Smart Investment Management Limited

FRN 627829

MIFIDPRU 8 Disclosure

As at:

31 December 2023

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1 Introduction and Context

1.1 Firm Overview
Smart Investment Management ("SIM" or "the Firm") is an investment management firm incorporated in England and Wales and regulated by the Financial Conduct Authority (FCA) as a MiFID (Markets in Financial Instruments Directive) Investment Firm. SIM administers investment management services, primarily to platform clients of Morningstar Wealth Administration Limited and Morningstar Wealth International Limited, through its model portfolio services and fund management offerings. As per MIFIDPRU 1.2, SIM is classified as a Small and Non-Interconnected ("SNI") firm.

1.2 Basis of Disclosure
The FCA implemented a new Investment Firms Prudential Regime ("IFPR"), which came into effect from 1 January 2022. This introduced a new Prudential Sourcebook for MiFID Investment Firms ("MIFIDPRU"). SIM must comply with the rules set out within MIFIDPRU. The purpose of IFPR is to ensure that investment firms are financially resilient, and that they do not create harm or fail in a disorderly manner that brings wider disruption to investors or markets in which they operate.

IFPR introduces amended disclosure requirements, which replace historical disclosure obligations under the previous prudential regime. The purpose of the amended disclosure requirements under the rules set out in MIFIDPRU 8 is to enable the business model and potential risk of harm posed by each investment firm to be better understood by its stakeholders. Firms are required to publicly disclose, at least annually, their policies for managing risk, details of their regulatory capital requirements and supporting capital resources and information around their employee remuneration policies. These disclosures are designed to promote market discipline by providing market participants with key information on each firm's risk exposures and risk management processes.

The Investment Firms Directive ("IFD") was implemented across the EU from June 2021, providing a new prudential regime for investment firms. The IFD superseded existing prudential rules set out in the Capital Requirements Directive ("CRD"). It recognised that CRD was designed to apply to banking organisations, resulting in many of its requirements having limited relevance to investment management companies. The UK was heavily involved in the development of the IFD prior to its exit from the European Union and has implemented a similar regime in the UK, IFPR, which came into force on the 1st of January 2022.

Whilst UK-CRD will continue to apply to more complex firms, most investment firms including SIM are captured by IFPR and now cease to be regulated under the previous rule set. The rules relating to the IFPR regime are largely held within the prudential sourcebook, MIFIDPRU, which replaces previous rules set out in the IFPRU and BIPRU sourcebooks. This prudential regime introduced a number of fundamental changes, including:

- New Own funds requirements, including the introduction of a new K-factor approach to replace existing credit and market risk assessments. This change in approach is intended to place a greater focus on areas of operational risk and introduces the concept of "harms" that could be caused by the activities of investment management firms.
- A new approach for an investment firm's internal risk and prudential assessments, and the supervision of those requirements, which are now considered as part of an ICARA (Internal Capital and Risk Assessment) process.
- The introduction of new liquidity requirements and obligations for all investment firms.
- New governance and committee requirements.
- A new remuneration code.

This document has been prepared by SIM in accordance with the requirements of MIFIDPRU 8. Unless otherwise stated, all figures are as at the Firm's 31 December financial year-end.

1.3 Scope
The Firm has completed this disclosure on an individual basis, as per the rules in MIFIDPRU 8.1.7.

1.4 Frequency
The rules set out in MIFIDPRU 8.1.10R require that the information contained in this document is disclosed at least annually, on the date it publishes its annual financial statements. The Firm considers it appropriate to update the disclosure document

more frequently during periods of significant material change to the Firm or business model.

1.5 Media and Location

The disclosure document is published on the Firm's website: https://morningstarwealthplatform.com/smart-im/regulatory-and- policies/

2 Remuneration

2.1 Approach to Remuneration

The Firm's Remuneration Policy is applicable to all the staff of SIM, to the extent specified. SYSC 19G.1.24G provides that the term "staff" should be interpreted broadly to include, for example, employees of the firm itself, partners or members (in the case of partnership structures), employees of other entities in the group, employees of joint service companies, and secondees.

2.2 Remuneration Policy

The Firm's Remuneration Policy outlines the policies and processes of remuneration for all the Firm's staff. The policy aims to reflect the Firm's business philosophy of maintaining sound operational and regulatory systems and controls and a strong Compliance culture. The Remuneration Policy is reviewed by Compliance and the Board on at least an annual basis in order to ensure that the terms are in line with current regulatory requirements.

As the governing body, the Board must discharge effective oversight to enable the Firm's arrangements to strengthen prudent risk-taking measures, ensure related conflicts of interest are managed and promote good conduct. Furthermore, the Board ensures prudential obligations, capital requirements, and liquidity management are considered accordingly when determining remuneration paid to employees.

It is the Firm's intention that its Remuneration Policy:

- Discourages risk-taking beyond the Firm's risk appetite.
- Discourages behaviours leading to misconduct and poor customer outcomes.
- Supports good behaviours and healthy firm culture.
- Establishes and promotes sound and effective risk management practices.

2.3 Remuneration Governance

The Compensation Committee of the Firm's ultimate parent, Morningstar, Inc. is responsible for oversight of the Firm's remuneration policy and practices. In addition to the Compensation Committee, input regarding remuneration is also provided by the Board of Directors of the ultimate parent, Morningstar, Inc. and the Board of Directors of the Firm.

The Compensation Committee and the Board of Directors of Morningstar, Inc. are responsible for ensuring that proposed remuneration is in line with the Firm's performance, determined by comparison to both financial and non-financial criteria. The Board of Directors of the Firm are responsible for ensuring that the proposed remuneration is aligned with the Firm's risk approach and all applicable regulatory requirements.

2.4 Categorisation of Fixed and Variable Remuneration

SIM is required to make a clear distinction between the criteria for setting its fixed and variable remuneration within the Firm. The Firm operates a flexible Policy whereby remuneration is appropriately balanced, and the fixed award is expected to be a higher proportion of the total Remuneration. Should an exception be identified where the variable component exceeds that of the fixed component, during a financial period, this exception should be highlighted and presented to the Board for review.

Fixed remuneration is set at an appropriate level which ensures that staff are not reliant on variable pay, and thus are not incentivised to take excessive risk.

Variable remuneration within the Firm may include cash and/or share-based bonuses provided by the below schemes:

- Investment Management Incentive Plan;
- Morningstar Global Bonus Pool;
- Sales Commission; and
- Equity (Restrict Stock and Morningstar Stock Units).

With the exception of the Morningstar Global Bonus Pool, which is available to all permanent employees, the schemes are subject to eligibility criteria based on role and business unit type. All employees have an element of fixed remuneration in their overall compensation packages.

Variable employee remuneration and similar incentives must not be solely, or predominantly, be based on quantitative commercial criteria and must consider appropriate qualitative criteria reflecting compliance with the applicable regulations, the fair treatment of clients, the quality of services provided to clients, and include sustainability and risk adjusted performance measures. As applicable, this criterion is set within each employee's objectives and includes financial and non-financial components. Consequently, bonus funding and related payment to employees is dependent on several factors, notably overall firm and associated business line performance and then taking the employee's individual performance factors both quantitative and qualitative, accordingly into account.

On occasion, the Firm is permitted to make discretionary awards of variable remuneration to employees, including Material Risk Takers, potentially constituting sign on bonuses, retention awards, severance payments or buy out awards. Such awards must be subject to approval by the Morningstar's Talent and Culture team and the SIM Board, and a suitable rationale must be documented.

2.5 Quantitative Disclosures

For the financial year 1 January to 31 December 2023, the total amount of remuneration awarded to all staff was £433,652, of which £252,906 comprised the fixed component of remuneration, and £180,746 comprised the variable component.