Morningstar Investment Management Europe Ltd

IFPR Disclosure Note

As at:

31 December 2022

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1. Introduction and Context

1.1. Firm Overview

Morningstar Investment Management Europe Ltd ("MIME / the Firm") is authorised and regulated by the FCA in the United Kingdom. Those regulatory permissions allow MIME to advise, arrange, deal and manage investments for professional and eligible counterparty clients across a range of investment instruments including shares, debt securities and units in collective investment schemes. The related services are delivered through the managed portfolios, manager selection, segregated mandated and UK authorised fund offerings, predominantly to UK domiciled clients and investors. MIME is categorised as a MIFIDPRU investment firm as defined by the FCA and subject to the Prudential sourcebook for MIFID Investment Firms. As per MIFIDPRU 1.2, MIME is classified as a non-Small and Non-Interconnected ("Non-SNI") firm.

1.2. Basis of Disclosure

The Investment Firm Prudential Regime ("IFPR") was implemented by the FCA on 1 January 2022. The new regime requires MIFIDPRU investment firms to publicly publish disclosures as per the rules set out in MIFIDPRU 8. The regulatory aim of the disclosure is to improve market transparency in relation to how the Firm is run.

The document has been prepared using MIME's financial information as at the reference date 31 December 2022.

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://www.morningstar.com/en-uk/products/morningstar-managed-portfolios

2. Governance

2.1. Organisational Structure

MIME is a London- based firm. The Firm is owned by the Parent undertaking Morningstar Inc which is based in Chicago, US.

2.2. Governance Framework

The Board is the governing body of MIME, and has the ultimate management authority and responsibility of the Firm and its activities. The Board's main roles and responsibilities include:

(a) Oversee related risk management arrangements to ensure effectiveness of risk identification and management
(b) Oversee compliance with the applicable rules of the FCA and other organisations, as they apply to the Firm
(c) to consider the adequacy of the arrangements established to ensure compliance with the Rules and Guidance of the FCA and/or other regulatory bodies, as appropriate;
(d) to assess the risk management strategy of the Firm and, where appropriate, to ensure that risks are adequately managed;
(e) to ensure the compliance function is adequately resourced and has appropriate standing and independence within the Firm; and
(f) to consider other topics, as defined by the Board from time to time.

The Board meets on a quarterly basis, or more frequently as needed. As of 31 December 2022, the Board is comprised of:

Name	Title
Mike Coop	**Chief Investment Officer, EMEA**
James R Downing	**Global Chief Compliance Officer**
Daniel Kemp	**Chief Research and Investment Officer**

2.3. Directorships

No external directorship were held by members of the Board as at 31 December 2022.

2.4. Committees

Audit Committee
The Firm has not formed an Audit Committee due to its size.

Risk & Compliance Committee
The Firm does not have a designated Risk and Compliance Committee, based on its exemption as per MIFIDPRU 7.4.1R.

2.5. Diversity

The rise of ESG investing has been recognised as one of the hallmarks of the modern investor and has become integral to the Morningstar mission to empower investor success but has also uncovered an opportunity to apply an ESG framework to our own business. Morningstar's Sustainability statement can be found here:
https://assets.contentstack.io/v3/assets/blt4eb669caa7dc65b2/blt7ae6d78e34f90570/2022_Corporate_Sustainability_Report.pdf

As a subsidiary of a larger Group, wider information about these matters are detailed and disclosed in the Group's Annual Report and Accounts see:
https://www.morningstar.com/company/corporate-sustainability

3. Risk Management

3.1. Risk Management Objective & Framework

Pursuant to the activities undertaken, the risks generated through the business conducted by MIME, are inherently mitigated and somewhat restricted in nature. This is commensurate to the regulatory permissions afforded and the nature of the client base.

MIME has promoted a positive compliance culture throughout the firm, in order to promote the importance of good conduct leading to positive client outcomes.

The main aspects of MIME's Business Model Assessment and associated risk management policies include:

- improve operational effectiveness, business processes and controls;
- implement proactive management of future threats and opportunities;
- enable more informed planning and decision-making;
- deliver better outcomes for clients.

3.2. Risk Management Governance

The ultimate governing body of MIME is the MIME Board of Directors. The Board meets at least quarterly and receives reporting covering the operational, investment, financial and compliance aspects of MIME's activities. All Board members are subject to the FCA's Senior Managers and Certification Regime.

The Board determine the Firm's appetite or tolerance for risk – those risks it will accept and those it will not take in the pursuit of its goals and objectives. In addition, the Board ensures that the Firm has implemented effective, ongoing arrangements to identify risk, to measure its potential impact against a broad set of assumptions and then to ensure that such risks are actively managed.

The Board continues to oversee the effectiveness of the Firm's system of internal controls. This oversight includes assessment of all material controls, including financial, operational and compliance controls and associated risk management systems.

Given the size of the operation and the activities undertaken, the identified risks are not subject to oversight by a dedicated risk committee and/or risk function.

Please note, given the limited activities of the institution and the corporate structure of the Morningstar group, MIME may be subject to oversight by departments and control functions, that have additional responsibilities within the group.

3.3. Risk Appetite

The Firm defines its risk appetite by considering the strategy and business plan, limited activities and size of the firm and defines the risk appetite as low for operational risk, regulatory risk, financial crime risk and financial risk.

Risks are subject to ongoing review and evaluation, and assessed on a subjective basis by the MIME Board. Further, the Firm's Business Model Assessment demonstrates the Firm's Risk appetite, how it identifies harms and risks and the results of stress tests on capital that it has undertaken.

3.4. Key Risks

Operational Risk and Business Risk are noted accordingly, via the Firm's ICARA process. The firm's ICARA is established, applied and facilitates the following critical considerations for ensuring associated key risks are suitably identified, managed and mitigated, commensurate with the Firm's prudential obligations:

- A review of the risks that face the Firm and the associated engagement with clients and the market;
- The holding of adequate capital, under stressed conditions, as demonstrated in the documented stress tests;
- The holding of adequate liquid assets, in accordance with the related liquidity policy; and
- As assessment of related FCA guidance and subsequent production of a Wind-down plan.

The Firm Board has oversight of the ICARA and continues to assess the content for any areas requiring development and enhancement.

Liquidity Risk

Liquidity risk is a mismatch between the Firm's anticipated cash-flow demand ('Liquidity Demand') and the amount and quality of available assets to meet this demand ('Liquid Assets'). It is hence separate from profit and loss items and regulatory capital which do not evaluate the liquidity of the assets held on the Firm's Balance Sheet, but only their quality and permanence.

The Firm has in place arrangements to identify, measure, manage and monitor Liquidity Risk. These are proportionate given the nature, scale and complexity of the Firm's activities, liquidity risk tolerance and liquidity profile.

Own Funds Requirement

‘Own funds’ refers to an investment firm’s eligible regulatory capital. The own funds requirement establishes the ‘base’ or ‘minimum’ amount of regulatory capital that must be held at all times.

The own funds requirement for a non-SNI firm, such as MIME is the higher of:

- The permanent minimum capital requirement (‘PMR’);
- The fixed overheads requirement (‘FOR’); or
- The K-factor requirement (‘KFR’).

Under MIFIDPRU 7.5.2 the Firm has undertaken both capital and liquidity stress test.

The results of these test are that the Firm has sufficient capital over the next three years and holds sufficient liquid resources over the next year. Further details can be found in section 4. Own Funds.

3.5. Effectiveness of Firm’s risk management process

The Firm believe the risk management processes and controls are appropriate for the Firm based on the activities undertaken by the Firm but as noted in section 3.4, further enhancements to these arrangements would be beneficial. The Board will review and endorse the risk management objective annually.

4. Own Funds

MIME holds share capital (£6.9m), OCI (£0.3m) and retained earnings (-£2.3m). There are not deductions necessary for the Firm's eligible capital instruments, in line with the deductions required by MIFPRU 8.8.5

As at 31 December 2022, the Firm holds a total of £4,827,178 of eligible capital resources to meet its capital requirements.

The table below outlines the details of MIME's capital resources position as at 31 December 2022. This information has been sourced from the Firm's latest audited financial statement for year-end 2022.

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
1	OWN FUNDS	4,827	SFS p.17
2	TIER 1 CAPITAL	4,827	
3	COMMON EQUITY TIER 1 CAPITAL		
4	Fully paid up capital instruments	-	
5	Share premium	3,999	SFS p.17
6	Retained earnings	-2,260	SFS p.17
7	Accumulated other comprehensive income	117	SFS p.17
8	Other reserves	2,895	SFS p.17
9	Adjustments to CET1 due to prudential filters	-	
10	Other funds	-	
11	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1		
19	CET1: Other capital elements, deductions and adjustments		
20	ADDITIONAL TIER 1 CAPITAL	-	
21	Fully paid up, directly issued capital instruments	-	
22	Share premium	-	

23	**(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1**	**-**	
24	**Additional Tier 1: Other capital elements, deductions and adjustments**	**-**	
25	**TIER 2 CAPITAL**	**-**	
26	**Fully paid up, directly issued capital instruments**	**-**	
27	**Share premium**	**-**	
28	**(-) TOTAL DEDUCTIONS FROM TIER 2**	**-**	
29	**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

		a) Balance sheet as in published/audited financial statements	b) Under regulatory scope of consolidation	c) Cross reference to template OF1
		As at period end 31 December 2022		
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Investment	£3,153,300		
2	Current Assets	£5,888,347		
3	Non-current Asset	£12,953		
xxx	Total Assets	£9,054,600		
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
1	Current Liabilities	£4,112,661		
2	Non-Current Liabilities	£78,734		
3				
xxx	Total Liabilities	£4,191,395		
Shareholders' Equity				
1	Capital	£6,969,888		
2	Other Comprehensive income reserve	£117,274		
3	Retained Earning	-£2,259,984		
xxx	Total Shareholders' equity	£4,827,178		

5. Own Funds Requirements

5.1. Own funds requirement

MIME must at all times maintain its own funds to be at least equal to its own funds requirement. As per MIFIDPRU 4.3, the own funds requirement is the higher of the:

(i) Permanent Minimum Requirement (MIFIDPRU 4.4R)
(ii) Fixed Overhead Requirement (MIFIDPRU 4.5R)
(iii) K-Factor Requirement (MIFIDPRU 4.6R)

Own funds requirement as at 31/12/2023:

Own Funds Requirement		**GBP Thousands**
Permanent Minimum Requirement		**75**
Fixed Overheads Requirements		**2,092**
K-Factor Requirement	**∑ K-AUM, K-CMH and K-ASA**	**674**
	∑ K-DTF and K-COH	**-**
	∑ K-NPR, K-CMG, K-TCD and K-CON	**-**

The ‘K-factor’ approach is a new approach introduced by the IFPR to determine the minimum own funds requirements of an investment firm that is not an SNI. The aim of the K-factors is to provide a tailored and more appropriate method for setting a risk-based minimum own funds requirement for all types of investment firms compared to the CRR regime.

5.2. Approach to assessing the adequacy of own funds

One of the key aspects of the firm’s approach to assessing the adequacy of own funds is the conduction of the Internal Capital Adequacy and Risk Assessment (ICARA) process, which assists the Firm in identifying and mitigating potential harms the Firm is at risk of as a result of its activities. The adequacy of the ICARA process will be reviewed at least annually, or more frequently should there be any material changes to MIME’s risk profile or business strategy. In addition to the ICARA process, the Firm further ensures adequacy of own funds through internal monthly capital control.

6. Remuneration

6.1. Approach to Remuneration

The Firms Remuneration Policy is applicable to all of the staff of MIME, 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.

6.2. Remuneration Policy

MIME has established arrangements, including a dedicated remuneration policy, linking the award of remuneration to the performance of MIME and its employees, commensurate with MIME’s risk appetite, the good conduct of MIME’s employees and practices encouraging the delivery of positive outcomes for users of the firm’s products and services.

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

MIME’s arrangements explicitly prohibit short term activity that could:

- encourage risk taking beyond its risk appetite;
- reward inappropriate employee conduct;
- detrimental to users of MIME’s products and services; and/or
- jeopardise its applicable regulatory prudential obligations.

The Remuneration Policy is reviewed at least annually, or as necessary. Policy review is prepared by Compliance and submitted to the Board for review and approval.

It is MIME’s intention that its Remuneration Policy sets out the arrangements, to ensure remuneration is awarded in accordance with regulatory and internal standards. The high-level objectives of the policy are:

- to establish arrangements promoting sound and effective risk management practices, for the long term interest of the Firm;
- to align the level of accepted firm risk to the awarding of individual rewards, thereby enabling and managing the effective promotion and delivery of performance based rewards;
- to support good behaviours and healthy firm culture; and

- discourage behaviours leading to misconduct and poor customer outcome.

The policy is presented and applied appropriately and proportionately to the nature, scale and complexity of the risks inherent within MIME's business model and activities. Additionally, effective application of the policy intends to support MIME's efforts to deliver good outcomes for consumers.

6.3. Remuneration Governance

The MIME Remuneration Policy and associated requirements is coordinated by Compliance. Morningstar Inc. is the ultimate parent entity and the Morningstar Inc. Board and Compensation Committee sets appropriate group level remuneration arrangements, so any entity specific arrangements can be incorporated to meet applicable regulatory requirements. Furthermore, the Morningstar Inc. Board and Compensation Committee is responsible, on an ongoing basis, for determining available funding for remuneration across the Morningstar Group, including bonus pools, the investment management incentive plan equity awards and any other applicable schemes.

Pursuant to the arrangements, established by the Morningstar Inc. Board and Compensation Committee, the MIME Board will subsequently discharge effective oversight of remuneration specifically linked to MIME activity and related employees, to ensure proposed remuneration is consistent with MIME's risk appetite and the local policy and related arrangements established. In particular, MIME Board oversight must enable MIME's arrangements to strengthen prudent risk taking measures, ensure conflicts of interest are managed and promote good conduct. The MIME Board will also ensure prudential obligations are considered accordingly, when determining associated remuneration arrangements.

6.4. Material Risk Takers

A material risk taker is defined in SYSC 19G.5.1R as a staff member at a non-SNI MIFIDPRU investment firm whose professional activities have a material impact (as described in SYSC 19G.5.3R) on the risk profile of the firm, or of the assets that a firm manages.

As required in SYSC 19G.5.2R, MIME assesses which members of its staff are material risk takers at least annually, or more frequently as required, including when staff leave or join the Firm. For the performance year 2022, the Firm identified nine material risk takers.

6.5. Categorisation of Fixed & Variable Remuneration

MIME is required to make a clear distinction between the criteria for setting its fixed and variable remuneration within the Firm. MIME operates a flexible policy whereby remuneration is appropriately balanced.
MIME remuneration is divided into base salary, benefits and incentive scheme (variable remuneration) and an employee may belong to more than one incentive scheme. For example, employee variable remuneration may derive from both the Morningstar Global Bonus Plan and the Investment Management Incentive Scheme. Variable remuneration is dependent on the role and job function an employee performs and can include:

- individual performance and/or business unit based bonus;
- cash incentives; and
- sales commissions.

Specifically, MIME is attached to four variable remuneration schemes:

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

Except for the Morningstar Global Bonus Pool, available to all permanent employees, the schemes are subject to eligibility criteria based on role and business unit type. No firm employees receive variable remuneration only awards.

Variable employee remuneration must not be solely, or predominantly, based on quantitative commercial criteria and must take into account appropriate qualitative criteria reflecting compliance with applicable policy and regulation, the fair treatment of clients and the quality of services provided and include sustainability and risk adjusted performance measures. As applicable, this criteria is set within each employee's objectives, as determined with the business line manager as 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, MIME 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 wards. Such awards are subject to approval by Morningstar's Talent and Culture team and the MIME Board and a suitable rationale for such awards must be documented.

6.6. Remuneration adjustments

MIME policy permits the adjustment of variable remuneration to take account of specific, crystallised risk, or adverse performance outcome, specifically those relating to misconduct, serious reputational damage, or significant financial loss. As necessary, the MIME Board would appoint the appropriate MIME control function to investigate and determine if adjustments are necessary, potentially including clawbacks of variable remuneration awarded. Under MIME policy, the period for potential clawbacks is three years from payment.

Risk and performance adjustments

Assessment of MIME's remuneration arrangements is integral to the internal capital adequacy and risk assessment (ICARA) process. The ICARA is an ongoing assessment, formally documented annually that considers the key risks identified as applicable to MIME activity and the potential impact these may have on MIME's prudential obligations. Remuneration and the associated consideration that related structures may promote excessive risk taking, is specifically integrated into the ICARA process.

The allocation of variable remuneration takes into account all types of current and future risks, including non-financial risks, in accordance with the MIFIDPRU Remuneration Code. The related structures and processes would be adjusted accordingly, should the overall current and future risk appetite be potentially compromised by the established remuneration arrangements.

Risk and performance adjustments for material risk takers

In order to comply with MIFIDPRU Remuneration Code, the Firm is required to have in place processes through which it can, if necessary, reduce the variable remuneration of a material risk taker. The MIME Board reviews proposed remuneration awarded to Material Risk Takers for the annual reporting period and determines whether any proposed increase in fixed remuneration and/or granting of variable remuneration, breaches policy requirements.

Should any potential breaches be identified, the MIME Board will escalate the concerns to Morningstar's Compensation Committee for immediate review. If MIME policy has been breached, the MIME Board will request a risk-based adjustment to the relevant Material Risk Taker's proposed remuneration award.

Severance payments may be made to material risk takers at the sole discretion of the Firm, and will be assessed strictly in line with the requirements of the MIFIDPRU Remuneration Code 11.8. MIME Remuneration Policy states payment of such awards requires approval from Morningstar's People and Culture team and the MIME Board.

6.7. Quantitative disclosures

Total amount of remuneration awarded to senior management, other material risk takers (MRTs) and other staff:

	Fixed remuneration	Variable remuneration
Senior Management	£984,444	£917,315
Other Material Risk Takers	£282,083	£149,507
Other staff	£2,693,937	£1,409,245
Total	£3,960,465	£2,476,067

There were no guaranteed variable remuneration awards made to Material Risk Takers in the reporting period.

There were no severance payments awarded to Material Risk Takers in the reporting period.