

## MFS International (U.K.) Limited

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# MIFIDPRU 8 Disclosure for the year ended 31<sup>st</sup> December 2023

## 1. Introduction

MFS International (U.K.) Limited ("MIL UK" or the "Company") is an U.K. based investment manager authorised and regulated by the Financial Conduct Authority ("FCA") under Firm Reference Number: 181136. MIL UK is subject to the prudential requirements of the Investment Firms Prudential Regime ("IFPR") contained in the MIFIDPRU Sourcebook of the FCA's Handbook, and is required to publish disclosures in accordance with the provisions and guidance outlined in MIFIDPRU 8 of the IFPR. Under IFPR, MIL UK is classified as a non-SNI firm and is required to provide disclosures in relation to the following:

- Governance Arrangements
- Own Funds
- Remuneration Policies and Practice

This disclosure is in relation to financial year end 2023. The Company will be making MIFIDPRU 8 disclosures at least annually, unless an interim update to the most recent Internal Capital and Risk Assessment ("ICARA") is required in response to substantial changes in the nature of its operations, or material adverse market movements.

This disclosure will be published at [www.mfs.com](http://www.mfs.com)<sup>1</sup>.

The information contained herein has not been audited by the Company's external auditors, does not constitute any form of financial statement. The rules provide that one or more of the required disclosures may be omitted if the Company considers that information to be immaterial. Materiality is based on the criterion that the omission or misstatement of any information would be likely to change or influence the decision of a reader relying on the information. In addition, one or more of the required disclosures may be omitted if the Company believes that the information is proprietary or confidential. Proprietary information is that which, if it were shared, would undermine MIL UK's competitive position. Information is considered confidential where that are obligations binding us to confidentiality with our clients, suppliers and counterparties.

## 2. Background and Scope

MIL UK is a private limited company incorporated in England and Wales, with a direct subsidiary based in Switzerland (MFS International Switzerland GmbH) ("MFS Switzerland"). The Company is a wholly owned indirect subsidiary of Massachusetts Financial Services Company ("MFS") headquartered in Boston, USA. MFS is in turn an indirect subsidiary of Sun Life Financial Inc., which is AA rated (S&P) company with a business that is well-diversified by geography and sector. The Company is not a member of a consolidated group for FCA reporting purposes.

Following the introduction of the new Investment Firms Prudential Regime ("IFPR"), MIL UK is categorised as a

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<sup>1</sup> Institutions & Consultants page of [www.mfs.com](http://www.mfs.com)

MIFIDPRU Investment Firm. In accordance with the requirements under IFPR, MIL UK has carried out a review and assessment of its risks in order to assess and demonstrate that its systems and controls are adequate to monitor the risk of harm and mitigate against financial and non-financial risk. This includes the risks that MIL UK is or might be exposed to, or those which MIL UK poses or might pose to others. The assessment has been completed on an appropriate and proportionate basis according to the nature, scale and complexity of MIL UK's size and business activities in accordance with MIFIDPRU 8.1.8.

Under IFPR, MIL UK is classified as a non-SNI firm. Non-SNI firms are required to maintain an amount of "own funds" that is the higher of their:

- Permanent Minimum Capital Requirement ("PMR") of £75,000 for all investment firms including MIL UK;
- fixed overheads requirement ("FOR"), which would be an amount equal to three months of the firm's "relevant expenditure" (being, broadly, a firm's total expenditure for the preceding year but with certain deductions, for example, profit distribution, staff bonuses, non-recurring expenses from non-ordinary activities, amongst others); and
- total "K-factor" requirement. These will examine 3 broad risk areas: Risk to Client, Risk to Market and Risk to Firm rather than the previous focus on risk to the firm's balance sheet.

### **3. Risk Management Framework**

Business strategy is determined by senior management of the MFS Group's US based parent, Massachusetts Financial Services Company ("MFS"). Risk appetite and the corresponding risk management framework are determined by the Board; determination of how identified risks may be mitigated and arrangements to manage those risks are considered during this process.

The governance and risk management framework of the Company deploys adequate and consistent policies, procedures and controls across its operations. This framework provides the infrastructure for managing risk. Key components of this framework include the areas below:

#### **3.1 Governance Arrangements**

MFS has deployed a hierarchy of sub-committees to oversee compliance activities, investment risk, operational risk functions and other operational processes of the MFS Group. There are a number of functional committees which are responsible for the oversight of regulatory, operational and investment activities of MFS and these committees are comprised of employees who have experience in the specialty area of each committee. There are four supervisory committees, to which the functional committees report matters relevant to each: the Internal Compliance Controls Committee ("ICCC"), the Enterprise Risk Management Committee ("ERMC"), the Investment Management Committee ("IMC") and the Employee Conduct Oversight Committee ("ECOC") which provides governance and oversight with respect to all matters relating to employee conduct. The ICCC reviews compliance and regulatory issues across each of MFS' businesses, evaluates and oversees implementation of solutions. The ERMC provides a forum to review significant enterprise risks and to monitor and advise business units concerning internal control systems and adherence to the MFS risk appetite and tolerance. The IMC is responsible for the oversight of portfolios management, research and trading and the monitoring and management of investment risk. In addition to the quarterly meetings of the MIL UK Executive Committee and the MIL UK Board of Directors, MIL UK's senior management and other personnel participate in, or are represented on, various committees and sub-committees. Participation in the MFS Group's committee structure provides the Company and its senior managers with a defined controls structure within the MFS Group. This allows for the escalation of identified issues to the

appropriate committee, in addition to reporting such issues to the MIL UK Board of Directors as appropriate. The risk appetite is set through the MFS group-wide risk appetite statement and an extensive series of policies. MFS' conservative operational and regulatory risk appetite is reflected in a commitment to a comprehensive and robust policy framework that defines acceptable standards across many activities. The policy framework is governed by MFS' Committee Structure Policies that apply to MIL UK are reviewed and approved by the MIL UK Board.

The control programmes deployed by MFS include the periodic examination of MIL UK by MFS Internal Audit. MIL UK is also subject to the MFS Group's Compliance Programmes that include a wide range of regulatory controls and procedures applied globally, including the Code of Ethics/Personal Investing Policy and the Code of Business Conduct. These central programmes are reinforced and complemented by locally deployed programmes. The Company maintains a Compliance Function in London, with the Head of Compliance- International registered as an FCA Approved Person for the Compliance Oversight (SMF16) and Money Laundering Reporting Officer (SMF17) functions for MIL UK. A dedicated Director- Compliance is in place and is responsible for the oversight of the UK Compliance programme and is the nominated deputy. The local Compliance Function delivers the MIL UK Compliance Programme together with oversight of the MIL UK Anti-Money Laundering controls.

### **3.2 MIL UK Board**

The MIL UK Board meets on a quarterly basis and discussions include risk and regulatory capital management of the Company. The Board's process is formally documented in the Company's ICARA at least annually. In the event that the nature of the Company's operations change substantially, or material adverse market movements limit the usefulness of the information contained in the most recent ICARA document, the Board may issue an interim update accordingly.

### 3.2.1 MIL UK Board of Directors

As at 31<sup>st</sup> December 2023, MIL UK has appointed a total of 5 Executive Directors. There are no independent non-executive directors.

Director	Title	Number of External Directorships (for organisations which pursue predominantly commercial objectives and not within the same group or undertaking ) <i>as per MIFIDPRU 8.3.2</i>
Gabrielle J. Gourgey SMF1, SMF3	Director- - Investments Europe	0
Lina M. Mederios SMF3	SVP Luxembourg Operations	0
Mitchell C. Freestone SMF3	SVP Sr. Managing Counsel EMEA & APAC	0
Madeline Forrester SMF3	Sr. Managing Director Institutional Consultant Relations	1
Robertson G. Mansi SMF3, SMF24	SVP- Global Investments & Client Support	0

### 3.2.2 MIL UK Diversity Policy

Diversity, equity and inclusion (DEI) are foundational to the work MIL UK does as an active manager, essential to its longevity and critical to its purpose of creating long-term value responsibly for clients. MIL UK builds a diverse workforce and leadership pipeline by bringing together, developing and retaining employees with different perspectives, experiences and backgrounds. To create an inclusive workplace where anyone can thrive, MIL UK extends equal employment opportunity to all qualified individuals without regard to colour, race, nationality, ethnic or national origin, sex, gender reassignment, marital or civil partnership status, disability, age, sexual orientation, belief or religion. Driving DEI progress outside of the firm requires a long-term commitment, partnerships with global organizations and community-minded initiatives.

#### 4. Own Funds

	As at 31 <sup>st</sup> December 2023 (£000s)
<b>Own Funds</b>	<b>94,685</b>
<b>Tier 1 Capital</b>	<b>94,685</b>
Common Equity Tier 1 Capital	
Fully paid up capital instruments	1,996
Share premium	
Retained earnings	76,161
Accumulated other comprehensive income	16,528
Other reserves	
Adjustments to CET1 due to potential filters	
Other funds	
(-) Total deductions from common equity Tier 1	
CET1: Other capital elements, deductions and adjustments	
Additional Tier 1 Capital	
Fully paid up, directly issued capital instruments	
Share premium	
(-) Total deductions from additional Tier 1	
Additional Tier 1: other capital elements, deductions and adjustments	

<b>Tier 2 Capital</b>	
Fully paid up, directly issued capital instruments	
Share premium	
(-) Total Deductions from Tier 2	
Tier 2: other capital elements, deductions and adjustments	

As of 31<sup>st</sup> December 2023, MIL UK had no additional Tier 1 or Tier 2 capital. MIL UK had Own Funds of £94,685 as at 31st December 2023,

MIFIDPRU 8 requires MIL UK to reconcile its Own Funds to the balance sheet in the audited financial statements. This is detailed below as at 31<sup>st</sup> December 2023:

<b>Assets</b>	<b>£000s</b>
Non _Current Assets	24,714
Current Assets	114,292
<b>Total Assets</b>	139,006
<b>Liabilities</b>	
Non-Current Liabilities	10,243
Current Liabilities	34,078
<b>Total Liabilities</b>	44,321
Issued capital	1,996
Retained earnings	76,161
Other Comprehensive income	16,528
<b>Total Shareholders Equity</b>	94,685

## 4.1 K Factor Requirements Applicable to MIL UK

Capital requirements and allocation are based on the "K" factor requirements under MIFIDPRU 4.6.

### (a) Risk to Client (RtC) Factors

The K factors under IFPR are events for firms such as MIL UK, from which harm to clients can

manifest an impact the firm's own funds (capital). Within the RtC category, there are four K factors:

- (i) Client assets under management and ongoing advice (K-AUM). This captures the risk of harm to clients from the poor management or execution of client portfolios. By defining a need to hold capital against this risk, it provides support and client benefits in terms of the continuity of service.

This factor is applicable to MIL UK as one of the Company's main activities is to manage client portfolios. If these portfolios are poorly managed and not in accordance with the client's Investment Management Agreement, harm can be caused to the client.

- (ii) Client assets safeguarded and administered (K-ASA). This K-factor ensures that an investment firm holds capital in proportion to such assets, regardless of whether they are on its own balance sheet or in third-party accounts.

This factor is not applicable to MIL UK as MIL UK does not have permission to hold client assets.

- (iii) Client money held (K-CMH). This captures the risk of harm where an investment firm holds its clients' money, whether on its own balance sheet or in third-party accounts. This is broken down further into money held in segregated accounts (K-CMHS) and money held in non-segregated accounts (K-CMHNS).

This factor is not applicable to MIL UK as MIL UK does not have permission to hold client money.

- (iv) Client orders handled (K-COH). This captures the risk to clients of an investment firm that executes orders in the names of clients, and not in the firm's name, say in providing execution-only services or when a firm is part of a chain of client orders. This is broken down further into client orders handled in cash trades (K-COHC) and client orders handled in derivative trades (K-COHD).

This factor is applicable to MIL UK as its activities include handling client orders. If orders are mishandled by MIL UK, there will be harm to the client.

## **(b) Risk to Market (RtM) K Factors**

Risk-to-Market (RtM) K-factors only apply to firms with a trading book that deals on their own account or on behalf of their clients, i.e. they deal on a matched principal basis or as a market makers MIL UK does not deal in this way, the K factors of Net Position Risk and Clearing Margin Given do not apply to MIL UK.

## **(c) Risk to Firm (RtF) K- Factors**

Risk-to-Firm (RtF) is the final set of K-factors, and must be modeled by investment firms that deal on their own account.

As MIL UK does not deal on its own account the RFT K factors of Trading Counterparty Default (K-TCD), Daily Trading Flow (K-DTF) and Concentration Risk (K-CON) do not apply to MIL UK.

#### 4.1.1 K Factor Calculations

<b>K Factor Requirements</b>	<b>As at 31 December 2023 (£000s)</b>
<b>K-AUM</b>	<b>34,826</b>
<b>K-COH</b>	<b>812</b>

The MIL UK Executive Committee and Board consider that the assessment that has been completed already for the ICARA of the risks (both as a result of internal and external actual and potential harms) are adequate to the proportionate size of the firm and its activities and have been appropriately accounted for in the K factor calculations above.

Based on this assessment, the capital requirements for MIL UK under IFPR are £35.6million.



## Remuneration Code Provisions

MIL UK is subject to the FCA's Remuneration Code. The objective of MIL UK's Remuneration Policy is to provide a reasonable and appropriate remuneration environment while ensuring that employees are not incentivised to take inappropriate risks. MIL UK emphasises its culture of compliance and ethics with its employees, and does not approve, condone or support employees taking inappropriate risks for the purpose of maximising individual bonuses.

The Company ensures that it does not remunerate or assess the performance of employees in a way that conflicts with the Company's duty to act in the best interest of its clients. In this regard, it takes steps to identify and prevent or manage conflicts of interest that could arise under its remuneration arrangements. For example:

- the Company does not operate or introduce any remuneration structures that could create a conflict of interest or incentive for an employee to favour their own interest, or that of the Company's, to the potential detriment of the Company's clients.
- the Company has comprehensive policies that address personal trading and business conduct that require employees to place the interests of clients first and require employees to identify and escalate any appearance of, or actual, conflicts of interest including circumstances where they consider the remuneration for a particular activity may be misaligned with the duty to act in the client's best interest.
- the method of determining the compensation for employees in Compliance is independent of the profitability of the business unit they supervise and does not comprise their objectivity;
- the Company makes clear to participants in remuneration plans that (i) the respective plan contains discretions which allow the Company to reduce remuneration in the event of non-compliant sales; but (ii) in addition to any such reduction, other disciplinary consequences may also apply;
- employees in the MFS group, including the Company, are annually required to acknowledge their understanding of and compliance with the firms' Code of Ethics and related business conduct policies, which governs employees' professional behaviour. In addition, the Chief Human Resources Officer of MFS US is a member of the Ethics Oversight Committee which, among other things, ensures that compliance violations are factored into compensation decisions appropriately in collaboration with Compliance and the employee's management team. No employee of the Company is involved in any decision making related to his or her own compensation.

The MIL UK cash bonus pool is based on the overall profitability of MIL UK's parent, MFS Investment Management, an investment manager registered with the US Securities and Exchange Commission ("**MFS US**") on a consolidated basis. No individual employee's bonus is calculated by reference to the profitability of the individual employee's business activities. Consequently, individual employees do not have an incentive to take inappropriate risks to maximise the profits earned from their individual activities. By tying individual compensation to overall profitability of MFS, employees are encouraged to work cooperatively to produce the best long-term results for clients.

The firm employs a "pay-for-performance" approach to compensation to recognise employees who contribute the greatest value to the firm, considering performance (both financial and non-financial), experience and critical skills. Code Staff are assessed and compensated based on the performance of MIL UK, their business unit and their individual performance. Performance considerations also include those non-financial risks: building and maintaining positive customer relationships, reputation, achieving in line with firm strategy and values and effectiveness and operation of the risk and control environment.

In evaluating which employees are "Code Staff" for the purposes of the FCA Remuneration Code, MIL UK considers if they fall within any of the categories below:

- Senior Management Function Holders (e.g. board members of MIL UK)
- Risk takers (who have a material impact on the risk profile of MIL UK)
- Heads of control functions , support functions, significant business lines, and individuals within their control who have a material impact on MIL UK's risk profile
- Employees whose total remuneration takes them into the same remuneration bracket as senior management and risk takers, whose professional activities could have a material impact on MIL UK's risk profile.
- If an employee is based outside the UK s/he will only be identified as Code Staff if s/he is considered to be a material risk taker in respect of MIL UK. In determining this MIL UK considers the impact of the risk profile of MIL UK on the MFS Group as a whole and the role that MIL UK plays within the responsibilities of such employees.

MIL UK's incentive compensation programmes are subject to rigorous review by MFS US' Management Committee. The MIL UK's incentive compensation programmes follow the same philosophy and policies of MFS, which are reviewed and approved by the Management Resources Committee (MRC). The MRC consists of independent directors of Sun Life Financial who are also wholly independent of MIL UK and MFS US. MIL UK HR policies are also reviewed and approved by the MIL UK Board of Directors. The implementation of MIL UK's compensation programmes is subject to annual central and independent review for compliance with the compensation programmes reviewed by both MFS's Corporate Compensation and the Remuneration Committee of MFS. None of the Remuneration Committee of MFS members have day-to-day executive roles within MIL UK.

MFS engages the services of McLagan Partners to assist with conducting competitive assessments to determine any necessary changes to the remuneration policy. McLagan Partners is an AON Hewitt Company specializing in global compensation programs for asset management firms and financial services.

In addition, MFS' principal shareholder Sun Life Financial Inc. ("Sun Life"), acting through the Sun Life Board and the Management Resources Committee hire their own independent consultant to review MFS compensation programs. The firm they engage is Pay Governance, which is a nationally recognised compensation consulting firm. Sun Life appointed Pay Governance in August 2016 replacing Johnson Associates Inc.

MIL UK strives to provide superior long-term investment performance for its clients. To meet this objective MIL UK trains its investment professional staff and the staff that supports the investment function to focus on long-term performance and not on short-term opportunities. To support that objective, MIL UK's compensation practices are structured to reward long-term performance and sound risk management. This long-term focus is consistent with the historical corporate culture of MIL UK and its parent company, MFS US.

### **Quantitative information for the year ending 31 December 2023**

For the year ending 31 December 2023, total remuneration for MIL UK's 10 Code Staff (most of whom are senior management but also including staff who have a material impact on the risk profile of the firm) was GBP 8,087,758

**MFS International (U.K.) Limited**