by the Financial Conduct Authority (FCA) (Firm Reference number 545025). It has regulatory permissions which enable it to carry out regulated activities in relation to its investment management business for the firm and its clients.

The FCA introduced the Investment Firms Prudential Regime (IFPR), a new regime for UK firms authorised under the Markets in Financial Instruments Directive (MiFID). The regulation that formalises this regime is called MIFIDPRU. MIFIDPRU seeks to address the potential harm posed by investment firms to their clients and the markets they operate in. These rules are publicly available and can be found at [handbook.fca.org.uk/handbook/MIFIDPRU](http://handbook.fca.org.uk/handbook/MIFIDPRU).

Downing LLP, by nature of the business it carries out, is within the scope of the MIFIDPRU rulebook. This rulebook requires us to make certain disclosures about our business publicly available. This document sets out the following disclosures:

- Our risk management objectives and policies
- Our governance arrangements
- A reconciliation of our own funds and the own funds requirements.
- Our remuneration policy and practices

Downing LLP not a member of a UK Consolidation Group. The disclosures have been prepared on an individual basis.

The FCA has granted permission to the Downing Investment Firm Group to apply the group capital test. The FCA's approval of this waiver can be viewed on Downing LLP's Financial Service Register profile. This means that the Downing Investment Firm Group is not subjected to prudential consolidation. Instead, Downing Group LLP, as the applicable GCT parent undertaking in the group, is required to hold own funds instruments sufficient to cover:

- the sum of the full book value of its holdings, subordinated claims, and certain other specified instruments, in Downing LLP; and
- the total amount of its contingent liabilities in favour of the relevant entities in the investment firm group

This document has been prepared by the Firm in accordance with the annual disclosure requirements of MIFIDPRU 8. Unless otherwise stated, all figures are as at the 2023 financial year-end (31st May 2023).

## **Content of the Disclosures**

### **Basis of disclosures**

This document sets out the disclosures that we are required to make publicly available under MIFIDPRU. The  
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disclosures are not audited and do not form part of the firm's annual audited financial statements. These disclosures should not be relied upon in making any judgement about the financial position of Downing and have not been independently audited.

Our disclosures are made on an annual basis as soon as practical after the publication of our Annual Report and Financial Statements. Disclosures may be made more frequently where appropriate, for example, in the event of a significant change to our business activities.

The Firm believes that its qualitative disclosures are proportionate to its size and internal organisation, and to the nature, scope and complexity of its activities.

As a Non-SNI firm, the public disclosure document will be prepared to contain the following key areas:

- Governance arrangements;
- Risk management objectives and policies;
- Own funds;
- Own funds requirements;
- Remuneration policy and practices.

### **Governance Arrangements**

Responsibility for the overall management of the firm resides with the board of the firm and its member partners. This board meets formally at least monthly, and on an ad-hoc basis as, necessary. The board includes the Chief Executive Officer, Chief Operating Officer, Chief Finance Officer, Head of Private Markets, Head of Public Markets and Head of People for the firm and other member partners.

The board has responsibility for ensuring that Downing has a suitably robust Governance and Risk Management Framework in place to make sure that risks are adequately identified, assessed, and mitigated. Additionally, the Board is responsible for setting the LLP's business objectives, strategy and annual budgets.

The Board is governed by its Terms of References, which include all responsibilities and requirements as per SYSC 4.3A.1 and the LLP has accordingly implemented segregation of duties between its business functions and control functions.

The Chair of the Board has responsibility for ensuring the Board's composition is sufficiently diverse, has an appropriate balance of skills and experience in relation to the business activities of Downing and has sufficient independent representation.

The Board is made up of individuals that represent different skills and experience, ensuring that there is not an undue influence from any individual function of the business and that a broad range of views can be considered. The Firm's strategic objectives and values are aligned with our policy to provide equal opportunities and the Board has set a very low risk tolerance to any actions which do not operate a fair and inclusive workplace at all levels of the business, including but not limited to gender, race, age and disability.

The board is also supported in its responsibility by delegating oversight of day-to-day risk management activity to the Enterprise Risk Committee.

### **Downing Ownership**

Downing LLP is owned by Downing Group LLP, a limited liability partnership incorporated in UK (Companies House number OC440659).

### **Key personnel**

Name	Role	Enterprise Risk Committee (ERC)
Tony McGing	Chief Executive Officer, Partner SMF 3	
Nick Lewis	Chair, Partner SM27/SMF 9	

Kostas Manolis	Head of Private Markets, Partner SM27	
Judith Mackenzie	Head of Public Markets, Partner SM27	
James Weaver	Chief Operating Officer, Partner SM27	Member
Anne Saunders	Chief Finance Officer, Partner SM27	Chair
Shruti Patel	Head of People, Partner, SM27	
Danielle Jones	Head of Risk and Compliance SMF 16/17 (Attendee)	Member

The following table describes the number of other Directorships held by the firm's board.

Name	Number of Directorships held (1)
Judith Mackenzie	1
Tony McGing	2
Nick Lewis	5

(1) As per MIFIDPRU 8.3.2R, directorships in undertakings not pursuing commercial objective or within the same group or undertaking in which the firm holds a qualifying holding are not counted.

#### Enterprise Risk Committee

Although not required to do so by MIFIDPRU Downing formed an Enterprise Risk Committee in 2020. The Committee meets on a quarterly basis and its tasks may include the following :

- To oversee the Downing's Risk Management Framework in delivery of the Risk Policy;
- To advise the Downing on key and emerging risks;
- To discuss any material risk events and regulatory breaches, to understand root cause and remedial action that is to be taken, apportioning these to the relevant areas of the business.
- To monitor key risk indicators and other management information to ensure that risks are managed within appetite;
- To consider any major findings of any relevant regulator, including but not exclusively the FCA, and ensure that the business responds appropriately;
- To ensure that improvement actions identified by second- and third-line monitoring teams and external auditors are delivered by the business;
- To assess the risks of new ventures, strategic relationships and other strategic initiatives and any change in the risk profile;
- To ensure that the Internal Capital and Risk Assessment (ICARA) Process is completed in line with regulatory requirements and that risks are appropriately reflected in the assessment and is submitted to the Board for approval;
- To consider whether the public disclosure of information regarding risk management policies and key risk exposures is in accordance with the regulatory requirements.

#### Risk Management

The board and the Senior management of Downing have a medium to low-risk appetite for risk. This means that the board will look to mitigate all controllable risks to a low-risk score, while recognizing that there are certain risks which currently sit at a medium level.

The Board acknowledges that there are risks outside of its control that cannot be mitigated to this level and it will continue to monitor these risks closely – these include for example, the risk to the Firm from changing economic and regulatory conditions. These risks are considered within the Firm's Wind Down Planning, to ensure that it understands the risk these factors pose to the business and can wind down in an orderly

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manner if needed.

### **Own Funds Risks**

Own Funds are a measure of the firms' financial resources, after allowing for its liabilities (i.e. the amount that it owes to others). The level of Own Funds is important as they must meet certain threshold levels set out in the FCA's MIFIDPRU rules. These threshold levels reflect, amongst other factors, the potential harm that might be incurred by a firm's clients and the markets they operate in, for example significant market downturns.

Our Own Funds assessments include, but are not limited to, the following risks:

- Personal Data Management
- Cyber and Data Security
- Headcount and Capacity
- Third Parties and Outsourcers
- Treating Clients Fairly and Consumer Duty
- Group Risk
- Financial Crime and Fraud

The chance of a risk emerging, and the financial impact if it were to occur, are reflected in the assessment of our Own Funds. This assessment determines the amount of Own Funds Downing must hold at all times. These assessments are refreshed as and when risks alter, or new risks emerge given our business activities.

### **Concentration Risk**

High exposure to certain counterparties, business lines or channels can result in an increased risk for Downing. Examples of concentration risks identified for Downing Investments are:

Concentration risk is the risk arising from the Firm's relationship with, or direct exposure to, a single client or group of clients. Downing has multiple segregated clients and the product offerings which provides a diversified stream of revenue. Downing's clients, are institutional, professional and retail investors investing for the long term. The Firm therefore considers that its asset base should not be exposed to frequent, substantial fluctuations, including during stressed market conditions. Concentration risk and related client movements are monitored by board and senior management.

### **Market Risk**

An element of Downing's revenue is derived from quoted products, whereby fees are driven by the volume of funds under management. Downing could be exposed to market risk when large scale market events result in a significant decline of investment value and potentially increased redemptions in the funds, which could impact our ability to maintain revenue generated at current levels.

### **Credit Risk**

Credit risk is the risk of financial loss if a client or counterparty fails to meet their financial obligations. The Firm has limited counterparty credit risk, as it does not trade securities on its own account. The key counterparty risk is from banking counterparties and short-term debtor balances. This risk is adequately managed by the Firm's Tier 1 Own Fund requirements.

### **Regulatory**

As Downing is regulated by the FCA, it must ensure that it adheres to the relevant rules and regulations to maintain its permission to engage in investment business activity with clients. If Mainspring fails to meet the FCA's requirements it may not be able to continue operating its business.

Downing has a dedicated Risk and Compliance team and also works closely with both legal and compliance experts to ensure that it is fully compliant with the rules and regulations applicable to it. It further undertakes annual compliance monitoring, and any notifiable findings are reported to the Board.

## **Liquidity Risk**

Liquidity risk is the risk that the Firm does not have sufficient financial resources available to meet its regulatory obligations or other obligations as they fall due. The Firm has stable revenues and expenses, and maintains a core liquid asset surplus above the basic liquid assets requirement. The Firm retains an amount it considers suitable for providing sufficient liquidity to meet the working capital requirements under various conditions. The short-term cash position of the Firm is monitored weekly, by the finance team, as well as a long term forecasted 18-month projection being carried out on a regular basis.

## **Emerging Risk**

Downing defines emerging risks as risks that have a potentially material impact, but which cannot be fully defined or assessed at present and therefore require ongoing monitoring. They typically involve longer time horizons, and if the threat is considered to be significant, contingency plan or mitigating actions may develop. Whilst emerging risks may not be an immediate threat to Downing's operations and viability, Downing defines and monitors their development, taking further action as required.

## **Equality, Diversity and Inclusion**

Downing is committed to providing a diverse and inclusive workplace as an equal opportunities' employer. Throughout the employee lifecycle we are committed to ensuring an equal, diverse and inclusive working environment within our business.

We welcome applications from all suitably qualified persons regardless of their ethnicity, gender, sexual orientation, age, disability, religious practice, or any other perceived differences.

We are committed to ensuring that diversity is embraced within our business.

Downing offers a range of benefits, including private healthcare support, parental leave and benefits policies, flexible working and dedicated mental health support champions to foster an accessible workplace that ensures our people can thrive.

Downing has in place an established, employee-led DE&I Committee formed in 2022. The committee meets regularly to review our activities that drive and support our continual development of creating a diverse and inclusive workplace.

We ensure that our inclusivity activities reflect our workforce, with communications and events to celebrate all employees on a variety of different religious holidays, including Diwali, Ramadan, Holocaust Memorial Day and a variety of cultural events e.g., Black History Month, ensuring that employees feel represented. We also provide training and opportunities to learn about cultural differences.

Downing has actively engaged with Investors in people to achieve a formally recognised accreditation, to drive personal development across our employees.

We believe in engagement and that nurturing and supporting a diverse, equitable and inclusive workplace results in better team dynamics and decision making. We believe this leads to superior outcomes for our clients and our business. As part of our broader approach to diversity, equity, and inclusion, we continue to attract talented individuals at all levels and pay our employees fairly for their roles.

### Own Funds Held

Own funds items are subdivided into different categories (common equity tier 1 and additional tier 1) which reflect the underlying 'quality' of the capital instrument within each class. Table 1 shows the distribution, in high level terms, of own funds held by Downing:

**Table 1**

	Amount (£k)	% of holding
Total Own Funds Held	5,218	100%
<i>Of which -</i>		
Common Equity Tier 1 items	5,218	100%
Additional Tier 1	0	0%
Tier 2	0	0%

Additionally, MIFIDPRU 8.4 specifies that Downing must disclose:

1. A reconciliation of the firm's specific common equity tier 1 items (table 2);
2. A reconciliation of (1) with the capital balance stated in the firm's audited financial accounts (table 3); and

**Table 2**

Capital Instrument	Amount (£k)	Notes
Tier 1 Capital	5,218	Sum of all CET1
Common Equity Tier 1 Items	5,218	
Fully paid-up Capital	5,218	Members' capital classed as equity
Instruments Share Premium	0	
Retained Earnings	2,631	
Accumulated other comprehensive income	0	
Other reserves	0	
Other funds	0	
Additional Tier 1 Items	0	
Fully paid up, directly issued, Capital	0	
Instruments Share premium	0	
Tier 2 Capital	0	

Fully paid up, directly issued, Capital	0
Instruments Share premium	0
Total Own Funds Held	5,218

**Table 3**

		£(k)
Assets	Fixed Assets	0
	Receivables	24,418
	Cash and Cash Equivalents	21,303
	Investments	1,175
	Total Assets	47,496
Liabilities	Creditors: falling due within one year	15,964
	Provision for liabilities	0
	Total liabilities	15,964
Members' equity	Share capital	5218*
	Retained earnings	2631
	Total members' equity	31,532

\*100% of members equity is recognised as regulatory own funds capital

### Own Funds Threshold Requirement

MIFIDPRU 7.6.2R states firms must also assess the own funds needed to address (a) sources of material harm which arise during business as usual or (b) during an orderly wind-down of the business. The Own Funds Threshold Requirement is then the maximum out of these two assessments. It cannot be lower than the Own Funds Requirement, calculated in accordance with MIFIDPRU 4.3.2R.

	£,'000
K-AUM	179
FOR	4502

The Firm assesses the adequacy of its own funds on a regular basis against a variety of own funds requirement assessments. In maintaining the Firm's own funds requirements within the risk appetite, early risk warning indicators have been established. These are agreed as part of the annual own funds planning process and reviewed annually by the board.

### Liquid assets adequacy

The Firm has an established liquidity risk management framework based on the Firm's approved liquidity risk appetite in order to ensure that:

- the basic liquid asset requirement ('BLAR') is met; and
- the liquid assets threshold requirement is determined.

The Firm further assesses its compliance with liquid asset threshold requirement which is based on the sum of BLAR and an additional liquid asset requirement determined during the ICARA process, to ensure liquidity adequacy in stressed conditions and during an orderly wind-down as part of its OFAR compliance from a liquidity perspective.

Liquidity risks are identified through ongoing liquidity management and monitoring, which contribute to the development of the Firm's liquidity risk management framework and formulating stress testing scenario design and key assumptions.

The Firm's monitoring and reporting of its liquidity position is undertaken through established reporting against the key liquidity metrics. Any triggers or breaches would be escalated in line with the escalation framework.



## Remuneration Policy & Practices

Downing has a number of different teams, which require different remuneration schemes. Each remuneration scheme intends to be structured to enable Downing to attract and retain its most talented individuals. The purpose of each scheme is to reward team members for their skills, knowledge and attributes which they have invested to Downing which in turn has contributed towards the Company's success. Each scheme takes account of the market rate, competitiveness of sector and any nuances which would affect remuneration and therefore the attraction and retention of team members.

We ensure that our remuneration schemes are set at what we believe to be 'competitive' to ensure that the business can continue its growth, retain and improve its market position and to ensure any changes are fair and in accordance with our values.

Remuneration schemes are reviewed at least annually by the Head of People and the Chief Executive Officer to ensure they remain current to their criteria, are non-discriminatory and continue to be equitable, fair and transparent. There may be circumstances when a remuneration scheme is reviewed more frequently in a year; for example should market conditions change. The firm's pay reviews and review of its remuneration schemes are subject to the approval of the board of the firm.

### Material Risk Takers (MRTs)

In accordance with the FCA rules, Downing is required to identify individuals whose professional activities are deemed to have a material impact on the risk profile of the firm, known as Material Risk Takers. The remuneration rules and disclosures (subject to proportionality) apply to those individuals.

All employees who are "senior management" (that is members of the Board or Investment Committees, all Partners under SMCR, and others who are responsible for the management of the risks of the business), heads of control functions and other "risk takers" (those who have, or could have, a material impact on the risk profile of the firm) have been classified as "Material Risk Takers" ("MRTs")

Sales Professionals are not included as MRTs because the control framework is such that these individuals work within specified risk tolerances and do not have a material impact on the risk profile of the business.

### Quantitative Remuneration Data

In accordance with MIFIDPRU 8.6.8 R, Downing is required to provide the following quantitative remuneration disclosure for its Staff as at 31 May 2023. This data is shown in table 5, below.

**Table 5**

Number of Material Risk Takers All board members and partners (Senior Management)	<b>24*</b>
Total Remuneration (Senior Management)	<b>7,191,571</b>
Fixed Remuneration (Senior Management)	3,538,778
Variable Remuneration (Senior Management)	3,652,793
Total Remuneration (Other Staff)	<b>18,601,608</b>
Fixed Remuneration (Other Staff)	14,832,976
Variable Remuneration (Other Staff)	3,768,632
Total guaranteed variable remuneration awards £0.00 – not awarded by Downing?	-
Total amount of the severance payments awarded to Senior Management and/or Material Risk Takers during the financial year – if applicable	-

awarded to Senior Management and/or Material Risk Takers during the financial year \*

Total amount of the severance payments

£Nil

\* The firm has relied upon exemptions under MIFIDPRU 8.6.8R (7) to prevent identification of any individual receiving such payment(s).

Due to the application of MIFIDPRU 7.3.3R(2), the Firm, as a small non-SNI MIFIDPRU firm, is not required to establish a remuneration committee currently.

### **Remuneration Components**

Our remuneration policy contains fixed and variable components. We define fixed and variable remuneration as:

- Fixed remuneration reflects the team member's professional experience and organisational responsibility as set out in the team member's role profile and terms and conditions. Fixed remuneration is permanent, does not breach any protected characteristic, is non-revocable and is not dependent on performance.
- Variable remuneration is based on performance and under exceptional circumstances other conditions. Variable remuneration in Downing is performance based and reflects the long-term performance of the staff member and performance in excess of the team member's role profile and terms of employment.

In all cases the balance of fixed and variable remuneration is proportionate. This means that fixed remuneration is of a sufficiently high proportion of fixed and variable remuneration that team members are not financially disadvantaged should they receive only fixed remuneration.

The Firm makes a clear distinction between the fixed and variable remuneration. Fixed remuneration primarily reflects a staff member's professional experience and organisational responsibility as set out in the staff member's job description and terms of employment; and is permanent, pre-determined, non-discretionary, non-revocable and not dependent on performance.

Variable remuneration is based on performance and reflects the long-term performance of the staff member as well as performance in excess of the staff member's job description and terms of employment. In exceptional cases, variable remuneration is based on other conditions. Variable remuneration includes discretionary pension benefits. The Firm ensures that the fixed and variable components of an individual's total remuneration are appropriately balanced.

In determining this balance, the Firm considers the following factors:

- The Firm's business activities and associated prudential and conduct risks;
- The role of the individual in the Firm;
- The impact that different categories of staff have on the risk profile of the Firm or of the assets it manages;
- No individual must be dependent on variable remuneration to an extent likely to encourage them to take risks outside the risk appetite of the Firm;
- It may be appropriate for an individual to receive only fixed remuneration, but not only variable remuneration; and
- Variable remuneration must not affect the Firm's ability to ensure a sound capital base.

When assessing individual performance to determine the amount of variable remuneration to be paid to an individual, the Firm takes into account financial as well as non-financial criteria. Non-financial criteria does:

- form a significant part of the performance assessment process;
- override financial criteria, where appropriate;
- include metrics on conduct, which should make up a substantial portion of the non-financial criteria; and
- include how far the individual adheres to effective risk management and complies with relevant regulatory requirements. Financial and non-financial performance criteria

The Firm uses the following financial performance criteria:

- Gross Sales
- Net Sales
- Ending AUM
- Gross Revenues
- Combined Profit
- Combined Margin
- Expenses (vs. Budget)

The Firm uses the following non-financial performance criteria:

- measures relating to building and maintaining positive customer relationships and outcomes, such as positive customer feedback;
- performance in line with firm strategy or values, for example by displaying leadership, teamwork or creativity;
- adherence to the firm's risk management and compliance policies;
- achieving targets relating to environmental, social and governance factors; and
- diversity and inclusion.

### **Risk adjustment**

The Firm takes risk, including conduct risk, into account both on an ex-ante and ex-post basis when setting the amount and form of variable remuneration for employees. Different lines of business have different risk profiles, and these are taken into account when determining (future) remuneration. Guidelines are provided to assist compensation managers when applying discretion during the remuneration process to promote consistent consideration of the different risks presented by the firm's businesses. Further, to ensure the independence of control function employees, remuneration for those employees is not determined by individuals in revenue-producing positions but rather by the management of the relevant control function.

The Firm has implemented a set of procedures which ensures that all variable remuneration payable is subject to (i) in-year adjustments (all staff); (ii) malus, if appropriate (applicable to MRTs); (iii) and/or clawback (applicable to MRTs). To ensure effective risk adjustment, the Firm requires employees who receive variable remuneration awards to agree to forfeiture and clawback in the event of fraud, misconduct or actions contributing to the detriment of business interests. Ex-ante risk adjustment of variable remuneration can occur through the considerable reduction in total variable performance where subdued or negative financial performance of the Firm occurs, taking into consideration the Firm's regulatory capital, liquidity requirements and the current and future risks it has identified. Furthermore, an individual's variable remuneration may be reduced, or if malus or clawback is available, utilised, where employment issues have been identified as part of the ongoing performance review process in place at the Firm.

Performance adjustment events may occur as a result of a deliberate or malicious act, error, accident or negligence. There may also be grounds for a performance adjustment due to an individual's failure to act either to prevent a risk event or where timely action would have mitigated the effects of a risk event. Performance adjustment seeks to take account of matters that were not apparent at the time of the original variable award. Adjustments or application of malus or clawback will depend upon the severity of the event and will be subject to Board approval.

### **Long Term Incentive Plans ("LTIP")**

The firm's long term incentive arrangements are a strong tool for employee retention and encourage the alignment of stakeholder's goals as well as providing employees with an opportunity to share financially in the success of the performance of the business.

Downing operates a mix of Long-Term Incentive Plans which employees are eligible to participate in based on their role and level of total remuneration. Typically made annually, the value of any award made is based on performance. Awards vest after a three-year period and the value is based on valuation of the investment vehicle. The LTIP is the principal deferral vehicle for variable compensation, subject to role and level of total remuneration.

### **Policies and criteria for awarding guaranteed variable remuneration and**

**severance payments**

The Firm awards guaranteed variable to an MRT only when:

1. it occurs in the context of hiring a new MRT;
2. it is limited to the first year of service;
3. it is designed as a retention tool; and
4. the firm has a strong capital base.

The Firm follows all local statutory severance requirements. Severance payments made will not be disproportionate but will appropriately compensate the employee in cases of early termination of the contract. Severance payments do not reward failure and will not be awarded where there is a failure in risk management or conduct.

**IMPORTANT INFORMATION**

Downing LLP is authorised and regulated by the Financial Conduct Authority (FRN:545025). Registered address: St Magnus House, 3 Lower Thames Street, London, EC3R 6HD

All information is correct at the financial year end of 31<sup>st</sup> August 2023.