Disclosures to Stakeholders:

Financial information for decision makers

as at 31st March 2024

Disclosure requirements

Since the UK left the EU it has adopted equivalent legislation to the 2006 Capital Requirements Directive of the EU. As such, we are required to make public disclosures about our risks and risk management processes, the intention being to help 'stakeholders' make economic decisions in respect of the firm. Stakeholders could be prospective clients, shareholders, lenders, service providers and employees. Having appropriate risk-management processes also forms part of our requirements as a firm regulated by the Financial Conduct Authority (FCA).

The framework consists of three 'pillars':

- **Pillar 1 is formulaic and defines the minimum capital requirements that we are required to meet**
- **Pillar 2 requires us, and the FCA, to take a view on whether additional capital should be held against capital risks not covered by the formulaic approach in Pillar 1**
- **Pillar 3 requires us to publish certain details of our risks, capital, risk management process and remuneration policy (not required if they are either immaterial or proprietary and confidential).**

Our calculations of Pillars 1 and 2, as reported in detail to the FCA, are summarised in this document and posting the document to our website satisfies Pillar 3.

The Pillar 3 disclosures have to be reviewed at least annually. These are as at the company's latest year-end, 31st March 2024.

Who it should interest and why

Fowler Drew is affected by the regulations because we are a discretionary investment management firm as well as a financial adviser. Most of the capital adequacy regime is designed to be applicable to banks, whose stakeholders include depositors and market counterparties as well as shareholders. Our interested stakeholders are primarily our clients and prospective clients.

Our disclosures have been written to address the particular importance to our clients of business risk in a firm of our nature. Because we are not authorised to hold client money, the risks in our business that impact on clients are mainly related to:

- continuity of the business (since most clients appoint us to provide continuing long-term services)

- disputes or errors involving financial compensation.

Clients' first line of defence in the event of a dispute is our Professional Indemnity Insurance (PII) cover of £1,850,000 per claim. The capital we hold under the Capital Requirement Directive rules therefore serves to prevent risks not covered by insurance from causing the firm to become insolvent or cease voluntarily to trade. In the nature of our business, winding up for any reason should not cause actual financial loss to clients, although there may be frictional costs associated with them changing manager or adviser.

Pillar 1 capital

Our Pillar 1 capital requirement is £221,338. Since liquidity, market and credit risk exposures are very small, the requirement is determined by reference to the running costs of the business or the Fixed Overhead Requirement (FOR). Fixed overheads are expenses that cannot be quickly halted in the event of a wind-up of the business, such as rent and salaries (but not bonuses).

Our FOR-based requirement is entirely met by Tier 1 capital (equity and reserves) of £1,014,899, leaving surplus capital of £793,561. The firm has no debt.

Pillar 2 stress tests

Since the risks specified in the overall Pillar 2 rule that mainly apply to banks or market makers (liquidity, credit, market and interest rate risks) do not apply to us or do not require a capital allocation (being less than the FOR), our approach is to assess whether any stress tests of business and operational risks call for greater capital than the firm's FOR.

We have assessed the risks under our Pillar 2 stress tests as not requiring additional capital.

Pillar 3 risk explanation

Since the firm was first authorised in 2005 the firm's business model has focused on maximising the chance of long-term continuity of the business on the basis this is what the planning and management of clients' long-term financial goals will cause them to value. This objective has been pursued at the expense of higher business growth strategies, or more short-term orientated strategies, that might have either taxed management capabilities or increased financial risks.

Balance sheet risks:

- Liquidity risk is not relevant because we hold most of our balance sheet and all of our regulatory capital in liquid form, as cash accounts, short-dated gilts or debtors.
- Debtor finance mainly relates to fees due from clients which are paid at either monthly or quarterly frequency. Approximately 40% are billed to clients' pension providers and most of the rest is paid by platforms on the client's behalf out of the client's assets on the platform. We have no large individual exposures. We have had no unrecovered debtors to date and a very low level of overdue payments at any time. Our clients have a high net worth and we do not expect to encounter problems in the future.
- We have negligible credit risk exposure.
- Market risk (volatility of market prices and interest rates) has an impact because we charge asset-based fees based on month-end or quarter-end valuations. This is to some extent dampened by a regressive scale of asset-based fees.
- A significant proportion of the fee distribution is fixed at a minimum or maximum absolute level (albeit rising with inflation or higher), so limiting exposure to price volatility. Exposure is further mitigated by the aggregate asset mix of the firm's clients, as between more volatile equity holdings and risk-free assets. Interest rates have negligible impact.

Business risks:

- The firm's long-term continuity depends on the utility of its service to wealthy private clients and the service quality. Both are underpinned by features specific to the firm, notably arising from its use of proprietary quantitative methods that change the nature of the relationship with clients and the perceived utility of the service, or their dependence upon it. The reliance on quantitative techniques reduces the dependence of the business on individual skills as long as the process retains its technical integrity and ability to deliver good customer outcomes. This has been demonstrated over 20 years of experience of essentially the same process but 'model risk' in any quantitative process cannot be eliminated entirely.
- Client loss frequency is normally very low. Reasons for agreements being terminated have been idiosyncratic, not related to performance of the service or investment returns.
- Our quantitative portfolio management approach means we are not significantly exposed to manager error or inconsistencies in applying client mandates. The mandate itself could be subject to challenge but the foundation in goal-based planning, which itself relies on an internally consistent set of model outputs, makes it easier to demonstrate accuracy of the mandate, including the risk preferences agreed with clients. Modelling also makes for clearer expectations on the part of clients, differences in expectations being a typical source of dispute in wealth management. This clarity between the parties may also account for the high level of client retention and the absence since formation of any complaints.
- The firm operates at a small scale in terms of numbers of personnel but there is a broad spread of dependence on individuals. Staff turnover is anyway expected to be lower than in comparable businesses because it is employee owned, following the sale by the founder to an Employee Ownership Trust in 2024.

Operational risks:

- Unplanned variances in expenditures arise most often from changes in staffing, due to the small number of staff and the high agency costs of recruitment. Reliance on quantitative methods reduces the dependence of client loyalty on individuals, as has been demonstrated by the high retention rate surviving changes in advisers and managers.
- Exceptional losses arise mainly from dealing errors that we choose to make good at our own expense rather than claim on our PI or because they would be within our PI excess. Most years losses are not significant. We have never had a complaint made against us but any complaint leading to compensation could be met either by a PI claim or own funds. These possible sources of losses met by own funds form one of our stress tests.
- Conflicts and complaints are minimised by reliance on quantitative investment decision processes that make decision logic objective, consistent and transparent; by having effective systems and controls to avoid or detect quickly any errors; by ensuring only highly qualified professional staff give advice and by having a team approach to client relationships (facilitated by a business model that restricts the number of clients per adviser).
- There are no exclusions from PI in respect of business lines now or in the past that require capital assigned. PI claims would only fail to be met in the event of gross negligence. The firm's systems and controls are designed to eliminate the possibility any insurer could assert gross negligence as a reason for not settling claims for dealing errors, fraud or bad advice. There is therefore no planned capital allocation to this risk.

Risk management

- The overall approach to risk management, systems and operating procedures is determined by the Board, delegated to functional staff to implement, monitored by the Compliance Officer and reported quarterly to the Board. For many of the procedures, an overriding responsibility is assigned by the FCA to the firm's Compliance Officer.
- Given the nature, scale and complexity of the firm's business the Board does not believe it is necessary to have a dedicated risk-assessment, audit or remuneration committee.