INTRODUCTION

Marshall Wace LLP (“MW”) is authorised and regulated by the Financial Conduct Authority (the “FCA”).

On 1 January 2022, the FCA implemented a new prudential regime, the Investment Firms Prudential Regime (the “IFPR”), for UK firms that are authorised under the Markets in Financial Instruments Directive (“MiFID”). While MW is authorised under the Alternative Investment Fund Managers Directive (“AIFMD”) as a full-scope alternative investment fund manager (“AIFM”), in addition to its AIFMD business it has the regulatory permissions required to provide discretionary client-by-client portfolio management (and other investment services to such clients) which would otherwise require authorisation under MiFID.

However none of the prudential requirements set out in the AIFMD apply to this additional business.

The FCA takes the approach that the potential for harm arising from the provision of these services is the same regardless of who is carrying them out and consequently for prudential purposes it treats these additional services when carried out by an AIFM in the same way as when they are provided by firms authorised under MiFID hence MW’s obligation to comply with many rules set out in the FCA’s Prudential Sourcebook for MiFID Investment Firms (“MIFIDPRU”), including the disclosures set out below which relate to the 12 month period ended 28 February 2022.

MIFIDPRU 8 DISCLOSURE REQUIREMENTS

The IFPR applies proportionately to 2 categories of firm. It sets out a series of thresholds for particular MiFID services. Firms which do not exceed any of these thresholds are classified as small and non-interconnected investment firms (‘SNI’s’). However, the business of MW exceeds a number of these thresholds and so it is categorised as a non-SNI investment firm and is consequently required to publish disclosures on a range of topics.

MW has determined that it is not a member of an investment firms group hence these disclosures are provided on a solo basis.

Additionally, the FCA has provided a transitional provision (MIFIDPRU TP 12) which

i) disapplies disclosure requirements under MIFIDPRU 8.2 (risk management, objectives and policies) and MIFIDPRU 8.7 (investment policy) for firms for which the first set of disclosures required by MIFIDPRU 8 relate to an accounting year ending in 2022. Since MW’s financial year ended on 28 February 2022 it is not obliged to comply with these particular obligations on this occasion however it will do so in future;

and

ii) disapplies disclosure requirements under MIFIDPRU 8.6 (remuneration policy and practices) where a firm’s most recent performance period ended before 1 January 2022. The analogous disclosure required under the prudential regime previously applicable to the firm must nonetheless be made. MW's most recent performance period prior to the end of February 2022 ended in September 2021 hence on this occasion the remuneration disclosures required under the previous regime have been provided.

MIFIDPRU 8.3 Governance arrangements

Overview

The firm's Partnership Management Committee (the "PMC") is responsible for establishing appropriate systems of risk management and internal control within MW and for reviewing their effectiveness. To discharge this responsibility, the PMC has established a system of governance as well as a risk management framework which is designed to establish clear accountabilities and to protect the interests of MW's customers, shareholders and other stakeholders. MW aims to maintain a sound system of internal control.

The membership of the PMC comprises senior managers who collectively have extensive knowledge and experience of all areas of the firm's business as well as representatives of the firm's overseas affiliates to ensure that a global perspective is brought to its deliberations.

MW has implemented a risk management structure to support its core business of fund management in addition to input provided by external bodies (such as the boards of directors of the funds it manages).

- Partnership Management Committee: the PMC is responsible for business strategy and strategic operational, financial and administrative issues. It is ultimately responsible for determining the acceptability of risks that MW faces and in determining the framework for mitigating those risks.
- Operating Committee: the Operating Committee (which reports to the PMC) takes responsibility for the management of the day-to-day operational, financial and administrative affairs of MW and ensuring that an appropriate control environment over these affairs is in place.
- Operations Control Committee: the Operations Control Committee has a duty "to identify and implement any procedural, process-related or control enhancements or changes required either to resolve actual issues or to mitigate the risks associated with potential issues".
- Conflicts of Interest Committee: As MW currently manages a number of different funds, there may be situations in which the interests of a particular fund managed by MW conflict with the interests of one or more other funds or with the interests of MW. In order to address such issues, a Conflicts of Interest Policy has been created. The policy has been approved by the PMC and is overseen by the Conflicts of Interest Committee.
- Execution and Trade Management Committee: The Execution and Trade Management Committee, is responsible for: i) providing strategic direction for, and providing

oversight of, MW's trading activities; and ii) evaluating and making recommendations as appropriate to improve MW's execution and trade management policies and procedures.

- Cyber Governance Committee: the Cyber Governance Committee brings together expertise from the technology and business teams. Its mandate is to assess the cyber threat landscape, develop the firm's strategy to manage, mitigate and respond to these risks, monitor the implementation of that strategy and review its effectiveness.

- Business Continuity Committee: the Business Continuity Committee oversees the implementation of the firm's business continuity plans.

Risk, Remuneration and Nomination Committees have also more recently been established.

MW has embedded a series of controls in its business units and support functions. Compliance and risk management policies have also been implemented which set out specific requirements to be applied in the management of relevant risks.

MW has an independent compliance function. Key elements included in its remit are the identification, measurement and assessment of compliance risk and the monitoring and testing of compliance by performing sufficient and representative testing to provide a reasonable level of assurance to the partners of the effectiveness of the firm's management of compliance risk.

The UK Compliance team is led by the firm's Head of Compliance and comprises a further 5 staff members.

<u>Directorships</u>

The following table sets out the number of directorships held by each member of the PMC at 28 February 2022. Executive and non-executive directorships held in organisations which do not pursue predominantly commercial objectives are excluded from the data in this table. Executive and non-executive directorships held within the same group are also excluded.

	Executive directorships	**Non-executive directorships**
Ian Wace	1	1
Paul Marshall	1	2
Duncan Ford	1	1
Anthony Clake	1	0
Ernesto Fragomeni	0	0
Jon May	1	0
Michael Sargent	0	2
Amit Rajpal	1	2
Fehim Sever	0	0

<u>Diversity</u>

Marshall Wace LLP supports a policy of equality and diversity throughout its workforce which it reinforces through its recruitment practices and its culture recognising that employees and partners with different backgrounds and experience can bring valuable insights to the workplace and enhance the way the firm works.

Risk committee

At 28 February 2022 MW had a Risk Committee as required by MIFIDPRU 7.3.1R.

MIFIDPRU 8.4 Own funds

The firm's own funds as at 28 February 2022 are set out below in Table OF1.

A reconciliation of the firm's own funds as at that date to its audited financial statements for the financial year ended 28 February 2022 is set out in Table OF2.

Both tables are in the format prescribed by the rules of the FCA.

Table 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**
OWN FUNDS	99,376	A8
TIER 1 CAPITAL	99,376	A8
COMMON EQUITY TIER 1 CAPITAL	99,376	A8
Fully paid-up capital instruments		
Share premium		
Retained earnings	99,376	A8
Accumulated other comprehensive income		
Other reserves		
Adjustments to CET1 due to prudential filters		
Other funds		
(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1		
CET1: Other capital elements, deductions and adjustments		
ADDITIONAL TIER 1 CAPITAL	0	
Fully paid up, directly issued capital instruments		
Share premium		
(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1		
Additional Tier 1: Other capital elements, deductions and adjustments		
TIER 2 CAPITAL	0	
Fully paid up, directly issued capital instruments		
Share premium		

(-) TOTAL DEDUCTIONS FROM TIER 2		
Tier 2: Other capital elements, deductions and adjustments		

Table OF2

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements				
		Balance sheet as in published/ audited financial statements	**Under regulatory scope of consolidation**	**Cross-reference to template OF1**
		a	**b**	**c**
		As at period end	**As at period end**	
Assets - *Breakdown by asset classes according to the balance sheet in the audited financial statements*				
1	Debtors falling due in one year	161,329,443		
2	Cash at bank and in hand	31,213,879		
3	**Total Assets**	192,543,321		
Liabilities - *Breakdown by liability classes according to the balance sheet in the audited financial statements*				
4	Creditors falling due in one year	43,416,029		
5	Loans and other debts due to members	28,801,271		
6	**Total Liabilities**	72,217,300		
Shareholders' Equity				
7	Partners’ Capital	20,950,001		
8	Other reserves classified as equity	99,376,020		
9	**Total Shareholders' equity***	120,326,021		

*Partners capital has not been included in the calculation of own funds

MIFIDPRU 8.5 Own funds requirements

Every FCA authorised firm must meet the FCA's threshold conditions which require all firms to have appropriate resources. The Overall Financial Adequacy Rule (the "OFAR") establishes the standard that the FCA applies to determine if a firm has adequate financial resources.

MIFIDPRU 7.4.7R sets out the OFAR and it states:

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.

MIFIDPRU 4 sets out a series of K-factor requirements. These are risk parameters/indicators that represent the specific risks that an investment firm faces and the harms and/or risks it may pose to customers/markets.

MIFIDPRU 4 also includes a fixed overheads requirement which is 25% of the firm's fixed overheads for the previous financial year (which is calculated by taking the total fixed costs of the preceding financial year, as determined by the firm's external auditor, and deducting from them certain specific items (mainly of a discretionary nature (e.g. staff bonuses)).

Under the FCA's rules MW is obliged to disclose the sum of various K-factor requirements (not all of which are applicable to the firm) and its fixed overheads requirement for the year ended 28 February 2022.

These are set out in the table below:

Capital requirement	£000
K-factor requirements	
K-AUM + K- CMH + K-ASA	1,369
K- COH + K-DTF	560
K-NPR + K-CMG + K-TCD + K-CON	0
Total K-factor requirement	1,929
Fixed overheads requirement	
Fixed overheads requirement	27,542

MW's MIFIDPRU 4 own funds requirement is the highest of i) the sum of the applicable K-factor requirements; ii) the fixed overheads requirement; and iii) its permanent minimum requirement. The firm's MIIDPRU 4 own funds requirement is the highest of these requirements which therefore for the year ended 28 February 2022 was the fixed overheads requirement.

The MIFIDPRU 4 own funds requirement does not alone determine the level of financial resources that the FCA considers to be adequate to meet the OFAR - it is a minimum requirement which is not tailored to MW's individual circumstances.

To ensure that the firm meets the OFAR the IFPR introduced the requirement for MW to undertake an internal capital adequacy and risk assessment ("ICARA") process on at least an annual basis. The ICARA process considers the extent to which the potential for harm is covered by MW's MIFIDPRU 4 requirement and then supplements the minimum MIFIDPRU 4 requirement though an assessment of MW's individual position.

The ICARA process is an internal risk management process. The elements comprising the process are:

ICARA PROCESS ELEMENT
a description of the firm's business model and strategy and how it aligns with the firm's risk appetite;
an explanation of the activities carried on by the firm, with a focus on the most material activities;
an analysis of the effectiveness of the firm's risk management processes during the period covered by the review;
a summary of the material harms identified by the firm and any steps taken to mitigate them;
An explanation of how the firm is complying with the overall financial adequacy rule including a breakdown of each component as at the review date;
a summary of stress testing and reverse stress testing carried out;
the levels of own funds and liquid assets that, if reached, may indicate that there is a credible risk that the firm will breach its threshold requirements;
the potential recovery actions that the firm has identified; and
an overview of the firm's wind-down planning.

As part of the process, MW considers whether the risk of material potential harms and risks can be reduced through proportionate measures (other than holding additional financial resources) and, if so, whether it is appropriate to implement such measures. MW then assesses whether it should hold additional own funds (or additional liquid assets) to mitigate any material potential harms where, for example, it has applied such measures but there is a residual risk of harm.

An estimate is also made of the own funds required to wind down the firm's business. An assessment of whether additional capital or liquid assets are required to mitigate any material harms that could arise during the process forms part of this element of the process

The firm's overall own funds requirement in respect of its MIFID business Is the highest of a) the MIFIDPRU 4 requirement; and b) the higher of either i) the additional own funds required to mitigate the risks and harms arising from its ongoing operations; and ii) the estimated cost of closing the business. The latter amounts are not required to be disclosed.

MW is obliged to comply with the capital requirements set out in the AIFMD in respect of its AIFM business in parallel with the requirements of the IFPR.

Remuneration

MW is a proportionality level three firm, as described in the FCA's General Guidance on Proportionality dated September 2012, for the purpose of the AIFM Remuneration Code. This disclosure relates to the 12 month period ended 28 February 2022.

The firm's remuneration policy is the responsibility of the PMC.

The PMC considers remuneration in the context of a wider agenda including retention, recruitment, motivation and talent development and the external market environment. It also receives updates on regulatory developments and general remuneration issues, as well as market and benchmarking data. The PMC sets and monitors the remuneration policy standards and monitors compliance with them. A committee of the PMC determines the amount and composition of the total remuneration paid under this policy (with additional input provided by the firm's Compliance, Human Capital and Finance functions).

<u>Information on the link between pay and performance</u>

The various components of total remuneration (which comprise base salary, variable bonus and benefits) are considered and are balanced appropriately having regard to the role fulfilled by each particular individual.

Firm, business area and individual performance are the significant contributors to the determination of variable bonus awards. The principal objective in determining variable bonus awards is to reward individual performance whilst ensuring that such payments are warranted given business results. In this context performance can include financial and non-financial measures, risk measures and other relevant factors. There is a focus on differentiation so that any rewards are determined according to the contribution of individuals and teams. Bonus pools and individual awards are subject to the governance of the PMC and it is possible that in any year no variable bonus will be awarded.

There are deferral arrangements in place the purpose of which is to support a performance culture where employees recognise the importance of sustainable (and sustained) firm and individual performance. The payment of a significant proportion of the performance award for those in receipt of a variable compensation award above a level set at the discretion of the PMC may be required to be deferred and the sum involved invested in funds managed by the firm which vest at a future point in time. This arrangement encourages sound risk management whilst aligning the longer-term interests of participants with those of investors.

<u>Quantitative information on remuneration</u>

MW only has one "business area", namely its asset management business. All of the Firm's relevant staff in respect of whom it is required to make a remuneration disclosure fall into the "senior management" category. The total "remuneration" (as defined in the FCA Rules) awarded to the firm's senior management during the year to 28 February 2022 was £429.6 million.