Houlihan Lokey

Houlihan Lokey

U.K. MIFIDPRU 8 Disclosures

30 September 2023

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Section 1 - Introduction and Scope

This document sets out public disclosures on risk management and capital adequacy for the MiFID Investment Firms ("**MIFIDPRU**") investment firms within the Houlihan Lokey Group as at 30 September 2023. For these purposes, the **"Houlihan Lokey Group"** comprises Houlihan Lokey, Inc. (**"HL Inc."**), a Delaware corporation listed on the New York Stock Exchange (ticker: HLI), and its subsidiary undertakings from time to time. Each of these MIFIDPRU investment firms is authorised and regulated by the Financial Conduct Authority (**"FCA"**) and is subject to the rules set out in the FCA's prudential sourcebook for MiFID Investment Firms ("MIFIDPRU"), including MIFIDPRU 8 rules on disclosures. These disclosures are prepared in accordance with the requirements of MIFIDPRU 8 and are available on the Houlihan Lokey website (**www.HL.com**).

The MFIDPRU investment firms currently within the Houlihan Lokey Group are as follows:

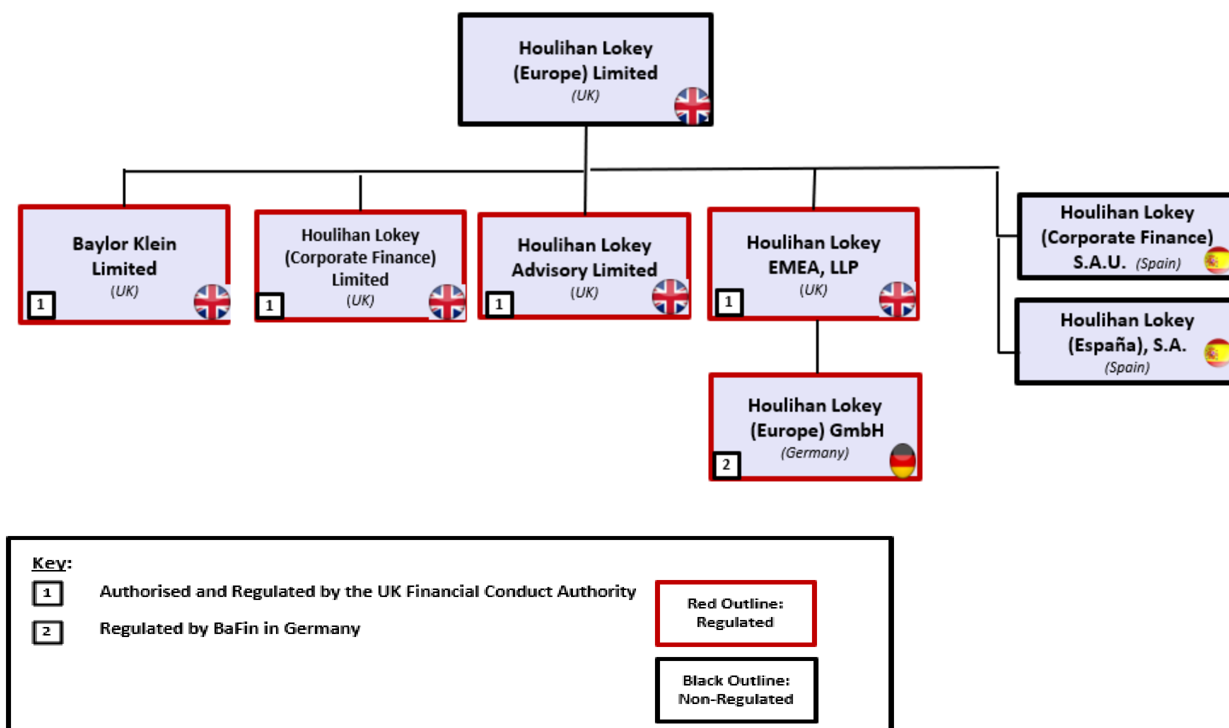
Name	Description of Activities
Houlihan Lokey EMEA, LLP (**"HL EMEA"**)	Serves clients through its three primary business practices: Corporate Finance (M&A, capital markets and other financing advisory, and a private funds group), Financial Restructuring (both out-of-court or via formal insolvency proceedings) and Financial and Valuation Advisory (including financial opinions and a variety of other valuation and financial consulting services). HL EMEA also hosts a Financial Sponsor Coverage Group which services all of the Firms in the promotion and management of relationships with financial sponsors.
Houlihan Lokey (Corporate Finance) Limited (**"HL CF"**)	Serves clients through its one primary business practice: Corporate Finance (M&A, capital markets and other financing advisory). This entity was acquired by the Houlihan Lokey Group in 2018 and was formerly known as Quayle Munro Limited.
Baylor Klein Limited (**"Baylor Klein"** or **"BKL"**)	Serves clients through its one primary business practice: Corporate Finance (M&A). This entity was acquired by the Houlihan Lokey Group in 2021.
Houlihan Lokey Advisory Limited (**"HL Advisory"** or **"HLA"**)	Serves clients through its one primary business practice: Corporate Finance (M&A, capital markets and other financing advisory), focussing on the telecoms and related sectors. This entity was acquired by the Houlihan Lokey Group in 2023 and was formerly known as Oakley Advisory Limited.

These firms (each a **"Firm"**) are governed by their own governing bodies (being either a board of directors (**"Board"**) or, in the case of HL EMEA, a partnership executive committee (**"PEC"**)), which retain overall responsibility for control and oversight of key matters.

Under the Investment Firms Prudential Regime (**"IFPR"**), which is the regulatory regime for investment firms that the FCA has adopted, all four Firms are subject to minimum regulatory capital requirements on an individual basis, including in relation to own funds, level of minimum capital, concentration risk and liquidity requirements.

The Firms also form part of a group which is subject to prudential consolidation, the parent entity of which is Houlihan Lokey (Europe) Limited (**"HL Europe"**), as set out in the diagram below. Each firm in this group broadly undertakes corporate finance advising and arranging activity. None of them undertake fund management, trading, underwriting or similar activities. This consolidation group is also subject to certain minimum regulatory capital requirements in accordance with the requirements of MIFIDPRU 2.5.

Notwithstanding this, each Firm is required to comply with the disclosure requirements on an individual basis under MIFIDPRU 8.1.7R. Further to application of the rules set out in MIFIDPRU, it has been determined that as each Firm constitutes a non-SNI MIFIDPRU investment firm, it will comply with MIFIDPRU 8 on such basis.



Proportionality

In complying with the rules, a MIFIDPRU investment firm must provide a level of detail in its qualitative disclosures that is appropriate to its size and internal organisation, and to the nature, scope, and complexity of its activities. Whilst each Firm is managed as a separate entity, the approach to risk management of each entity is undertaken in a broadly consistent manner as described in this document based on application of policies and procedures applicable to all MIFIDPRU investment firms in the Houlihan Lokey Group. Therefore, the qualitative disclosures provided in respect of governance arrangements, the approach to assessing adequacy of own funds and remuneration policies and practices are broadly consistent for each Firm. Quantitative disclosures are provided, as required, for each Firm.

Frequency

Each of the Firms has an accounting reference date of 31 March other than HL Advisory, for which such date is currently 31 December. Disclosures are generally published annually in line with publication of financial statements but may be published more frequently in light of any material changes.

Miscellaneous

These disclosures have been approved by the PEC or Board, as appropriate, of each Firm and have been produced solely for the purposes of satisfying the MIFIDPRU 8 regulatory requirements.

Section 2 – Risk Management Objectives and Policies

Each Firm has the objective of developing systems and controls to manage any risk linked to its operations such that it falls within the scope of its risk appetite. Whilst, as mentioned, each Firm's governing body has ultimate overall responsibility for risk management, in light of the similarities between the businesses of each Firm, aspects of risk are managed on a centralised basis as described in more detail below, with certain policies and procedures applied on a global basis in similar manner across the Houlihan Lokey Group.

The Three Lines of Defence Model

With an aim of ensuring effective risk management, each Firm has adopted a 'Three Lines of Defence' model, with clearly defined roles and responsibilities. A summary of this approach is set out below:

*First Line of Defence (**"1LOD"**) – risk identification and management:* risk identification and management is the primary responsibility of the front-line relationship managers in each Firm as well as their senior management. Front-line managers are primarily responsible for identifying and evaluating risks posed to the business and its customers within their areas of responsibility, and for designing and operating suitable controls in line with policies, procedures and the agreed risk limits set by senior management. The roles of the first line of defence with regard to risk management include:

- complete and accurate identification of relevant risk events
- regular self-assessment of risks and controls linked to business activity
- reporting on issues, key risk indicators (**"KRIs"**) and other risk metrics
- definition of appropriate actions, based on the limits of risk appetite and on the information reported
- corresponding follow-up on action plans and further mitigation initiatives.

*Second Line of Defence (**"2LOD"**) – risk oversight:* risk oversight is performed by independent, specialist functions that are responsible for oversight of the risks. This is achieved by setting policy, by monitoring the systems and controls in order to manage the risks and by challenging 1LOD on the effectiveness of controls. Whilst by virtue of the application of MIFIDPRU 7.1.4R, none of the Firms are required to establish a risk committee. Notwithstanding this, the Firms have established a single Risk Forum which will meet regularly and provide oversight for all aspects of risk management (with a focus on risk profile, appetite and monitoring effectiveness of overall risk management) across the Firms and consists of senior members of staff from corporate functions such as Finance, Legal & Compliance and Human Capital Management as well as representatives of key business lines. These support functions are centralised and available to each Firm and also assist 1LOD in risk oversight and management on a day-to-day basis.

*Third Line of Defence (**"3LOD"**) – Internal Audit:* the Internal Audit function is an independent function and is responsible for providing independent assurance that the risk management framework is operating effectively by means of auditing the design and effectiveness of internal controls. In performing such functions, Internal Audit may undertake regular reviews of key risk control matters as well as specific thematic reviews of areas of particular concern at any point in time. 3LOD works closely with 1LOD and 2LOD in ensuring its recommendations are implemented, as appropriate. The same Internal Audit function covers all four Firms, ensuring a consistency of approach.

All lines of defence ultimately report matters of material interest or concern to the governing bodies of the four Firms, which meet as needed to consider such matters.

Risk Management Framework

Each Firm's risk management framework comprises a number of elements to manage risk arising from any chosen business strategy. These include:

- agreement of a level of risk appetite in relation to such chosen strategy
- development of a risk governance framework designed to ensure that the chosen level of risk is not exceeded, which is to include:
    - definition of roles and responsibilities
    - use of the Risk Forum to provide oversight of the management of existing risks and emergence of new risks
    - identification and recording of risks via a risk register held by the Risk Forum
    - development of policies and procedures
    - development of firmwide training programmes.
- further to the establishment of the risk governance framework, ongoing assessment, measurement, monitoring of limits, KRIs and reporting of risk as part of a dynamic process centralized on the Risk Forum (which in turn provides recommendations back to business line managers or decides whether further escalation to the relevant governing body (or committee thereof) is warranted), along with individual incident management typically handled by business lines and corporate support functions as part of day-to-day business (but with reporting of such incidents into the Risk Forum, business line managers and, if necessary, the governing body of the relevant Firm)
- use of the annual Internal Capital Adequacy and Risk Assessment process (**"ICARA"**), assessment of capital and liquidity adequacy, stress testing and wind-down planning to review and inform the overall risk management process and mitigate risk.

Approach to Assessment of Own Funds Requirements, Concentration Risk and Liquidity

Under the "overall financial adequacy rule" set out in MIFIDPRU 7, each Firm is required at all times to hold own funds and liquid assets which are adequate both in terms of amount and quality so as to ensure that each Firm (i) remains financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities, and (ii) can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

As part of the ICARA process, risks with potential for material harm to clients, markets in which each Firm operates and the Firms themselves (and associated mitigants) are identified in order to assess own funds requirements, concentration risk and liquidity, and ensure that adequate own funds and liquid assets are held in the context of the business of each Firm. These are assessed on the basis of historic experience and on a forward-looking basis as to the level of own funds and liquidity required to meet the overall financial adequacy rule, taking into account expectations for future growth (or reductions of business). Stress testing is then undertaken on the basis of varying scenarios in order to ascertain as to whether further allocation of own funds and/or liquid assets should be made from a prudential perspective in order to comply with the overall financial adequacy rule.

It should be noted that as none of the Firms runs a trading book, the application of the rules set out in MIFIDPRU 5 (*Concentration risk*) largely do not apply, save for a general obligation to control concentration risk using sound administrative and accounting procedures and robust internal control mechanisms. In light of the broad spectrum of the Firms' client base, concentration risk in the context of client receivables at any point in time tends to be limited in scope. From time to time, balances which are more significant in quantum may arise as a result of intra-group lending between members of the Houlihan Lokey Group as part of documented cash management procedures.

Risk Policies

As referenced above, development and implementation of appropriate policies and procedures is a key tool for effective risk management. Whilst none of the Firms is involved in trading, investment or similar activities whereby capital belonging to, or managed by, a Firm is placed at risk in pursuit of speculative gains, there is some potential for loss further to credit risk arising from clients failing to pay invoices for services rendered or banks with which a Firm has placed its funds going insolvent, which in turn may trigger liquidity issues. Such risks can in large part be managed by sensible credit and cash management procedures.

The focus of the Firms' policies to manage risk is therefore more on risks which have been identified as giving rise to an enhanced possibility of causing significant losses. These include business risks (such as loss of key staff, which can be mitigated by effective remuneration and retention policies, or risk of recession which can be mitigated by means of a balanced business model including a significant restructuring business which tends to attract more business in times of economic dislocation), operational risk (in particular management of legal and regulatory risk), and reputational risk (managed, for example, by application of comprehensive client onboarding procedures) as well as IT and cyber risk. In order that staff are aware of policies which apply to them, these policies are generally contained in or otherwise referenced in the Firms' *Compliance Manual* and *Code of Ethics,* supported by training as appropriate to heighten awareness and understanding.

Policies and procedures are tailored to local conditions as necessary, but in order that the Houlihan Lokey Group operates globally in a consistent manner, where practicable they are applied across such group. Examples of these include policies and procedures relating to the consideration, approval and issuance of fairness opinions, as well as procedures regarding the consideration and potential approval of non-standard engagement terms.

Risk Appetite

Each Firm's risk appetite is set out in the Risk Appetite Statement, which is intended to be the guiding document in assisting management in its decision-making by means of monitoring and assessing performance against stated appetite thresholds, *i.e.,* whenever any specific risks appear to be exceeding or approaching the relevant risk appetite limits (as indicated by relevant KRIs), action is taken to mitigate or otherwise respond adequately.

The Risk Appetite Statement sets down the type and level of risk of potential harms each Firm is willing to accept. When there are significant changes in a Firm's business or operating model or significant shifts have occurred in the external environment of the business, the Risk Forum may decide to request revision(s) in risk appetite to be reflected in the Risk Appetite Statement and associated KRIs. Communications in such respect are both top-down and bottom-up between the Risk Forum, the relevant corporate departments and business line.

Overall, each Firm's risk appetite has been assessed as **Low**, given that it does not take material market risks with its own capital and seeks to tightly control other risks. This assessment underpins each Firm's medium-term planning and expectations re: capital requirements.

The Risk Appetite Statement is based on a four-stage risk spectrum from **Very Low** to **High** and five principal categories of risk (with Operational Risk further broken down into sub-categories). **Very Low** is indicative of a risk which each Firm seeks to avoid and/or mitigate in its entirety, whereas a **High** risk is one accepted by a Firm to achieve its goals. Currently, each Firm's risk appetite for each category is set at either **Low** (*i.e.,* indicative of a risk each Firm seeks to minimise in the ordinary course of business) or **Medium** (*i.e.,* a risk accepted by a Firm to achieve strategic goals supported by appropriate controls to mitigate).

Risk Statement

Overall, the risk appetite of each Firm in respect of business, operational and other categories of risk identified as potentially material in the context of the ICARA process is **Low**. Each Firm's Risk Appetite Statement is prepared by the Risk Forum and then approved by the governing body of each Firm. The ICARA is prepared on a groupwide basis based on the consolidation group of which HL Europe is parent as referenced above, the governing body of which approves such document.

Material Risks

Further to the ICARA process, the following principal risks have been identified with the potential to cause harm to clients, markets in which each Firm operates and each of the Firms:

Business risk

Business risk is the risk of a decline in operating income due to a change in the business or economic environment leading to a decline in revenue, coupled with insufficient cost-elasticity (with potential for losses). This risk is a core driver of each Firm's strategy since it derives a substantial portion of its revenue from advisory fees, which are mainly generated at key transaction milestones, such as closing, the timing of which is outside of its control. As well as changes in existing environments in which each Firm operates further to an overall decline in demand for services, business risk can also manifest itself in the form of increased competition and the risks arising from entering new lines of business or acquiring new businesses which serve to impact revenues or raise costs.

Each Firm continually focuses on mitigating business risk at the same time as growing its business. One important facet of this is the 'three lines' business model referenced above operated by HL EMEA (the largest of the Firms), comprising Corporate Finance, Financial Restructuring and Financial and Valuation Advisory. Whilst revenues from Corporate Finance tend to be adversely affected by a recessionary environment, those of Financial Restructuring will typically increase to ameliorate such downturn, whilst revenues for portfolio valuation and similar services from Financial and Valuation Advisory tend to be less impacted by cyclical factors than other groups.

Credit risk

Credit risk is the risk of incurring a loss on receivables (existing or potential due to commitments given) such as where resulting from a change in the credit quality of a Firm's debtors, which can ultimately result in default. The probability of default and the expected recovery on a loan or receivable in the event of default are key components of the credit quality assessment. Two types of credit risk have been assessed for these purposes (in addition to any credit risk arising from intra-group lending in the ordinary course):

- risks relating to receivables from banks in respect of a Firm's own liquid funds, which are held in current/deposit accounts and/or money market funds. These positions are constantly monitored, but it is considered that the probability of default is remote as balances are held via institutions of high repute (or funds operated by them) with high credit ratings
- risks relating to client receivables by way of fees. Default risks in respect of fees owing by clients largely exist in relation to an event of insolvency affecting the client. The probability of occurrence is low, and the risk of a materially adverse loss is mitigated due to the spread over many clients.

Liquidity risk

Liquidity risk is the risk that arises from a lack of ability to generate sufficient cash resources to cover daily capital and cash flow requirements as they fall due. The Firms manage liquidity risk through continuous monitoring of future cash needs and stress testing.

The likelihood of an adverse liquidity event is significantly mitigated by the fact that over the course of any financial year, revenues typically materially exceed the fixed operating costs. The remaining cash is held until the financial year-end and then is partially distributed as discretionary bonuses across the next financial year, reinvested, used for acquisitions or can be paid out as distributions. To mitigate liquidity

risk, the Houlihan Lokey Group has established liquidity management guidelines to ensure that strict standards are followed about the type and duration of products into which excess funds may be invested. As such, each Firm considers its liquidity risk is low.

Conduct risk

Conduct risk is the risk that actions (or omissions) of a Firm or individuals within a Firm causes detriment to clients or other parties or has an adverse effect on market stability causing, *inter alia,* reputational damage to that Firm. In order to address this risk, a specific element of strategy focuses on conduct (both professional and personal) and a healthy compliance culture as a critical component of business success. As well as seeking to align with the FCA's stated determination to create a culture of good conduct at all levels within regulated firms, other key elements include ensuring that employees understand clients' needs and act in their best interests, respect market integrity, comply with applicable laws and do not permit the commission of financial crime and generally act with integrity and respect towards colleagues and other individuals in their business dealings.

Operational risks

Operational risks represent a significant risk potential for the Firms due to their business activities. In principle, they can occur in all business areas. Operational risks are defined as the risk of negative business development because of internal or external influences. An operational risk is therefore the risk of losses that may occur because of the inadequacy or failure of internal processes (including outsourced processes), systems, employees and/or because of external events (including legal risk).

By their very nature, operational risks are present in every business and cover a broad spectrum of matters. In order to provide definition and focus, the following key elements of operational risk as impact the Firms' businesses have been identified:

- *Reputational risks:* risks that a Firm might be perceived in an adverse manner by clients, employees, business partners and/or the public to the extent that doubts as to its competence and integrity and/or those of persons involved with it were to arise, whether due to matters such as errors in business process, poor advice and misconduct. Reputational risk is mitigated by means of implementation of appropriate policies and procedures throughout the lifecycle of a client engagement from onboarding to transaction close
- *Process risks:* relate to the risk of loss that may arise due to interruption or failure of business processes due to inadequate organisation and/or functionality of business processes. In order to minimise risk of disruption in business processes, each Firm has adopted a comprehensive set of policies and procedures, a number of which are common to the Houlihan Lokey Group designed to ensure, where practicable, a consistent approach based on best practices
- *External influences:* external operating risks can originate outside the Firms which may not be controlled directly or only to a limited extent, including, for example, business interruption due to *force majeure* type events and use of outsourcing arrangements or third party consultants. Again, various risk mitigation techniques have been adopted to manage these risks, such as use of insurance, as well as appropriately diligencing and monitoring third party contractors
- *Personnel risks:* risks in this area relate to the quality as well as quantity of staff resourcing available to each Firm in order to enable effective functioning. The hiring, retention and motivation of appropriately skilled staff into an environment conducive to their success is key to the success of the Firms. As well as management of these risks within each business line with the assistance of dedicated operational staff, each Firm can draw on the resources of a centralised Human Capital Group as a primary means of addressing these risks (for example, by means of co-ordinating staff appraisals, compensation reviews *etc.*)

- *Legal and regulatory risks:* each Firm operates in a highly regulated environment, and failure to comply with laws or otherwise meet regulatory requirements may result in an adverse financial or non-financial impact. The Firms have numerous policies and procedures in such regard with which their staff members are required to comply (and in relation to which training is provided). Furthermore, the Firms can each draw upon the support of the Houlihan Lokey Group Legal & Compliance team, a number of whom are based in London (as well as other jurisdictions around the world). As and when needed, external expert advice from law firms or regulatory consultants can be called upon to manage such risks
- *IT risks:* over recent years as IT has become ever more central to the functioning of modern business and complex in nature, the risks associated with its functioning have increased. IT risks include all possible losses related to the availability, integrity, authenticity and confidentiality of the data necessary for the Firm's operations. This applies to IT systems (*e.g.*, network, telephony and hardware), IT processes and software applications as well as the processed information and data. For convenience, three broad categories of IT risk have been identified:
    - system security and data integrity – in order to mitigate such risks, wherever practicable the Firms' IT systems and associated IT processes are based on current industry standards, with the aim of ensuring an elevated level of IT security and data integrity. Use is therefore made of firewall systems, intrusion detection or intrusion protection systems, logging systems for administrative access as well as corresponding data backup methods to ensure recoverability. To identify and defend against attacks, additional vulnerability tests and penetration tests of the systems are carried out on a regular basis. Where possible, standard software is used for its business activities. In situations where a standard software is not able to meet business requirements, a custom application may be developed
    - securing production – when outsourcing IT processes and IT services to Houlihan Lokey Group companies or service providers, only reputable providers are utilized with attention paid to the contractual agreements in order to ensure that rights and obligations of both parties are appropriately documented
    - risks from technological changes – these risks represent the danger of harm that may arise due to changes or innovations or, if applicable, the non-implementation of changes and innovations in IT. The Firm can no longer provide the desired quality for its services if, for example, technological trends demanded by the market or client groups are not delivered or if it fails to implement the technological change of a product/IT system. To manage this risk, the Firms have implemented IT architecture management, which is responsible for analysing, planning and controlling the strategic alignment of IT (IT systems and applications). Business strategy forms a basis for IT architecture management.

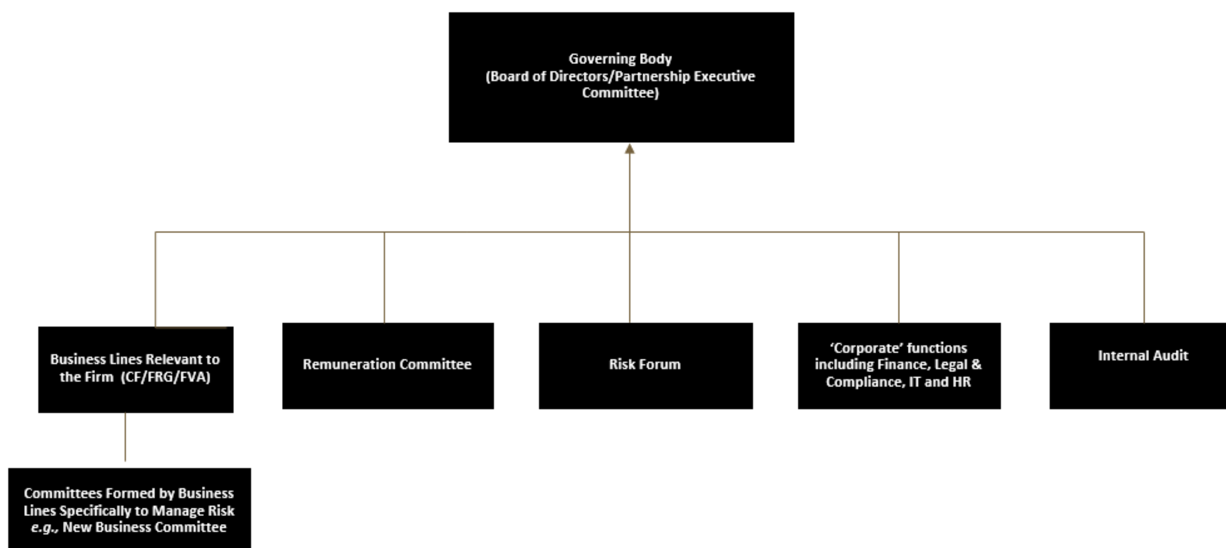
Assessment of the Effectiveness of Risk Management Processes

The effectiveness of Risk Management Processes is principally assessed by the relevant business line with an independent further comprehensive overview undertaken by the Risk Forum meeting at quarterly intervals to review developments in the area of risk and performance of existing controls. Internal Audit in its role as 3LOD will also review and assess from time to time specific areas of risk management and the overall control environment. The governing bodies of each of the Firms (and HL Europe as parent of the IFPR consolidation group) also meet from time to time to review and discuss risk-related matters emanating from the Risk Forum and approve annual updates to the ICARA.

Section 3 – Governance Arrangements

In accordance with FCA rule SYSC 4.3A.1R, the governing body of each Firm is responsible for defining and overseeing and is accountable for implementation of governance arrangements that ensure effective and prudent management of such entity, including the segregation of duties and the prevention of conflicts of interest, and in a manner that promotes the integrity of the market and the interests of clients.

A summary governance structure applicable to each Firm is set out below:



Governing Body

The governing body of each Firm (*i.e.,* the PEC in the case of HL EMEA and the relevant Board as regards the other Firms) has ultimate responsibility for oversight of the business and affairs of that Firm. In order to fulfil this function, each such body will meet from time to time to review such matters and approve any actions thought necessary to remedy any deficiencies.

The composition of the PEC or relevant Board typically comprises individuals actively involved in managing the relevant business lines carried on by the relevant Firm (Corporate Finance (**"CF"**)), Financial Restructuring Group (**"FRG"**) and Financial and Valuation Advisory (**"FVA"**)), as well as representatives of one or more 'Corporate' functions (typically the COO Corporate and/or Legal) who have detailed knowledge of issues as they arise from day-to-day.

Those with direct reporting lines into the governing body are as follows, reflecting the Three Lines of Defence model:

Business lines and committees formed by business lines

Management of issues which impact a business line is principally undertaken within that line. Each of CF, FRG and FVA has its own internal management. As well as reporting any material issues affecting that line of business into the governing body of the relevant Firm, there are parallel reporting lines into senior business management typically located in the US. As and when deemed appropriate, business lines may (individually or in conjunction with other business lines) form committees specifically designed to manage risk. In particular, the following committees are worthy of mention:

- *New Business Committee*: each line of business operates a new business committee or comparable new client onboarding procedure in order to assess the desirability of undertaking business with any given new client, issues which may arise from acting on a particular transaction structure for such client and an appropriate level of fees to be charged for services in relation to such matters. Where

there are issues surrounding any new engagement, then the decision to take on such business is generally provided by members of the relevant business line as well as representatives of 2LOD taking part in such process

- *Opinions Committee*: this is principally relevant to the operation of the FVA business line in the context of fairness opinions but may have application to other units where publishing a financial opinion. This committee is formed of independent executives from, typically, FVA as well as Legal and is designed to provide an appropriate level of scrutiny prior to publication of any such opinion.

Remuneration Committee

Staff used by each Firm are generally employed through HL EMEA. As such, HL EMEA has established a Remuneration Committee which meets at least annually to review compensation recommendations and policies and procedures. Its aim is to ensure the successful recruitment, retention and motivation of staff in a manner which takes account of the Houlihan Lokey Group's long-term goals whilst at the same time promoting sound and effective risk management and discouraging risk taking in excess of levels of tolerated risk.

The Risk Forum

Of particular significance in the context of risk management and governance is the Risk Forum as referenced above. A single Risk Forum has been established to focus on risk profile, appetite and monitoring effectiveness of overall risk management across the Firms, with reporting lines into each of the Boards and the PEC, as appropriate. The Risk Forum consists of senior members of staff from corporate functions such as Finance, Legal & Compliance and Human Capital Management as well as representatives of key business lines.

Corporate functions

Corporate functions such as Finance, Legal & Compliance, Human Capital Management and IT play a key part in effective and prudent management of each Firm. These resources are centralised and common to all Firms with a reporting line into each of the governing bodies of these Firms. They provide for a specialised and independent means of management of issues in these areas as they arise. For example. the Finance team is integral in monitoring compliance on a daily basis with prudential rules. Legal & Compliance, in particular, plays a vital role in promoting market integrity and acting in the interests of clients further to its drafting of policies and procedures encapsulated, or referred to, in the Firms' *Compliance Manual* and *Code of Ethics*, as well as utilising automated procedures operating through the Houlihan Lokey Group customer relationship management system to identify and manage conflicts of interest.

Internal Audit

Finally, again as referenced above in the context of risk management, Internal Audit provides a third line of defence and plays a key role in relation to the effective and prudent management of each Firm.

Directorships as at 31 August 2023

Under MIFIDPRU 8.3.1 and 8.3.2, each Firm is required to disclose the number of directorships (executive and non-executive) outside of the Houlihan Lokey Group held by each member of the management body (excluding for such purposes directorships held in organisations which do not pursue predominantly commercial objectives). Details of such matters notified to the Firms are set out in the tables below:

Houlihan Lokey EMEA, LLP	
Member of PEC	**Number of External Directorships**
Simon Woolton	6
Shaun Browne	0
John Cowan	0
Peter Marshall	0
Manuel Martinez-Fidalgo	0

Houlihan Lokey (Corporate Finance) Limited	
Board Member	**Number of External Directorships**
Simon Woolton	6
Shaun Browne	0
John Cowan	0

Baylor Klein Limited	
Board Member	**Number of External Directorships**
Simon Woolton	6
Timothy Leach	0
John Cowan	0

Houlihan Lokey Advisory Limited	
Board Member	**Number of External Directorships**
Simon Woolton	6
Philip Adams	1
Christian Maher	0
Dan Williams	0

Policy on Promoting Diversity

Under the Firms' *Diversity & Inclusion Policy*, the Firms have stated that they are committed to fostering, cultivating and preserving a culture of inclusion and diversity in the belief that different ideas, perspectives and experiences create a stronger and more dynamic work environment that delivers better results. The Firms strive to cultivate a workplace that embraces and supports self-expression and the unique voices of employees.

This is reflected in the Houlihan Lokey Group diversity, equity and inclusion (DE&I) program overseen by a DE&I Council and in the establishment of Houlihan Lokey Communities which create spaces for employees to come together, learn more about each other and support fellow colleagues from a variety

of diversity dimensions. Examples of these include *Women @ HL*, *Houlihan Lokey Black Alliance* and *HL Pride.*

By the very nature and location of their businesses, the Firms employee individuals from an extremely wide range of backgrounds. As regards the management bodies of each of the Firms, it is expected that they will be more diverse in their composition further to planned changes in the coming months.

Section 4 – Own Funds

Own funds (also referred to as capital resources) are the type and level of regulatory capital that must be held to enable each Firm to absorb losses.

During the year, the primary objective of each Firm with respect to capital management was to ensure that it complied with the required capital requirements with respect to its own funds and that it maintained healthy capital ratios in order to support its business. Further to the above, each Firm, as a non-SNI investment firm, is required at all times to have own funds of at least an amount which is the greater of the following:

- Permanent Minimum Capital Requirement
- Fixed Overheads Requirements
- K-Factors Requirement (not applicable to the investment firm group)

Throughout the period under review, each Firm has managed its capital well within regulatory requirements whilst keeping under review changes in economic and business conditions and the risk characteristics of its activities.

Composition of Regulatory Own Funds

The following information provides a full reconciliation of the Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) instruments and Tier 2 (T2) instruments issued by each of the Firms. Each Firm's regulatory capital is comprised fully of CET1 capital; it has not issued any AT1 or T2 capital.

Table 1 – Composition of Regulatory Own Funds as at 31 March 2023

	Item	HL EMEA	HLCF	HLA[1]	BKL	Source based on reference number of
		£'000	£'000	£'000	£'000	Table 3 below
1	**OWN FUNDS**	**48,393**	**16,564**	**9,158**	**9,763**	
2	**TIER 1 CAPITAL**	**48,393**	**16,564**	**9,158**	**9,763**	
3	**COMMON EQUITY TIER 1 CAPITAL**	**48,393**	**16,564**	**9,158**	**9,763**	
4	Fully paid-up capital instruments	35,148	276	-	50	**Box 10**
5	Share premium	-	20	-	-	**Box 11**
6	Retained earnings	-	12,122	9,336	9,729	**Box 13**
7	Accumulated other comprehensive income	-	-	-	-	
8	Other reserves	16,422	4,198	-	-	**Box 12**
9	Adjustments to CET1 due to prudential filters	-	-	-	-	
10	Other funds	-	-	-	-	
11	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	(3,177)	(52)	(178)	(16)	
19	CET1: Other capital elements, deductions & adjustments	(3,177)	(52)	(178)	(16)	**Box 2**
20	**ADDITIONAL TIER 1 CAPITAL**	-	-	-	-	
25	**TIER 2 CAPITAL**	-	-	-	-	

[1] Figures are as at 31 December 2022, the date of the last audited financial statements for HL Advisory.

Main Features of Capital Instruments

Each Firm is obliged to disclose information on the main features of the CET1 instruments, AT1 instruments and T2 instruments. Each Firm's capital instruments are outlined below.

Common Equity Tier 1 capital for each Firm is primarily constituted by share capital and retained earnings. Profits are only included within capital reserves once they have been verified by independent auditors and for members' accumulated profits only included to the extent they are not set aside for distribution to the relevant members.

Own funds also include members' contributed cash capital accounts and current accounts for HL EMEA as a limited liability partnership. Own funds have been calculated in accordance with MIFIDPRU 3.

Table 2 – Main Features of Own Instruments Issued as at 31 March 2023

Capital Instruments main features	HL EMEA	HL CF	HLA	BKL
Issuer	Houlihan Lokey EMEA, LLP	Houlihan Lokey (Corporate Finance) Limited	Houlihan Lokey Advisory Limited	Baylor Klein Limited
FRN	732400	124549	792919	496869
Governing law(s) of the instrument	England	Scotland	England	England
Regulatory treatment				
Transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1
Post-transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1
Instrument type (types to be specified by each jurisdiction)	Member's capital	Ordinary Shares	Ordinary Shares	Ordinary Shares
Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Amount recognised in regulatory capital (£ '000s), as of most recent reporting date	35,148	276	0.300	50
Nominal amount of instrument	35,148	276	0.300	50
Issue price	Not Applicable	£1.00 per share	£1.00 per share	£1.00 per share
Redemption price	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Accounting classification	Member's capital accounts	Called-up share capital	Called-up share capital	Called-up share capital
Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual
Maturity date	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Issuer call subject to prior supervisory approval	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Optional call date, contingent call dates and redemption amount	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Subsequent call dates, if applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Coupons/dividends	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Coupon rate and any related index	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Fixed or floating dividend/coupon	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Existence of a dividend stopper	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Eligible at solo/(sub)-consolidated/solo & (sub)-consolidated	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully Discretionary	Fully Discretionary	Fully Discretionary	Fully Discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully Discretionary	Fully Discretionary	Fully Discretionary	Fully Discretionary
Existence of step-up or other incentive to redeem	Not Applicable	Not Applicable	Not Applicable	Not Applicable

Capital Instruments main features	HL EMEA	HL CF	HLA	BKL
Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger(s)	Not Applicable	Not Applicable	Not Applicable	Not Applicable
If convertible, fully or partially	Not Applicable	Not Applicable	Not Applicable	Not Applicable
If convertible, conversion rate	Not Applicable	Not Applicable	Not Applicable	Not Applicable
If convertible, mandatory or optional conversion	Not Applicable	Not Applicable	Not Applicable	Not Applicable
If convertible, specify instrument type convertible into	Not Applicable	Not Applicable	Not Applicable	Not Applicable
If convertible, specify issuer of instrument it converts into	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Write-down features	No	No	No	No
If write-down, write-down trigger(s)	Not Applicable	Not Applicable	Not Applicable	Not Applicable
If write-down, full or partial	Not Applicable	Not Applicable	Not Applicable	Not Applicable
If write-down, permanent or temporary	Not Applicable	Not Applicable	Not Applicable	Not Applicable
If temporary write-down, description of write-up mechanism	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Non-compliant transitioned features	Not Applicable	Not Applicable	Not Applicable	Not Applicable
If yes, specify non-compliant features	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Capital Instruments main features	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Public or private placement	Private	Private	Private	Private
Original date of issuance	Not Applicable	Various	19 May 2015	27 Feb 2009
Link to the terms and conditions of the instrument	Not Applicable	Not Applicable	Not Applicable	Not Applicable

Balance Sheet Reconciliation

The following table reconciles the Firms' assets and liabilities as at 31 March 2023 to the Firms' regulatory own funds:

Table 3 – Own Funds: Reconciliation of Regulatory Own Funds to Balance Sheet in the Audited Financial Statements for the Year Ended 31 March 2023

Balance sheet per audited financial statements		HL EMEA	HL CF	HLA[2]	BKL	Cross reference to Table 1
		£'000	£'000	£'000	£'000	
Assets – Breakdown by asset classes per the balance sheet in the audited financial statements						
1	Tangible assets	26,464	-	9	-	
2	Intangible assets	1,140	52	66	-	**Box 19**
3	Investments	2,037	-	-	-	**Box 19**
4	Debtors[3]	103,031	28,878	5,698	10,951	
5	Cash at bank	96,041	2,000	9,159	9	
Total Assets		**228,713**	**30,930**	**14,932**	**10,960**	
Liabilities – Breakdown by liability classes per the balance sheet in the audited financial statements						
6	Creditors: amounts falling due within one year[4]	(113,037)	(8,156)	(5,596)	(59)	
7	Derivative financial instruments	(28)	-	-	-	
8	Provisions for liabilities	(22)	-	-	-	
9	Lease liabilities	(24,520)	-	-	-	
Total Liabilities		**(137,607)**	**(8,156)**	**(5,596)**	**(59)**	
Members' Interests / Shareholders' Equity						
10	Member's capital / share capital accounts	35,148	276	-	50	**Box 4**
11	Share premium	-	20	-	-	**Box 5**
12	Additional paid in capital	16,422	4,198	-	-	**Box 8**
13	Retained Earnings / Member's accumulated profits	39,537	18,280	9,336	10,851	**Box 6**
Total Members' Interest Classified as Equity / Shareholders' equity		**91,107**	**22,774**	**9,336**	**10,901**	

[2] *HL Advisory accounts are as at 31 December 2022, the date of the Company's last audited financial statements.*

[3] *Includes intercompany positions as well as external receivables.*

[4] *Includes intercompany positions as well as external payables.*

Section 5 – Own Funds Requirement

As noted above, each Firm as a non-SNI investment firm is required to have at all times own funds of at least an amount which is the greater of the following:

- Permanent Minimum Capital Requirement
- Fixed Overheads Requirements
- K-Factor Requirement (not applicable to the investment firm group).

Own Funds Requirement ("OFR") as at 31 March 2023

MIFIDPRU investment firm OFR		HL EMEA	HL CF	HLA	BKL
		£'000	£'000	£'000	£'000
1	Permanent Minimum Capital Requirement	75	75	75	75
2	Fixed Overhead Requirement	14,267	4,286	1,223	126
3	K-Factors Requirement, being the sum of (a), (b) and (c)	-	-	-	-
a	Sum of K-AUM, K-CMH and K-ASA	-	-	-	-
b	Sum of K-DTF and K-COH	-	-	-	-
c	Sum of K-NPR, K-CMG, K-TCD and K-CON	-	-	-	-
	Own Funds Requirement (being the higher of 1, 2 and 3)	**14,267**	**4,286**	**1,223**	**126**

Permanent Minimum Capital Requirement

For a MIFIDPRU investment firm which is authorised to offer any of the following services but is not permitted to hold client money or client assets in the course of its MiFID business, the applicable Permanent Minimum Capital Requirement (**"PMCR"**) is £75,000:

- reception and transmission of orders in relation to one or more financial instruments
- execution of orders on behalf of clients
- portfolio management
- investment advice
- placing of financial instruments without a firm commitment basis.

Therefore, each Firm's PMCR is £75,000 based on the investment services which it is authorised by the FCA to offer.

Fixed Overheads Requirement

The fixed overheads requirement (**"FOR"**) applies to all MIFIDPRU investment firms. The FOR is intended to calculate a minimum amount of capital that a MIFIDPRU investment firm would need available to absorb losses if it has cause to wind down or exit the market.

It is calculated as one-quarter of the fixed overheads of the preceding year in accordance with the provisions of MIFIDPRU 4.5. When calculating its FOR, a firm must use figures resulting from the accounting framework applied by the firm in accordance with MIFIDPRU 4.5.2R. The FOR is an amount equal to one-quarter of the firms' expenditure, net of certain non-fixed expenditure items, from the most recent audited financial statements. However, if a firm experiences a material change in its forecasted fixed expenditure, the projected amounts are used instead.

K-Factor Requirement

We have considered the K-factor capital requirements and determined none to be applicable to any of the Firms due to the nature of the services provided. In the event that any of the Firms were to expand their portfolio of activities or receive additional MiFID permissions, other K-factors may become relevant, and the impact of those activities would be assessed with additional K-factor requirements.

Liquidity Requirements

The Basic Liquid Assets Requirement (**"BLAR"**) is based on a proportion of a MIFIDPRU investment firm's FOR and any guarantees provided to clients. The purpose is to ensure that investment firms have an adequate stock of unencumbered high-quality liquid assets that can be converted easily and immediately in private markets into cash to meet their liquidity needs.

Each Firm is required to comply with its BLAR, which is an amount of liquid assets that is at least equal to the sum of the following:

- one-third of the amount of its FOR, and
- 1.60% of the total amount of any guarantees provided to clients (not applicable).

The Firms hold liquid assets primarily in the form of short-term deposits at a UK-authorised credit institution and units or shares in short-term money market funds. Other forms of liquid assets are acceptable under MIFIDPRU but not utilized by any of the Firms at this time.

The core liquid assets of each Firm as at 31 March 2023 were in excess of the BLAR requirement of one-third of the FOR as indicated above.

Overall Financial Adequacy Rule (OFAR)

As a minimum to comply with the Overall Financial Adequacy Rule (**"OFAR"**), according to MIFIDPRU 7.4.7R, a firm must, at all times, hold own funds and liquid assets which are adequate, both as to their amount and their quality, to ensure that:

- the firm is able to remain financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities, and
- the firm's business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

In addition to the OFR and BLAR requirements, all firms are required to perform an internal assessment through the Internal Capital Adequacy and Risk Assessment (ICARA) process to establish any additional own funds and liquid assets that are required to support their ongoing operations and/or an orderly wind-down as described above. This assessment allows each Firm to derive its Own Funds Threshold Requirement (**"OFTR"**) and Liquid Assets Threshold Requirement (**"LATR"**) where it exceeds its OFR and BLAR, respectively. The assessment of own funds and liquid assets against the OFTR and LATR ensures full compliance with OFAR. Each Firm maintained own funds and liquid assets which were sufficient to ensure that OFAR was met in all cases as at the relevant balance sheet date.

Section 6 – Remuneration

This disclosure in this Section 6 has been prepared in order to satisfy the requirements of MIFIDPRU 8.6 (*Remuneration policy and practices*). As each forms part of an IFPR consolidation group under HL Europe and is outside the scope of 'extended' remuneration requirements, each Firm is subject to the 'standard' remuneration requirements of the *MIFIDPRU Remuneration Code*, and therefore this disclosure has been undertaken in line with the provisions for non-SNI firms.

As staff in each of the Firms are employed or otherwise engaged through HL EMEA, it is the PEC of that entity which is principally responsible for the adoption and periodic review of remuneration policy and responsible for its implementation. To such end, HL EMEA has in place a remuneration policy (the **"Remuneration Policy"**) to comply with requirements set by the FCA.

Whilst not required to establish a Remuneration Committee by virtue of application of rules set out in MIFIDPRU 7.1.4R, HL EMEA has established such a committee to oversee matters relating to remuneration comprising senior business line representatives as well as representatives from the main control groups relevant to the decision making in such area (being Human Capital Management, Finance and Legal & Compliance). The stated purposes of such committee are as follows:

- to review and approve policies and procedures relating to payment of remuneration, to include the Remuneration Policy
- formally to review and, if thought appropriate, approve end-of-year compensation awards as recommended by each of the lines of business to their staff
- to review and approve policies and procedures relating to changes in law and regulation relating to remuneration
- various ancillary matters such as public disclosure of remuneration-related matters.

The Remuneration Committee meets on at least an annual basis to review compensation recommendations and policies and procedures, with the aim of ensuring the successful recruitment, retention and motivation of staff in a manner which takes account of the Houlihan Lokey Group's long-term goals whilst at the same time promoting sound and effective risk management and does not encourage risk taking in excess of levels of tolerated risk.

From time to time, use is made of external consultants in relation to the development of remuneration policies and practices, most recently in response to the changes consequent upon the implementation of IFPR.

Remuneration Policy and Practices

The Remuneration Policy is aligned to the Firms' business strategies and is designed to support the business objectives of the Houlihan Lokey Group by means of promoting its long-term success through the ability to recruit, retain and incentivize appropriate high calibre staff in a manner aligned with the regulatory principles of sound risk management, ensuring common focus on the interests of clients, senior management, shareholders and other stakeholders.

Remuneration and Performance

Remuneration of staff essentially consists of fixed compensation and variable largely performance-related compensation.

Fixed compensation

Fixed compensation includes salary (or regular monthly drawings in case of partners of HL EMEA) benefits and pension. Base salaries are largely determined by references to an individual's experience and responsibilities with due regard being paid to market rates for persons of similar standing.

Variable compensation

Variable compensation essentially consists of bonus awards (whether in form of cash or shares in HL Inc.) but may from time to time also include retention awards, buyout awards and guaranteed bonuses.

Variable remuneration policy is designed to reward staff for their performance and their contribution during the relevant financial year. Variable remuneration is awarded in accordance with the Houlihan Lokey Group annual performance-related bonus scheme, based principally upon the following matters:

- the overall results of the Houlihan Lokey Group as well as the relevant firm within such group
- the performance of the individual's business unit
- the performance of the individual (both financial and non-financial performance). As a minimum, this is reviewed and documented as part of the annual appraisal process (which includes a mid-year checkpoint on overall performance on an individual basis).

For staff in non-revenue-generating roles, their contribution will be assessed on quality of performance and will generally have a far higher percentage of fixed compensation to variable compensation than for revenue-generating staff within business groups. This means that their compensation is focused on appropriate risk culture/risk oversight for those in control function roles.

All staff generally have the right to be considered for a performance-related cash bonus. For those at 'officer' level (*i.e.,* those of rank vice president and above), the bonus plan also requires deferral of a portion of any bonus in the form of Houlihan Lokey shares. All awards are discretionary in nature (including the ability to award a zero bonus), and eligibility is determined by the terms of an individual's contract.

Deferral

With the aims of promoting appropriate risk management behaviours and culture while also encouraging staff retention, the Houlihan Lokey Group operates a global deferral practice in connection with awards of variable compensation. A percentage of an individual staff member's bonus may be deferred into cash and (if of 'officer' level) shares in HL Inc. (**"HLI Stock"**), with vesting of the cash element deferred to November of the year in which the grant was made (typically May) and the HLI Stock element being deferred and vesting rateably over the four following years. The precise split between cash and share elements of any deferral and the vesting periods may vary from year to year in accordance with the Houlihan Lokey Group's deferral practice. The award of HLI Stock seeks to align the interests of staff with those of the Houlihan Lokey Group and its clients and thereby serves to help mitigate business risk.

Risk and performance adjustments

To support effective risk management, staff in receipt of variable awards of compensation are subject to the terms of such awards which require forfeiture in certain circumstances, including where an individual terminates his/her employment contract before the relevant vesting date or where an employee is subject to a regulatory investigation, subject to disciplinary proceedings or found to be in breach of a Firm's policies. Staff have also been notified that clawback of vested awards may be sought as regards any 'material risk taker' (**"MRT"**) involved *inter alia,* in cases of fraud or other conduct with intent or severe negligence which leads to significant losses.

Guaranteed variable remuneration and retention awards (MRTs)

In certain exceptional cases, guaranteed awards are made where there is a demonstrable need to attract individuals. Similarly, retention awards may be used where there is a critical need to retain an individual (for example, as part of a reorganisation) or lock in individuals following an acquisition. All such awards are subject to strict criteria. For example, in the case of guaranteed variable awards, these

must align with the long-term interest of the relevant Firm, only occur in the context of hiring new MRTs, leave the Firm with a sound and strong capital base and be limited to the first year of service.

Payments relating to early termination (MRTs)

Again, such payments are only made in exceptional circumstances and are designed to reflect contribution commensurate with the role and not to reward failure or poor risk management. Any such payments are made in accordance with the principles of the Remuneration Policy and FCA requirements.

Material Risk Takers

MRTs are those members of staff whose professional activities have a material impact on the risk profile of a Firm. These have been identified as senior management of each Firm, staff with responsibility for managing business units and senior individuals with responsibility for control functions.

As referenced above, staff in each of the Firms are employed or otherwise engaged through HL EMEA. The table below provides the gross aggregate remuneration awarded to HL EMEA's MRTs and other staff broken down by fixed and variable remuneration for the year ended 31 March 2023:

HL EMEA

Annual Remuneration as at 31 March 2023				
Position	**No. of Beneficiaries**	**Fixed Remuneration in £'000**	**Variable Remuneration in £'000**	**Aggregated Remuneration £'000**
Senior Management	14	3,588	17,816	21,404
Other MRTs	10	2,382	8,143	10,525
Other Staff	292	32,652	35,580	68,232
Total	316	38,622	61,539	100,161

No severance payments were made by HL EMEA during the year requiring disclosure under MIFIDPRU 8.6.8R(5).

The figures for guaranteed variable remuneration under MIFIDPRU 8.6.8R(5)(a) have not been disclosed as only one such payment was made. Therefore, in order to prevent individual identification of an MRT, reliance has been placed on the exemption in MIFIDPRU 8.6.8R(7) not to disclose details of such payment.

As HL Advisory was not acquired by the Houlihan Lokey Group until after 31 March 2023, the above tables do not include amounts paid to employees of such entity. As such entity was a SNI MIFIDPRU investment firm as at 31 December 2022 (being the end date of its most recent financial year), its quantitative disclosure obligations under MIFIDPRU 8.6.8R are set out below:

HL Advisory

Annual Remuneration as at 31 December 2022				
Position	No. of Beneficiaries	Fixed Remuneration in £'000	Variable Remuneration in £'000	Aggregated Remuneration £'000
All staff	19	3,074	4,840	7,914

Section 7 – Investment Policy

As each of the Firms meets the conditions of MIFIDPRU 7.1.4R(1), the disclosure obligations relating to the Investment Policy set out in MIFIDPRU 8.7. do not apply.