

MIFIDPRU 8 Disclosure

Financial Year Ended 31 December 2023

Introduction

As a UK investment firm undertaking activities within the scope of the UK Markets in Financial Instruments Directive (“MIFID”), Mitsubishi UFJ Asset Management (UK), Ltd. (“MUAM (UK)”) (FRN: 121816) is subject to the prudential requirements of the Investment Firms Prudential Regime (“IFPR”) contained in the MIFIDPRU Sourcebook of the Financial Conduct Authority (“FCA”) Handbook. MUAM (UK) is required to publish disclosures in accordance with the provisions and guidance outlined in MIFIDPRU 8 of the IFPR. Under the IFPR’s firm categorisation, MUAM (UK) is categorised as a non-small non-interconnected (“**non-SNI**”) MIFIDPRU investment firm.

Basis of Disclosure

This disclosure for MUAM (UK) is prepared at least annually on a solo entity (i.e. individual) basis. The disclosed information is proportionate to MUAM (UK)’s size and organisation, and to the nature, scope and complexity of MUAM (UK)’s activities.

In accordance with the provisions of MIFIDPRU, MUAM (UK) is currently required to provide disclosure on its:

- (i) Risk Management Objectives and Policies (MIFIDPRU 8.2);
- (ii) Governance Arrangements (MIFIDPRU 8.3);
- (iii) Own Funds (MIFIDPRU 8.4 and 8.5); and
- (iv) Remuneration Policies and Practices (MIFIDPRU 8.6).

Unless stated otherwise, the disclosures herein relate to MUAM (UK)’s most recently ended financial year, which ended on 31 December 2023. MUAM (UK) is not currently required to include disclosures relating to its Investment Policies (MIFIDPRU 8.7). Disclosure of MUAM (UK)’s investment policies may be included in subsequent versions of this disclosure statement, where they become relevant.

Significant Changes Since Prior Disclosure

In accordance with when the provisions of MIFIDPRU were first applied to MUAM (UK), this is MUAM (UK)’s second such disclosure and there are no significant changes to prior disclosures which require to be set out here.

Firm Structure

MUAM (UK), a private limited company, is the European based asset management arm of Mitsubishi UFJ Financial Group (MUFG), one of the largest asset management companies in Japan by AUM, that provides discretionary investment management services primarily to institutional clients via segregated mandates operated and managed by the firm or investment management for overseas management companies. MUAM (UK) has two shareholders that are MUFG entities, Mitsubishi UFJ Asset Management (30%) and Mitsubishi UFJ Trust Bank (70%).

MUAM (UK)'s audited financial statements are prepared in accordance with UK GAAP. MUAM (UK) is authorised and regulated by the FCA.

Internal Capital and Risk Assessment (“ICARA”) Document

The provisions of MIFIDPRU require MUAM (UK) to maintain sufficient capital and liquid resources. The approach of the business to assessing the adequacy of those resources to support current and future activities is contained in MUAM (UK)'s ICARA document. As the majority of fee income is received in non-sterling currencies with Japanese Yen being the most prominent, MUAM (UK) is largely exposed of foreign currency risk. MUAM (UK) is also subject to system risk, if there was a failure of our operational management system outsourcer capital would be required for an alternative.

In preparing the ICARA, MUAM (UK) has identified the material risks facing its business. The ICARA process stress tests against these risks, in order to produce a determination on the level of resources that MUAM (UK) is required to maintain. This feeds into the Own Funds requirement set out below.

The ICARA is updated on at least an annual basis and may be updated more frequently if a material change occurs in the risk or business profile of the firm.

Firm Governance

MUAM (UK)'s Board is responsible for determining the risk strategy of the firm, setting the firm's risk appetite and ensuring that risk is monitored and controlled effectively through a suitably robust operational risk management framework. It also has ultimate responsibility for the preparation and contents of the ICARA.

As a MIFIDPRU investment firm, MUAM (UK) is subject to the requirements of the Senior Management Arrangements, Systems and Controls Sourcebook (“SYSC”) of the FCA Handbook. In accordance with SYSC, MUAM (UK) must ensure that the Board defines, oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management of the business, including the segregation of duties in the organisation and the prevention of conflicts of interest, in a manner that promotes the integrity of the market and the interests of MUAM (UK)'s clients.

Although the Board has overall responsibility for oversight of the business, it delegates day to day responsibilities to various Committees (Management, Operational Control and Compliance). The Committees are required to meet regularly and provide certain reports or information to the Board.

As of 31st December 2023, the Board has 10 members.

Board Members
Kenichi Nomura Chairman
Akira Takanabe Non-executive Director
Hiroshi Nakazawa Non-executive Director
Akifumi Fujimoto Non-executive Director
Yusuke Fukui Non-executive Director
Gary Hutchings Head of Investment
David Bourne Head of Operations and Company Secretary
Yoshitaka Itsuki Head of Client Relations and Marketing
Yuji Otsuka Head of Planning
Simeon Arneaud Head of Compliance

Policy on Diversity and Inclusion

As a small firm with low staff turnover, MUAM (UK)'s policies on diversity and inclusion are in place at the firm level. Whilst MUAM (UK) understands the advantages that a diverse team can offer, we do not consciously look to equalise gender or minority ratios and do not set any diversity goals for hiring. Instead, when hiring MUAM (UK) looks to recruit the most suitable candidate in each case.

Risk Management Framework

MUAM (UK)'s senior management (Heads of Department) has developed and maintains a Risk Register that is broken down by based on the risks faced by the business. Each risk is then assessed to determine (i) the type of risk exposure (ii) its materiality and (iii) what mitigating procedures can be put in place to control the risk of error.

MUAM (UK)'s Compliance Department supports the business and the senior management in fulfilling their regulatory obligations. This support is provided primarily through the provision of advice and training, and carrying out MUAM (UK)'s internal risk-based monitoring programme. The monitoring programme is structured around MUAM (UK)'s Risk Register and the outcomes and recommendations of the programme are reported directly at MUAM (UK)'s Compliance Committee. MUAM (UK)'s Compliance Department is independent.

The firm's Risk Register has been designed, implemented and, as necessary, will be updated to take into account material changes in MUAM (UK)'s business, capital obligations, or resource requirements. Note that MUAM (UK) does not have and is not required to establish a separate Risk Committee.

Risk Appetite

MUAM (UK)'s Board, Management Committee and Operational Control Committee regularly reviews MUAM (UK)'s risk appetite, not least by its detailed consideration of the ICARA, MUAM (UK)'s insurance provision and its oversight and review of the firm's business' strategy.

As described further under the specific risk categories below, MUAM (UK)'s business model has remained broadly unchanged since inception. MUAM (UK) provides both equity and fixed income products to professional clients either through segregated mandates or through management of funds structured mainly in Luxembourg and Grand Cayman.

Additionally, MUAM (UK) has a low cost base, strong cash flows and a stable capital foundation. MUAM (UK) considers that, from an operational and business objective perspective, it has a low risk appetite.

Risk Categories and Analysis

As a result of its normal business activities, MUAM (UK) is exposed to a variety of risks, the most significant of which are described below.

Conduct Risk

Conduct risk is the activities of an individual or the firm produces harm to clients, undermines the integrity of the financial markets and results in the loss of trust in the professional standards expected by the customers and across the industry.

MUAM (UK) is regulated by the FCA who along with the legal framework laid out by the government, set rules for the conduct of firms. In the event of a serious breach of rules, the FCA may impose fines or other sanctions or even in extreme circumstances force the firm to cease trading. All financial services companies face regulatory risk to some degree. Recent fines imposed by the FCA have been increasing both in number and amount. MUAM (UK) cannot guarantee to be exempt from regulatory action leading possibly to a fine or other sanction.

MUAM (UK) has in place what it believes to be robust compliance procedures to minimise the risk of a serious breach and undertakes monthly compliance monitoring.

MUAM (UK) does not hold client money or assets thus removing a substantial risk from the business. Additionally, no services are provided to retail clients thus removing large swathes of complex rules. An additional mitigating factor is that MUAM (UK) is increasing its provision for legal expenses enabling a greater buy in of specialist compliance consultancy which is needed to meet the new rules coming into force.

Therefore, whilst MUAM (UK) does not believe it is immune from potential sanctions the risks are assessed as reasonably controlled and therefore has no metric for this.

Market Risk

The risk that the value of, or income arising from, assets and liabilities varies as a result of changes in interest rates, exchange rates or other market prices.

MUAM (UK) has no trading book. Market risk is therefore limited to foreign exchange risk on the fee income it receives.

Liquidity Risk

The risk that a firm may have insufficient liquid resources to cover short-term liabilities as they fall due.

MUAM (UK) has no borrowing and has sufficient liquid capital (cash) to meet its requirements in the foreseeable future and has documented a formal liquidity risk policy. A profit has been realised in each year since 2012 which has strengthened our capital position and as no dividends have been paid and none are proposed for payment in 2024, the liquidity position has remained strong.

Operational Risk

The risk of loss, or breach of contractual requirements, resulting from inadequate or failed internal processes, people or systems; human error; or, external events. It includes a number of sub- categories of risk.

Events that result in material operational losses will be escalated quickly in order to identify root causes and determine what actions can be taken to prevent recurrences or similar events. The Company has insurance in place to cover various eventualities and any liability is limited to the excess

of £200,000 for claims up to £10,000,000. MUAM (UK) has not made any claims on its policy since inception. Therefore, considering the historic data, it is deemed unnecessary to highlight this as an area that is likely to be of particular risk to the Company.

AUM Decreasing (Concentration Risk)

With the Company having relatively few clients the loss of a major client could have a severe impact on the profitability.

MUAM (UK) is focusing on acquiring new clients by increasing the experience in the Client Relations and Marketing team and diversify the jurisdictions marketing takes place, in order to onboard more clients.

Reputational risk

Reputational risk is a second order risk that will accompany any of the specified risks in this section and may lead to a reduction in customers and potentially financial loss as customers move to other parties.

MUAM (UK) is governed by MUFG code of ethics and has in place a strong culture of putting the customer first. If a serious event occurred that affected our reputation it is likely that we would suffer significant client fall out and the viability of the Company would be in jeopardy.

Own Funds

Under MIFIDPRU, MUAM (UK) is required to disclose the composition of its Own Funds and provide a reconciliation of these to the balance sheet in its most recent set of audited financial statements. MUAM (UK) is also required to describe any material aspects of its Own Funds.

COMPOSITION OF REGULATORY OWN FUNDS				
	Item	Amount (in GBP thousands as of 31/12/2023)	Page ref. in audited financial statements	
1	OWN FUNDS	13,930	Sum of other items	
2	TIER 1 CAPITAL	0	N/A	
3	COMMON EQUITY TIER 1 CAPITAL	13,930	N/A	
	ADDITIONAL TIER 1 CAPITAL	N/A		
	TIER 2 CAPITAL	N/A		
RECONCILIATION OF REGULATORY OWN FUNDS TO BALANCE SHEET IN AUDITED FINANCIAL STATEMENTS				
		a	b	c
		Balance sheet as in published/audited financial statements (in GBP thousands as of 31/12/2023)	Under regulatory scope of consolidation	Page reference in Audited Financial Statements
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				

1	Investments	0		Page 19 for all figures in this table as labelled herein
2	Debtors	5,117		
3	Cash at bank	10,421		
	Total Assets	15,538		
Liabilities				
1	Creditors	1,819		
2	Other amounts	200		
	Total Liabilities	2,019		

Description of Own Funds

MUAM (UK)'s Own Funds consists entirely of cash.

Own Funds Requirements

MUAM (UK) is required to hold Own Funds of a sufficient quantity and quality to absorb certain losses and meet specific regulatory requirements ("**Own Funds Threshold**"). MUAM (UK)'s Own Funds Threshold is the largest of the following:

- (i) Permanent Minimum Capital requirement (as established by FCA Rules). This is currently £75,000;
- (ii) Fixed Overhead Requirement ("**FOR**"). MUAM (UK)'s FOR as of 31st December 2023 is £1.6m; and
- (iii) 'K' Factor requirement. Given the structure of its business, the relevant K-factors for MUAM (UK) is K-AUM and K-COH. As of 31st December 2023, MUAM (UK)'s K Factor Capital figure is £1.2m.

The Own Funds Threshold is increased if amounts need to be retained to meet costs related to an orderly wind down. Using reasonable assumptions, MUAM (UK) determined that £4.1m of excess costs would be incurred in a wind down situation. As this is greater than any of the core requirements set out above, MUAM (UK) considers that its Own Fund Threshold requirement is £6.0m, providing an excess of £7.3m.

Remuneration Code Provisions

Link between pay and performance:

Salary is determined by a number of factors such as role, seniority, experience, effectiveness, market conditions etc.

Variable pay is determined in line with the firm's profitability, individual performance and market conditions in line with the role undertaken. There is no provision to reward people for taking risks. Very few clients have performance fees and there is no contractual link between any performance fee earned from a client's account and variable pay.

Decision-making process for determining remuneration:

Responsibility for determining remuneration rests with the Managing Director and Chief Executive Officer based on performance review information received for each employee and market information and advice provided by the Personnel Department. The annual budget will provide for a general increase in salaries based on historic rates, current pay inflation levels and any known future changes to individuals such as impending promotions. The budget is initially approved by the Company's Management Committee and then the Planning Department.

The same controls are in place for reviews of salary as for allocation of bonus payments.

Initial market survey data is provided by Personnel to the Managing Director and Chief Executive Officer and initial discussion on potential awards are held. The Heads of Department are requested to provide their recommendation for their staff and these are discussed with the Managing Director and Chief Executive Officer. Once tentative agreement has been reached, these are presented to Personnel for a final check for fairness and consistency and if no further recommendations, Heads of Department are notified of the results for distribution to staff. Variable remuneration payments are made in the form of cash bonuses and subject to a reduction down to nil, if there have been any issues with an individual during the financial year.

Code Staff Criteria: Code Staff are identified based on the role they undertake within the firm. As of 31 December 2023, MUAM (UK) had 28 staff members, 7 of whom were considered to be Code Staff (these were also senior management).

Quantitative Remuneration Disclosures: MUAM (UK) Code Staff received remuneration of £2.0m for the year ended 31 December 2023 (of this, elements of fixed remuneration accounted for approximately 67% of this figure). Other staff (aggregated here for the purposes of privacy), received remuneration of £2.5m, (of this, elements of fixed remuneration accounted for approximately 87% of this figure).

Remuneration Committee: Note that MUAM (UK) does not currently have and is not required to establish a Remuneration Committee.

As of 31 December 2023