J. Rothschild Capital Management Limited

MIFIDPRU Regulatory Disclosure Year ended 31st December 2023

Company regulatory status and overview

J. Rothschild Capital Management Limited ("JRCM") is a MIFID investment firm authorised and regulated by the Financial Conduct Authority ("FCA"). We are required to comply with the disclosure requirements under the Investment Firms Prudential Regime ("IFPR"), which is set out in the FCA Handbook MIFIDPRU 8.

For the purpose of prudential regulations, we are classified as a non-SNI (small and non-interconnected) firm and are subject to the basic and standard requirements. We are required to provide a level of detail in our disclosures that is appropriate to our size and internal organisation, and to the nature, scope, and complexity of our activities.

JRCM is a wholly owned subsidiary of RIT Capital Partners plc ("RIT"), a UK investment trust listed on the London Stock Exchange.

JRCM's main business activity is the provision of investment and administrative services to RIT.

The disclosures below relate only to JRCM and not to RIT or other subsidiaries of RIT. In preparing its standalone financial statements upon which its prudential returns are based, JRCM consolidates in full the JRCM Employee Benefit Trust. JRCM may omit from its disclosure any information that is not considered to be material.

Risk assessment and management

Governance

The Board of RIT has delegated responsibility for the day-to-day risk management of the activities of JRCM, RIT and RIT's subsidiaries to the executive management of JRCM, with oversight from the various RIT Board Committees, in particular the Audit & Risk Committee. The Executive Committee of JRCM and the Audit & Risk Committee of RIT believe the systems and controls in place to be adequate and proportionate to the nature of JRCM's business and risk.

The Audit & Risk Committee of RIT has four scheduled meetings per year and also convenes on an ad hoc basis if required. The JRCM Executive Committee meets weekly, or as required, and is made up of JRCM Directors who are selected for their relevant experience and expertise. The Board of JRCM is composed of four members, namely the Firm's CEO, CIO, CFOO, and General Counsel/Company Secretary.

In accordance with the provisions of MIFIDPRU 8.3.2[1], as of 31st December 2023, none of the four directors held an external directorship.

The JRCM Investment Committee meets regularly to review overall investment performance, portfolio exposure and significant new investments.

The Firm is not subject to the requirements under MIFIDPRU 7.3.1 to establish a risk committee but has nevertheless established a JRCM Investment Risk Committee and a JRCM Operational Risk Committee, which meet on a regular basis. These risk committees are chaired by the CFOO of JRCM and also report to the Audit & Risk Committee of RIT.

Principally, JRCM organises its affairs to ensure the continuity of future services to RIT. In providing investment services to RIT, JRCM takes into consideration RIT's appetite for investment risk. RIT's corporate objective is to deliver long-term capital growth, while preserving shareholders' capital; to invest without the constraints of a formal benchmark, but to deliver for shareholders increases in capital value in excess of the relevant indices over time. RIT's long-term approach and commitment to capital preservation contributes to the security of JRCM's long-term financial arrangements.

In support of the company's ESG efforts and commitment to diversity and inclusion, JRCM host interns from two schemes aimed at promoting under-represented groups in the financial services industry. These are 10,000 Black Interns and GAIN (Girls Are Investors). In addition, the Company uses a number of strategies to tackle unconscious bias during the recruitment and selection process, for instance, using non-biased wording within job adverts, asking recruiters to submit CVs with all protected characteristics removed and by widening our preferred supplier list.

Further initiatives that the Firm has in place to support diversity include a flexible working policy, enhanced maternity leave as well as adoption and shared parental leave.

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[1] MIFIDPRU 8.3.2 provides that the following directorships are not within the scope of the MIFIPDRU disclosure:
1) held in organisations which do not pursue predominantly commercial objectives; and
2) within the same group or within an undertaking (including a non-financial sector entity) in which the Firm holds a qualifying holding.

Risk

JRCM's Board has the ultimate responsibility for the development of appropriate strategies, systems, and controls for the management of risks within the business.

The principal risks of JRCM are those relating to the ongoing services provided to RIT, its parent undertaking. These incorporate both financial and operational risks. Areas of specific risk considered and their applicability to JRCM are:

Credit risk: JRCM has a limited appetite for credit risk, to the extent that assets are held on the balance sheet. Credit risk is not a material risk to JRCM and no additional capital is required.

Market risk: JRCM does not have an appetite for market risk. JRCM is exposed to market risk only where it holds RIT shares via an Employee Benefit Trust, however, these shares are held against a share-based payment liability made to staff via share awards; therefore, any gain or loss in the market value of the shares held is designed to be offset by an opposing movement in the share-based payment liability. JRCM has a strategy in place to ensure sufficient shares are held to match predicted vestings. Market risk is therefore not material to JRCM and no additional capital is required.

Operational risk: JRCM has a low appetite for, and attempts to minimise, operational risk by having robust systems and controls in place. Robust controls exist around investment decision making, the placing of trades and ongoing monitoring of RIT's portfolio. Operational risk is not a material financial risk to JRCM and JRCM does not need to hold additional capital in respect of operational risk.

Liquidity risk: JRCM has a low appetite for liquidity risk and holds on its own account cash balances that are sufficient to meet the need for short and medium-term working capital. In addition, JRCM also has significant liquid assets that are readily realisable. Liquidity risk is not a material risk to JRCM.

Key Customer risk: JRCM has a key exposure in its relationship with RIT, which could be considered to be a combination of concentration and group risk. Although it is recognised that there is a significant exposure to RIT, it is felt that the operational and financial arrangements between JRCM and RIT are not a risk to the capital adequacy of JRCM or its viability as an ongoing concern. This risk is therefore not considered to be of material financial impact to JRCM as a wholly-owned subsidiary of RIT and no additional capital is required.

Capital resources

Own funds requirement

The Firm must, at all times, hold own funds and liquid assets which are adequate, both to their amount and their quality, to ensure that the Firm is able to remain financially viable throughout the economic cycle and be able to address any material potential harm that may result from its ongoing activities; and to ensure that the Firm's business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

In accordance with the IFPR, the Firm has conducted and documented its Internal Capital Adequacy and Risk Assessment process (ICARA) to identify whether the Firm complies with the abovementioned overall financial adequacy rule. The Firm may hold additional own funds or additional liquid assets above the Firm's own funds requirement or basic liquid assets requirement to manage the potential harms identified.

The Firm's ICARA is reviewed and approved by the Board at least annually, or more often as deemed appropriate.

As a Non-SNI firm, the Firm is required to maintain an amount of own funds that is the higher of the:

- Permanent minimum capital requirement (PMR);
- Fixed overheads requirement (FOR), which is an amount equal to three months of the firm's relevant expenditure; and
- Total K-Factor requirement, which include:
  - **K-AUM,** assets under management; **K-CMH,** client money held; and **K-ASA,** assets safeguarded and administered
  - **K-COH,** client orders handled; and **K-DTF,** daily trading flow
  - **K-NPR,** net position risk; **K-CMG,** clearing member risk; **K-TCD** trading counterparty default risk; and **K-CON,** concentration risk

Given the Firm's activities, the main exposure of the Firm is **K-CMH**, which is the risk of holding client money.

The Firm's own funds requirements according to MIFIDPRU 4.3 are as follows:

	£ ('000)	
(a) Permanent minimum requirement (PMR)	150	
(b) Fixed Overhead Requirement (FOR)	3,920 (based on 2023 audited accounts)	
(c) Sum K-factor capital – K-CMH	-	
Own Funds Requirements	3,920	*Higher of (a), (b) and (c)*

Refer to the Annexes for the latest information about the Firm's own funds.

Concentration risk

Concentration risk is that associated with the firm's exposure to sectoral, geographic and entity or obligor concentrations. The Firm's appetite for concentration risk is low.

JRCM has a concentrated exposure to RIT as its primary source of income. The arrangements are such that this is not considered to be a material risk, either to JRCM, potential clients, third parties or to the financial system. It is considered very unlikely that RIT, as the parent company of JRCM, would discontinue the arrangement or find itself unable to pay for these services.

Liquidity

Liquidity risk is the risk of the Firm failing to meet its short-term liabilities as they fall due.

The Firm is required to hold an amount of liquid assets equal to one third of its Fixed Overhead Requirement. This is the basic liquid asset requirement and is made up of approved liquid assets, which include, cash.

However, the basic liquid asset threshold requirement may not be sufficient in times of financial stress, so the Firm has also considered the higher requirement needed to meet:

1. The liquid assets needed at any given point in time to fund ongoing operations as well as to mitigate any adverse trends throughout the economic cycle, or
2. The Firm's assessment of liquid assets required in the event of an orderly wind down.

JRCM holds cash sufficient to meet its liabilities as they fall due and to provide an adequate buffer of high quality, unencumbered assets for periods of stress and in the event of an orderly wind-down. In addition to JRCM's own adequate resources, JRCM also has a large trade receivable from RIT.

There are no key liquidity risks beyond the efficient management of JRCM's normal operating expenses, which are known in advance.

JRCM considers stress testing of its liquidity framework and contingency funding as part of the annual ICARA process. The Executive Committee is satisfied that the cash balance held, the cash monitoring processes in place, and the visibility of the systems and controls by the CFOO and the Executive Committee is appropriate to JRCM's business model and liquidity risk tolerance.

As JRCM's income comes materially from RIT and is linked in the investment management agreement between JRCM and RIT to the value of RIT's net assets, the most appropriate stress tests are in respect of JRCM's capital adequacy and liquidity in the event of a fall in RIT's assets. These tests are performed at least annually as part of the ICARA.

JRCM has considerable financial assets and financial arrangements in place. However, in the event that persistent long-term economic and market conditions indicate that JRCM's long-term liquidity is at risk, there are specific steps in place that would be considered by the Executive Committee.

JRCM's Own Funds and Liquid Assets materially exceed its capital requirements in respect of both the FCA rules and JRCM's own risk assessment. Based on JRCM's capital resources, JRCM has adequate resources to support its current and future activities. In conclusion, JRCM is sufficiently capitalised.

Remuneration

J. Rothschild Capital Management Ltd (JRCM, the “Firm” or “we”) is a wholly-owned subsidiary of RIT Capital Partners plc (“RIT” or the “Group”), a UK investment trust listed on the London Stock Exchange. JRCM is a MIFID Investment Manager authorised and regulated by the Financial Conduct Authority (FCA). We are required to comply with the MIFIDPRU Remuneration Code requirements under the Investment Firms Prudential Regime, which aim to ensure that we have risk-focused remuneration policies that are consistent with and promote sound and effective risk management in the long-term interests of the Firm and our customers and do not expose the Firm or our clients to excessive risk.

For the purpose of prudential regulations, we are classified as a “non-SNI (small and non-interconnected) firm and are subject to the basic and standard requirements. We are required to provide a level of detail in our disclosures that is appropriate to our size and internal organisation, and to the nature, scope, and complexity of our activities.

Our Approach and Objectives

We have formulated our approach in remuneration policy and practices with reference to the guidance set out by the FCA. We consider the appropriate balance between fixed and variable remuneration as well as the constraints in place to avoid a conflict of interest between staff incentives and the best interests of customers.

The objectives of our financial incentives are to:

- promote sound and effective risk management in the long-term interests of the Firm and our customers;
- limit risk-taking and avoid conflicts of interest
- ensure alignment between risk and individual reward
- supporting positive behaviours and healthy firm cultures
- encourage responsible business conduct
- discourage behaviour that can lead to misconduct and poor customer outcomes
- align employee’s interests with the Firm’s long-term strategy and objectives
- be gender neutral, in line with the Equality Act 2010.

Governance and Decision-making Procedures

The independent Remuneration Committee of the Group (the Remuneration Committee or the Committee) is responsible for overseeing the implementation of our remuneration policy and ensuring our compliance with the MIFIDPRU Remuneration Code.

Under the Chairmanship of Philippe Costeletos, the Committee comprises three further independent non-executive Directors. The Committee meets at least twice each year on a formal basis and additionally as may be required.

One role of the Committee is to ensure the extent of the variable remuneration at the Firm cannot affect the Firm’s ability to ensure a sound capital base. The Committee is responsible for overseeing the performance management process; reviewing and approving the remuneration policy, variable remuneration pool and caps, eligibility of participation in variable remuneration schemes, as well as the approval of variable remuneration awarded to members of the Firm’s Executive Committee (Exco). The Exco is responsible for all other employees’ individual performance appraisals, and ensuring that fixed and variable remuneration awards are within the levels set by the Committee and are appropriate.

We assess our staff members under our performance management process on an ongoing basis with an annual performance assessment outcome being used as a contributing factor in the determination of remuneration.

The remuneration of senior staff in risk management and compliance functions is directly overseen by the Exco of the Firm. Any remuneration to staff with control functions is awarded according to objectives linked to their functions and remains independent from the business units they oversee.

No variable remuneration is awarded to members of the management body who do not perform any executive function in the Firm.

The Firm's remuneration policies and practices are developed in consultation with external consultants. The Committee appointed Alvarez & Marsal, the remuneration consultancy, to provide the Committee with advice. Alvarez & Marsal has no other relationships with the Group and is therefore Independent.

Key characteristics of Remuneration Policies and Practices

All staff receive fixed remuneration in form of salary, and benefits; and are considered for discretionary variable remuneration in the form of annual cash incentives, deferred share awards, long-term share appreciation rights award and restricted share unit awards where eligible.

Fixed remuneration

Salary and fees
All material risk takers (to be discussed below) receive a base salary to reflect their talent, skills, competencies, and contribution to the Group relative to the market for comparable roles. We review the base salary of our staff members on an annual basis by considering factors such as market information and individual performance.

Benefits
Material risk takers are eligible to receive various employee benefits (including a pension contribution or, in specific circumstances, a cash equivalent), on a similar basis to other employees.

Variable remuneration

Annual Incentive Scheme (AIS)
The Firm's bonus scheme is a discretionary reward scheme based on the performance of the Firm as a whole. All bonuses are dependent on the Firm's overall financial result to ensure a sound capital base. The bonus pool will take into consideration all types of current and future, financial and non-financial risks and be determined on a sliding scale, using a monthly salary multiplier as a guide.

On an individual level, the scheme is designed and linked to both financial and non-financial criteria, rewarding behaviours that promote positive non-financial outcomes for the Firm and limiting eventual behaviours contrary to the Firm's values. Non-financial outcomes include the achievement of Environmental Social and Governance (ESG) and Diversity and Inclusion objectives and targets.

Annual bonuses relating directly to investment performance aligns the team with RIT's two reference hurdles CPI+3% and the All Countries World Index (50% £).

Individual allocations from the pool are made with reference to contribution to investment performance, within a prudent risk framework.

In addition to the above pool, the Committee also rewards strong contributions to wider firm objectives. This may include efficient cost management, prudent risk controls, sourcing of investment opportunities and strong operational disciplines. Any such qualitative rewards are measured against rigorous performance metrics through a firm-wide annual appraisal process.

All annual incentive and long-term incentive payments are subject to clawback provisions. These provisions provide scope for JRCM to recover value from awards in the event of a material misstatement of the Group's results or in the event of dismissal for gross misconduct.

The Committee has applied a cap on the overall cost of AIS payments. The cap for payments is up to a maximum of 0.75% of total net asset value. This provides clarity for our shareholders of the maximum cost the Group could incur in any one period. In addition, 60% of the excess of any payments above £250k (for all staff) are also deferred into shares of RIT, which will vest in equal portions over a three-year period.

The bonus pool and other individual bonuses will be adjusted as deemed necessary by the Committee in consideration of the following:

- Any compliance or regulatory issues that have occurred or are under investigation internally or externally
- Any persistent or significant breaches in either financial or non-financial KPI's
- Any conduct related matters that have occurred or are under investigation internally or externally
- Any matters that adversely impact client outcomes
- Any other factors that may publicly impact the Firm's brand or reputation.

Control function staff are independent from the business units they oversee and are remunerated in line with the achievement of the objectives of their functions as well as wider Firm performance. The determination of the level of remuneration of such staff is independent of the performance of the business areas they oversee.

Long-Term Incentive Plan

In its role of determining remuneration policy, the Committee regularly reviews the overall remuneration policy for JRCM. During 2020, the Committee (with advice from the Committee's consultant, Alvarez & Marshal) decided that the Long-Term Incentive Plans going forward would comprise Restricted Share Units (RSUs), rather than historically using Share Appreciation Rights (SARs) or performance shares.

This long-term incentive plan provides awards of a contingent number of ordinary shares in RIT (RSUs) to participants, which vest after three years and are then subject to a further two-year holding period. Following the expiry of a three-year vesting period, participants in the RSU Plan are entitled to dividends, which are met by the grant of additional shares (equivalent to the dividends paid during the three-year vest period). The vesting of an RSU is ordinarily subject to the participant's continued service over the vesting period. Following the two-year holding period, the RSUs plus dividends will be transferred directly to participants.

The RSU Plan uses ordinary shares of the Company to settle existing and future awards granted under the RSU Plan. The Group seeks to hedge its exposure under the RSU Plan by using an Employee Benefit Trust to acquire shares to meet the estimated future liability. As noted above, LTIP awards are subject to clawback.

A small number of legacy SARs remain held by certain staff. These ‘phantom options’ vest three years after award subject to performance measured against RPI + 3%, and can then be exercised at any point over the next seven years through a payment in shares.

Guarantees
We acknowledge non-performance-related variable remuneration, such as sign-on bonus, buy-out award, retention award and severance pay, may weaken the alignment of risk and award.

We may award the following remuneration if it does not become common practice:

- Sign-on bonus: only in the first year of service of the newly hired material risk takers or other senior staff members where the Firm has a strong capital base.
- Buy-out award: involves the Firm compensating a new employee for reduced, revoked, or cancelled variable remuneration by the previous employer
- Retention award: this is dependent on a material risk taker or other senior staff members remaining in role until the end of a restructuring or a wind-down of the Firm
- Severance pay: in case of early termination of the employment contract, the Firm retains the ability to make severance payments as long as they reflect the individual’s performance over time and do not reward failure or misconduct.

<u>Material risk takers</u>

Material risk takers are those staff members and members of Senior Management who have a material impact on the Firm’s risk profile, and may include:

- JRCM Directors, members of which form the JRCM Executive Committee
- Staff who are risk takers with authority to take material investment decisions
- Members of the management body
- Managers or senior members of staff in a control function
- Managers or senior members of a business unit carrying out regulated activities

<u>Clawback and malus</u>

The total variable remuneration awarded to any individual is subject to clawback where RIT experiences subdued or negative financial performance. These clawback arrangements will take into account both current remuneration and reductions in payment of amounts previously earned, including through prior clawback arrangements.

Up to 100% of the total variable remuneration previously awarded will be subject to clawback arrangements. The following criteria will result in clawback arrangements being invoked:

- Any evidence of employee misbehaviour or material error;
- Any participation in or, responsibility for conduct which resulted in significant losses to RIT/JRCM;
- Any failure to meet appropriate standards of fitness and propriety;
- Any matters that adversely impact client outcomes; or
- Any other factors that demonstrably publicly impact JRCM/RIT’s brand or reputation.

For the clawback provisions applicable to each of the variable remuneration, please refer to the relevant section in the above.

Clawback should always be applied in cases of fraud or other conduct with intent or severe negligence which led to significant losses.

Further cases and the determination of the level of clawback to be undertaken is made by the Remuneration Committee of RIT, which may seek external independent professional advice on the implementation of such arrangements.

Quantitative disclosures

In respect of the year ended 31st December 2023, the Company awarded fixed remuneration of £8.4m and variable remuneration of £12.4m. Material risk takers received fixed remuneration of £2.3m and variable remuneration awards of £5.7m (of which £1.2m was awarded in cash and £4.5m in RIT share awards which vest over three years, with the majority having an additional two-year holding period). Other employees received fixed remuneration of £6.1m and variable remuneration of £6.7m (of which £3.9m was in cash and £2.8m in RIT share awards which vest over three years, with the majority having an additional two-year holding period).

Annex 1: Own funds – Composition of regulatory own funds

	Item	Amount (£ '000)	Source based on reference numbers / letters of the balance sheet in the audited financial statements
1	**OWN FUNDS**	**90,792**	
2	**TIER 1 CAPITAL**	**90,792**	
3	**COMMON EQUITY TIER 1 CAPITAL**	**90,792**	
4	Fully paid-up capital instruments	6,250	**Share capital – point 9 (Annex 2)**
5	Share premium	-	
6	Retained earnings	114,916	**Retained earnings – point 10 (Annex 2)**
7	Accumulated other comprehensive income	-	
8	Other reserves	-	
9	Adjustments to CET1 due to prudential filters	(30,374)	**Points 1, 3, 8 (Annex 2)**
10	Other funds	-	
11	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	(30,374)	
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	-	
29	Tier 2: Other capital elements, deductions and adjustments	-	

Annex 2: Own funds – Reconciliation of regulatory own funds to balance sheet in the audited financial statements

		a	b	c
		Balance sheet as in published/audited financial statements **Amount as at period end (£ '000)**	**Under regulatory scope of Consolidation** **Amount as at period end (£ '000)**	**Cross-reference to Annex 1**
Assets - *Breakdown by asset classes according to the balance sheet in the audited financial statements*				
1	Investments held at fair value	30,325		9
2	Property, plant & equipment	118		
3	Retirement benefit asset	76		9
4	Trade & other receivables	120,326		
5	Cash	7,621		
	Total Assets	158,466		
Liabilities - *Breakdown by liability classes according to the balance sheet in the audited financial statements*				
6	Share-based payment liability	29,613		
7	Trade & other payables	7,660		
8	Deferred tax liability	27		9
	Total Liabilities	37,300		
Shareholders' Equity				
9	Share capital	6,250		4
10	Retained earnings	114,916		6
	Total Shareholders' equity	121,166		