Schroders
greencoat

MIFIDPRU 8 DISCLOSURE

For financial year end 31 March 2023

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1. Introduction

About this document

Schroders Greencoat ("**SG**" or the "**Firm**") is regulated and authorised in the United Kingdom ("**UK**") by the Financial Conduct Authority ("**FCA**") under the Investment Firms Prudential Regime ("**IFPR**"). The IFPR is a bespoke prudential regime for UK investment firms, implemented through a new sourcebook incorporated into the FCA Handbook, the Prudential Sourcebook for MiFID Investment Firms ("**MiFIDPRU**").

As part of the IFPR, which streamlined and simplified the prudential requirements for FCA solo-regulated investment Firms, the FCA introduced disclosure requirements with the aim of supporting market discipline and providing important information and transparency to enable markets to work well. The disclosure requirements are set out in MIFIDPRU[1] and this regulatory disclosure has been prepared in accordance to those requirements.

Firm background

SG is a specialist asset management and advisory firm in the renewable energy sector with approximately £9bn assets under management across multiple strategies in energy infrastructure. The Firm is an English limited liability partnership and is authorised and regulated by the FCA.

SG's current investment products focus on three specific renewable energy generation technologies – wind, solar, and bioenergy. SG continues to develop its platform with a view to establishing other management, advisory or segregated accounts in low-carbon energy generation and advancing energy transition technologies as the business develops.

Frequency of disclosure

This disclosure will be reviewed and approved on an annual basis. The disclosure will be made public upon the publication of the Firm's annual report and accounts. Where particular circumstances demand it the disclosure may be reviewed more frequently than annually.

Basis of preparation

All figures in this disclosure are as of 31 March 2023 (the "**Reference Date**"). This disclosure is not subject to audit and has been produced solely for the purposes of satisfying the MiFIDPRU 8 disclosure requirements.

2. Governance

Governance Structure

The Firm is an English Limited Liability Partnership with 75% ownership interest indirectly held by Schroders plc and a 25% ownership interest held by senior employees of the Firm.

For the purposes of IFPR, SG is part of an investment firm group with Schroders International Holdings Limited (SIHL).

Management Committee

The members of the partnership have authorised the Firm's Management Committee to conduct the affairs of the partnership and take responsibility for day-to-day management. Specifically, the Management Committee approves and oversees the implementation of the Firm's strategic objectives, risk strategy, and internal governance. The Management Committee also ensures the integrity of the Firm's accounting and financial reporting systems, including financial and operational controls, and compliance with the regulatory system.

The Management Committee delegates certain powers to sub-committees to assist in carrying out its responsibilities but retains ultimately accountability for decisions made.

[1] The disclosure requirements are set out in MIFIDPRU 8.

Directorships

As at the date of this disclosure the Management Committee held the following applicable directorships. The table below excludes directorships of other group companies and companies that predominantly have non-commercial objectives as permitted by MIFIDPRU 8.3.2:

Director	Number of executive directorships	Number of non-executive directorships
Richard Nourse	2	None
Stephen Lilley	None	None
Laurence Fumagalli	None	None
Bertrand Gautier	None	None
Andrew Knowles	None	None
Rick Lowe	None	None

Diversity and inclusion

Having a diverse and inclusive workforce is key to the success of the Firm. The Firm's workforce should represent people of different genders, ethnicities, and backgrounds. The Firm believes having a rich, diverse and inclusive variety of experiences and expertise can lead to better decisions and more creative thinking. The Firm is therefore committed to fostering a culture that supports an employee base, including senior management, with diverse backgrounds, skills, experience, and cultures, and which values the contribution of varied views and thoughts. The Management Committee understands the importance of increasing diversity and increasing the proportion of diverse members as its composition evolves over time, noting that appointments are based on merit.

Conflicts of Interest

The Firm has implemented a Conflicts of Interest Policy which outlines its approach to identifying, preventing, and managing actual or potential conflicts. Any actual or potential conflicts will be escalated by the Compliance Officer to the Firm's Risk Management Committee to agree upon the appropriate action to be taken to mitigate the risk materialising.

3. Risk management objectives and policies

Risk management objectives

The Firm has established itself as an innovative manager of renewable energy infrastructure assets, building and retaining an experienced team of professionals. The Firm aims to achieve sustainable returns for its clients by making prudent investment decisions and offering sound investment advice. The Firm's reputation as a specialist asset manager is vitally important and it is not willing to place this reputation at risk.

The Firm's Risk Management Committee ("RMC") oversees its risk management activities and has been delegated authority to oversee and approve certain matters in relation to the Firm's governance, risk and control policies, procedures, and processes. The RMC is responsible for ensuring the appropriateness and effectiveness of the Firm's risk management systems and processes, review any breaches or deficiencies identified in the systems and provide technical input on how these may be best addressed and refined to prevent future occurrences.

Categories of key risks and potential harms

The Firm has assessed the following key risks and potential harms based on its business strategy and its core activities. These risks are managed through the Firm's control environment which consists of policies, procedures, regular training, compliance monitoring, and risk governance. The aforementioned controls seek to reduce any potential harms materialising.

Market or economic downturn

Market or economic downturn risk relates to the Firm's exposure to the renewable energy infrastructure sector which may suffer as a result of a changes in government policies or market sentiment. As a result the Firm's long-term revenue might be impacted.

The Firm invests, on behalf of its clients, in different renewable technologies and in multiple geographies which offers diversification to potentially offset market or economic downturns. The Firm's Management Committee regularly and proactively assess the potential risks presented by a market or economic downturn and how the Firm's business strategy could be adapted to mitigate the risks.

Conduct of business – poor level of service

This risk concerns the failure to provide an acceptable level of service to clients. The Firm may fail to meet contractual and/or expected standards and/or investment returns despite complying with FCA requirements. Such a failure would ultimately result in poor outcomes for clients, lost business, and reduced revenues.

Senior management take an active interest in the performance of the business as a whole, and particular business areas and individual staff members. Performance at all levels is regularly monitored and client relationships are managed by constant and active engagement to ensure a high quality of service is being delivered.

Reputational risk

This may arise from poor conduct, judgement or risk events due to weaknesses in systems and controls. Most of the potential harms and risk identified in the Firm's risk register could have a negative impact on the reputation of the Firm in the event that they were to materialise.

The Firm relies on its risk systems – governance, risk and control policies, procedures, and processes – to minimise risks materialising. The risk systems are regularly reviewed to ensure they remain effective and appropriate to the Firm's risks.

Operating in additional markets

This concerns the risk related to expansion into additional jurisdictions. Staff may be unfamiliar with the local legislation and the Firm's current risks described may not have the same likelihood and impact they do in the markets the Firm currently operates.

A risk assessment is carried out and the Risk Management Committee approval is required prior to the Firm operating in additional markets. These processes allow market level risks, such as regulatory and legal risks, to be appropriately assessed.

Concentration risk

The risk of insufficiently diversified distribution channels, products, clients, markets, or income streams resulting in a decline in fee revenue if investor demands change.

The Firm monitors its concentration risk and continues to diversify its client base, renewable technologies, and geography of assets to minimise the risk of concentration.

Fraud risk

Fraud could arise from either internal or external parties who attempt to defraud the Group or its clients by circumventing either our processes and controls or the controls operated by third party providers. Fraudulent impersonation of Schroders within the market may indirectly impact the Group's reputation.

The Firm has adopted policies and procedures to manage fraud risk and controls are in place to prevent unfettered financial control by individuals. Any incidents of attempted fraud are reported to the Management Committee.

Loss of key personnel

The risk that Firm may not have the ability to retain key personnel causing them to leave and the Firm then having difficulty attracting people with sufficient experience and knowledge to fill the role.

The Firm ensures that remuneration and benefits packages are competitive. The Firm also ensures that expertise and information is adequately shared within the business so that if someone is not available for any reason, information is not lost. Contingency planning has also been put in place. Finally, adequate notice periods are included in contracts to allow sufficient time to recruit the replacement of individual staff members and conduct an in-depth handover of tasks undertaken.

Market abuse

The risk that the Firm's staff carries out one of the market abuse offence.

Strict policies and procedures are in place to prevent breach of the market abuse rules and to ensure that staff are aware of the requirements.

Financial crime, money laundering, terrorist financing

The risk that the Firm may not have the appropriate controls and processes to prevent the facilitation of financial crime, money laundering, and terrorist financing, particularly in relation to a transaction counterparty.

The Firm has adopted anti-money laundering policies which all staff are required to follow. The Firm has an appointed money laundering reporting officer ("MLRO") who holds the FCA Senior Management Function (SMF17). KYC checks carried out on all new clients and counterparties prior to acceptance of funds, in accordance with the Money Laundering Regulations and JMLSG guidance. KYC is also carried out on sellers of infrastructure assets before a transaction is carried out. The MLRO provides an annual MLRO report to the senior management detailing relevant activity throughout the year. AML training is provided to all staff on joining the Firm and regularly thereafter.

Bribery and corruption

The risk that the Firm's staff or anyone acting on behalf of the Firm commits an act of bribery in the course of his/her duties for the Firm.

The Firm has adopted an anti-bribery and corruption policy which all staff are required to follow. With respect to the risk of bribery and corruption related to investments in renewable energy assets, the Firm has a procedure which requires consideration be given to any money-laundering, bribery, and corruption concerns prior to any acquisition of assets.

Tax risk

The Firm and its managed funds are exposed to tax compliance and reporting risks. This may include: the submission of late or inaccurate tax returns; transactional risks which include actions being taken without appropriate consideration of the potential tax consequences; and reputational risks, which cover the wider impact that our conduct in relation to our tax affairs can have on our relationships with our stakeholders.

Tax advice is sought in advance of putting in place new legal structures where appropriate or making investments and risk is monitored on a regular basis.

Risk identification

Emerging risks, and changes to the Firm's existing risks, are identified throughout the year, during the normal course of business, and are reviewed and discussed at the RMC and are reported to the Management Committee. In addition, on a periodic basis, a formal assessment of the risks is performed using a `top-down' and `bottom-up' approach.

The 'top-down' approach uses analysis subject matter experts within the investment teams and through discussion by the RMC members. Emerging risks and trends in existing risks are reviewed in light of the current internal and external environment, geo-political factors, market conditions, changing client demand, and regulatory sentiment. The objectives of regulators to ensure market integrity, good conduct, appropriate consumer protection and the promotion of competition within the industry are also taken into account. Each risk is then analysed to assess how it can be managed and mitigated. The 'bottom-up' approach uses the results from the assessment of risk incidents to identify additional risks and mitigant controls.

Risk management - control environment

The Firm operates in accordance with the three lines of defence. The first line of defence that mitigates against harm being caused is the business functions themselves and the line managers across the Firm. Heads of each business area take the lead role with respect to identifying potential risks and implementing and maintaining appropriate controls to manage these risks.

Line management is supplemented by oversight functions which constitute the second line of defence. The compliance assurance programme reviews the effective operation of relevant key processes against regulatory requirements.

Schroders Group (the "**Group**") Internal Audit provides retrospective, independent assurance over the operation of controls and forms the third line of defence. The internal audit programme includes reviews of risk management processes and recommendations to improve the control environment, supplemented by external assurance from the Group's auditors. The team also carries out thematic compliance monitoring work.

Risk Reporting

A Risk Report summarising all material risk matters relevant to the Firm and its clients' portfolios is presented to the RMC on a quarterly basis.

4. Own funds

Composition of Own Funds

The table below sets out the composition of the Firm's own funds as at the Reference Date. The Firm's own funds are exclusively comprised of CET1 capital items.

No.	Item	Amount (GBP thousands)	Source based on reference numbers/ letters of the balance sheet in the audited financial statements
1	**OWN FUNDS**	29,632	
2	**TIER 1 CAPITAL**	29,632	
3	**COMMON EQUITY TIER 1 CAPITAL**	29,632	
4	Fully paid up capital instruments	8,002	
5	Share premium	-	
6	Retained earnings	21,874	
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	(244)	Note 10
19	CET1: Other capital elements, deductions and adjustments	-	
20	**ADDITIONAL TIER 1 CAPITAL**	N/A	
21	Fully paid up, directly issued capital instruments	N/A	
22	Share premium	N/A	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	N/A	
24	Additional Tier 1: Other capital elements, deductions and adjustment	N/A	
25	**TIER 2 CAPITAL**	N/A	
26	Fully paid up, directly issued capital instruments	N/A	
27	Share premium	N/A	
28	(-) TOTAL DEDUCTIONS FROM TIER 2	N/A	

No.	Item	Amount (GBP thousands)	Source based on reference numbers/ letters of the balance sheet in the audited financial statements
29	Tier 2: Other capital elements, deduction and adjustments	N/A	

Reconciliation of Own Funds with capital in the balance sheet in the audited financial statements

Amount in GBP (thousands)		a Balanced sheet as in published/audited financial statements (GBP thousands)	b Under regulatory scope of consolidation	c Cross-reference to template OF1
		As at 31 March 2023	As at 31 March 2023	
Assets				
1	Tangible assets	605		
2	Intangible assets	244		11
3	Investments	5,968		
4	Debtors	24,621		
5	Cash at bank in hand	21,918		
	Total Assets	53,356		
Liabilities				
1	Current liabilities	19,076		
2	Non-current liabilities	4,404		
	Total Liabilities	23,480		
Shareholders' Equity				
1	Members' capital	8,002		
2	Other reserves classified as equity	21,874		
3				
	Total Shareholders' Equity	**29,876**		

5. Own funds requirements

K-factor Requirement and Fixed Overheads Requirement

SG is required to disclose its K-factor Requirement and Fixed Overheads Requirement as calculated in compliance with MIFIDPRU 4.3. The table shows the total K-factor Requirement and then groups the individual K-factors in line with the disclosure requirements. The Fixed Overheads Requirement is based on the most recent audited financial statements[2].

[2] For the financial year end 31 March 2023

Item	Amount in GBP (thousands)
K-factor Requirement	
Sum of K-AUM, K-CMH, and K-ASA requirements	476
Sum of K-COH and K-DTF requirements	0
Sum of K-NPR, K-CMG, K-TCD, and K-CON requirements	0
Fixed Overheads Requirement	7,622

Approach to assessing the adequacy of own funds

SG's approach to assessing the adequacy of own funds in accordance with the overall financial adequacy rule ("**OFAR**") as detailed in MIFIDPRU 7.4.7 is set out below.

The Firm first calculates its Own Funds Requirement and Basic Liquid Assets Requirement in line with the requirements set out in MIFIDPRU 4.3 and MIFIDPRU 6.2. The Firm then calculates the additional own funds and liquid assets required in order to meet OFAR and these are referred to as the own funds threshold requirement and liquid assets threshold requirement respectively.

The OFAR requires SG to hold, at all times, own funds and liquid assets which are adequate, both as to their amount and their quality, to ensure that (a) SG is able to remain financially viable, with the ability to address any material potential harms, and (b) the Firm's business can be wound down in an orderly manner minimising harm to consumers or the market.

Own funds threshold requirement ("**OFTR**")

The Firm derived its own funds threshold requirement by calculating both the capital required needed to cover residual risks arising from ongoing operations where the K-factor requirement is insufficient and the capital required to ensure an orderly wind down. In line with MIFIDPRU 7.6.4, the Firm took the higher of those two calculations which was the estimated cost of wind-down. The OFTR is subject to ongoing monitoring.

Liquid assets threshold requirement ("**LATR**")

The Firm derived its liquid asset threshold requirement by producing a reasonable estimate of the amount of liquid assets needed to fund ongoing business operations at any given point in time and the amount of liquid assets required to commence the wind-down process. In line with MIFIDPRU 7.7.3, the Firm took the higher of those two calculations which was wind-down cost and added it to the Firm's basic liquid asset requirement to derive its liquid assets threshold requirement. The LATR is subject to ongoing monitoring.

Wind-down

The Firm has a wind-down plan which seeks to ensuring the wind-down of the firm is carried out in an orderly manner minimise harm to clients and the market.

6. Remuneration policy and practices

Qualitative Disclosure

Remuneration Approach

The Firm has a Remuneration Policy which sets out its remuneration philosophy and approach. The Firm aims to attract and retain high quality staff with incentives that focus on personal performance, alignment with the long term strategy of the firm and interests of clients, sound and effective risk management, conducting business in a responsible and sustainable manner, and avoiding conflicts of interest.

The Remuneration Policy applies to all staff and senior managers of the Firm and the remuneration period runs from 1 April to 31 March. The Remuneration Policy is ultimately reviewed and approved by the Firm's Management Committee.

Remuneration Structure

The Remuneration Policy sets out the Firm's remuneration structure, namely a combination of fixed and variable remuneration.

Elements of the remuneration package that are fixed (i.e. non-discretionary) are negotiated and contractually agreed. Fixed remuneration is not dependent upon performance in any given remuneration period. The following components of the Firm's remuneration structure are fixed: base salary, pension contributions, and private health insurance.

Elements of the remuneration package that are variable are predominately performance based and entirely discretionary. Variable remuneration will only be awarded to the extent it does not effect the Firm's ability to ensure a sound capital position. Furthermore, variable remuneration is linked to the financial and non-financial criteria that underpins the remuneration philosophy of the Firm. The following components of the Firm's remuneration structure are variable: discretionary bonus, long-term incentive plan awards, guaranteed bonus during first year of employment (if agreed), retention awards, buy-out awards, and severance pay.

The Firm's fixed and variable components of remuneration are appropriately balanced giving it the ability to pay zero variable remuneration. The firm's bonus pool will be adjusted for current and future risks as well as risk events which have crystallised during the year.

Staff engaged in control function are remunerated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

Remuneration Criteria for Variable Remuneration

The Firm's criteria for assessing an individual's variable remuneration is based on financial and non-financial factors which include:

- Individual performance as determined through the annual appraisal process
- The long-term performance of the Firm
- Conduct and policy breaches by the individual
- Avoiding or managing conflicts of interest

Material Risk Takers ("MRTs")

The Firm's MRTs are staff whose professional activities are deemed to have a material impact on the risk profile of the Firm, the assets it manages, or if they meet one of the criteria set out in SYSC 19G.5.3.

The following roles are identified by the Firm as MRTs:

- Senior management of the regulated entities i.e. SMF role holders;
- Employees in control functions (Risk, Compliance and Internal Audit) who have oversight responsibility for the regulated entities;
- Employees performing certain key functions e.g. prevention of money laundering, information security and
- Employees responsible for managing material risk
- Managers of business units that carry out regulated activities
- Employees Responsible for managing the technology and/or outsourcing

Ex-ante and ex-post risk adjustment of remuneration

Total variable remuneration awarded to MRTs is subject to ex-ante and ex-post risk adjustment in the form of malus (reduction of unvested variable remuneration) and clawback (recovery of vested variable remuneration). The circumstances in which malus and clawback will be trigger include, but is not limited to, where there has been serious misconduct, actions resulting in significant financial loss or reputation of the Firm, failure to meet appropriate standards of fitness and propriety, the Firm suffers a material downturn in financial performance, or a material failure in risk management.

Guaranteed variable remuneration

The Firm may, in certain circumstances, award a new hire that is an MRT a guaranteed bonus during their first year of employment. This is the only scenario in which the firm will award guaranteed variable remuneration. The Firm ensures that any decision to award a guaranteed bonus does not affect its capital position.

Severance pay

The calculation of severance pay, if any, awarded to MRTs for early termination will be based upon the individual's performance, the individual's conduct, and other relevant factors. The firm bases voluntary severance payments on local statutory calculations and each payment is determined by management on case-by-case basis. The firm does not reward failure or misconduct.

Quantitative Disclosure

The Firm has identified 11 MRTs as at the Reference Date.

All numbers in the tables below are in £ thousands.

Total remuneration awarded during the financial year ending 31 March 2023.

	Senior Management	Other Material Risk Takers	Other Staff
Total amount of remuneration awarded	2,949	6,268	13,072
Fixed remuneration awarded	2,349	2,256	8,131
Variable remuneration awarded	600	4,011	4,941

Other elements of variable remuneration awarded during the financial year ending 31 March 2023.

	Senior Management	Other Material Risk Takers	Number of Material Risk Takers receiving the award
Total amount of guaranteed variable remuneration awards	-	-	-
Total amount of severance payments awarded	-	-	-
Highest severance payment awarded to an individual MRT	-	-	-

7. Investment policy

The Firm is not required to required to comply with the investment policy disclosure requirements set out in MIFIDPRU 8.7.