Risk Management Disclosures for MIFIDPRU Investment Firms

March 2024

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1 Introduction

abrdn is an investment company with a client-led growth strategy. abrdn operates across three business areas to reflect how we interact with our clients:

- Investments – a global asset management business serving institutional, wholesale and insurance clients;
- Adviser – providing platform technology and tools to UK wealth managers and financial advisers; and
- interactive investor – a personal wealth business offering tailored services to individuals in the UK.

Through these three businesses abrdn has the full ecosystem of capabilities to enable our clients to be better investors.

This document fulfils the regulatory disclosure requirements of the Investment Firm Prudential Regime in relation to risk management as set out in MIFIDPRU 8.2 of the Financial Conduct Authority's Handbook.

These disclosures are not subject to audit and have been produced solely for the purpose of satisfying the regulatory disclosure requirements for the following MIFIDPRU investment firms in the abrdn group:

- **Investments**
    - abrdn Alternative Investments Limited
    - abrdn Investments Limited
    - abrdn Capital Partners LLP
    - abrdn Private Equity (Europe) Limited
    - abrdn Investment Management Limited
    - Tritax Securities LLP[1]
- **Adviser**
    - Elevate Portfolio Services Limited
    - Standard Life Savings Limited
    - abrdn Portfolio Solutions Limited
- **ii**
    - Interactive Investor Services Limited

In this document these firms are collectively referred to as "the MIFIDPRU investment firms."

Additional relevant information can be found in the abrdn group's annual report and accounts (ARA) for the year ended 31 December 2023 (ARA 2023), which is available on the abrdn corporate website at *www.abrdn.com/annualreport*.

1. Tritax Securities LLP is 60% owned by abrdn Group

2 Enterprise Risk Management Framework

2.1 Our approach to risk management

A strong risk and compliance culture underpins our commitment to put clients and customers first and safeguard the interests of our shareholders. The abrdn plc Board has ultimate responsibility for risk management and oversees the effectiveness of our ERM Framework as detailed on page 76 of the ARA 2023. The ERM Framework operates across all wholly owned MIFIDPRU investment firms across the Group. The ERM Framework's effectiveness is subject to annual review as part of the assessment of the effectiveness of abrdn's systems of control. Further reviews, including internal audits, of elements of the ERM Framework are performed as required.

Our business is overseen by the Board of Directors. The Governance arrangement details, including key directorships and skills held by members of the Board, the Board appointment process, the approach to Board composition, balance and diversity and meetings of the Risk and Capital Committee are set out in the ARA 2023 in the Board of Directors, Corporate governance statement and Directors' report sections.

Across abrdn there are a number of risk governance forums and structures that support risk oversight and risk management.

- **Board risk committees**

  Some of the MIFIDPRU investment firms' boards have dedicated risk committees with independent non-executive directors: abrdn Investments Limited, abrdn Investment Management Limited, Standard Life Savings Limited, Elevate Portfolio Services Limited and Interactive Investor Services Limited.

  abrdn plc Board also has a non-executive Risk and Capital Committee which covers the abrdn group. Further information about the abrdn plc Board, its directors and its committees is provided in the ARA 2023.

- **Executive risk meetings**

  Risk and control meetings exist for each business and at abrdn group level.

- **Business partnering**

  The Risk & Compliance function face-off to business areas and functions through a business partnering model.

Under the Senior Manager and Certification Regime, there are also senior managers who have responsibilities in relation to the MIFIDPRU investment firms; these senior managers are published on the FCA's Financial Services Register for each of the MIFIDPRU investment firms.

2.2 Three lines of defence

abrdn operates 'three lines of defence' in the management of risk so that there are clearly defined roles and responsibilities:

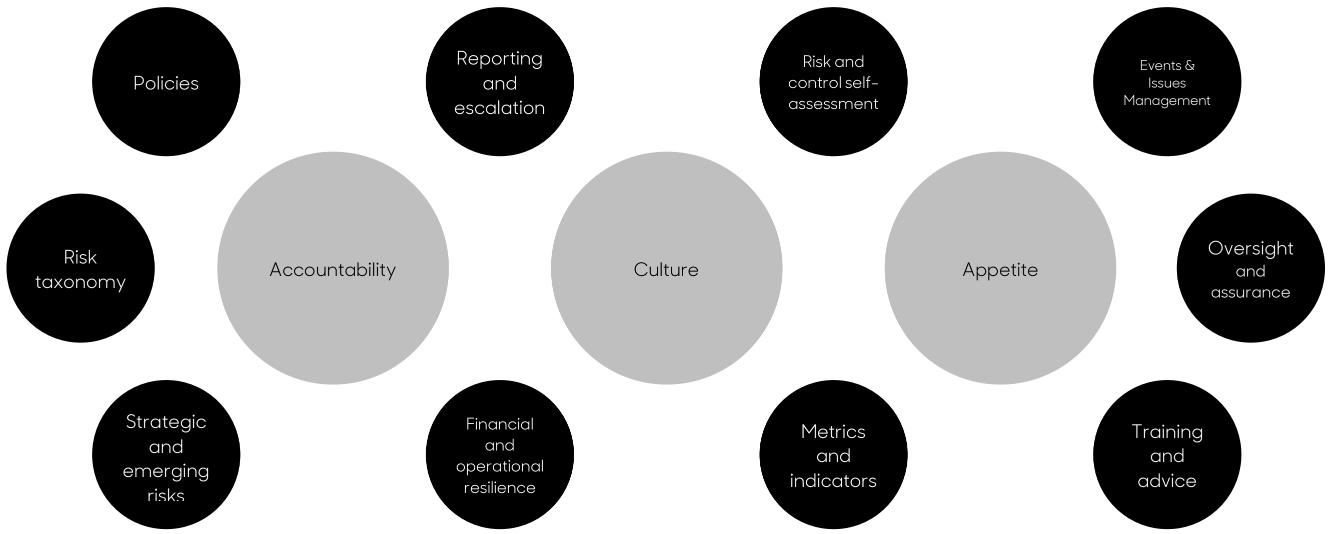
- **First line**: Day-to-day risk management, including risk ownership, management and control.
- **Second line**: Oversight is provided by the Risk & Compliance function, responsible for setting, embedding, and overseeing risk, compliance and conduct frameworks. The Chief Risk Officer reports to the Chief Executive Officer.

- **Third line**: The Internal Audit function, reporting to the Chief Internal Auditor, independently verifies our systems of control, through independent assurance, challenge and advice.

2.3 Overview

The ERM Framework underpins risk management throughout abrdn. The ERM Framework is continually evolving to meet the changing needs of the group and make sure it keeps pace with industry best practice and the risk profile of the business.

The ERM Framework is set out in the diagram below:



Each element of the ERM Framework is described below.

2.3.1 Culture and Accountability

Developing and maintaining a strong risk culture is at the core of the ERM, and abrdn has established a set of culture commitments that steer how colleagues conduct their work and the decisions they make.

Premised upon *transparency*, *empowerment*, *ambition* and *putting the client first*, abrdn's culture supports its risk strategy and drives the delivery of its strategic objectives.

In turn, clarity of accountability and responsibilities is critical to sound risk management and abrdn operates to a 'three lines' model of risk management that clearly establishes roles, responsibilities and accountabilities.

The Senior Managers and Certification Regime (SMCR) further strengthens this across three main components; i) Senior Managers Regime, ii) Certification Regime and iii) the Conduct rules. Together, these components provide regulatory accountability for Senior Managers, enhanced vetting for certified persons who perform certain functions in the firm, and rules of conduct that apply to all non-ancillary staff members.

2.3.2 Appetite

The risk appetite framework defines a common framework to enable the abrdn plc Board, the Chief Executive Officer, and the Executive to communicate, understand and control the types and levels of risk that abrdn is willing to accept in pursuit of its strategy and business objectives. It provides a framework to ensure that risk decisions are taken at the appropriate level in the abrdn group.

Risk appetite statements are set by the abrdn plc Board and are monitored at an executive and board level.

Additional lower-level risk appetites may be set to support local areas or boards, including appetites set by the boards of the MIFIDPRU investment firms. Such risk appetites cannot be weaker than those set by the abrdn plc Board for the abrdn group but could be stronger or more specific to the characteristics of the firm if required.

The risk appetites are defined through a combination of:

- High-level risk principles.
- Risk appetite statements.
- Risk metrics measured against tolerances.

abrdn's risk appetite framework establishes clear boundaries for the management and reporting of risks. This enables the Board to communicate to the Chief Executive Officer and the Executive Leadership Team (ELT) the types and levels of risk that abrdn is willing to accept in pursuit of its strategy and business objectives, for onward cascade across the business.

Risk appetite statements are set at abrdn plc Board level, are subject to regular monitoring across the business and are reported to Executive and Board level governance fora.

Fundamentally, risk appetites are defined through a combination of risk appetite statements and risk appetite metrics which measure exposure against agreed tolerances.

Risk appetites are reviewed at least annually.

2.3.3 Policies

abrdn's suite of policies direct the business on the types of activities that are acceptable in pursuit of meeting its strategic objectives and in line with the agreed risk appetite.

Policies are reviewed at least annually and are subject to regular attestations to gain assurance over business area compliance with the requirements within.

2.3.4 Reporting and escalation

Regular risk reporting is produced by all lines of defence, ensuring that appropriate, timely and quality information is provided to risk fora across the business, allowing management and boards to make informed risk decisions and discharge their responsibilities effectively.

Specifically, the Chief Risk Officer(s) will present qualitative and quantitative risk MI to boards and Executive risk fora, providing an independent second line view on the risk and control profile across abrdn businesses and regulated entities, as well as on any strategic or emerging risks as appropriate. This is further supported by an independent third line view from the Chief Internal Audit Officer.

To support risk reporting across abrdn, a suite of metrics have been defined to monitor levels of risk and the quality of controls. These Key Risk Indicators (KRIs) identify potential issues before they materialize and are used as a monitoring tool to provide a snapshot of current business exposure to a specific risk.

2.3.5 Risk and Control Self-Assessment (RCSA), Events and Issues

The RCSA process is a key component of the ERMF and the ICARA process and is used to support abrdn with identifying, assessing and reporting upon the risk and control profiles across the business.

Key Business Outcomes (KBOs) are identified which comprise of outcomes for i) customers and clients, ii) the market and iii) our shareholders. End to end processes that help achieve positive business outcomes are then identified along with key risks to achieving those objectives and the key controls required to mitigate the risks. Assurance is provided through regular review and assessments by business managers, and an annual attestation by an accountable executive, all of which is overseen and challenged by Risk and Compliance.

Recognising that events and issues occur and have the potential to cause harm to customers, harm to firm or harm to market, abrdn also operates a clearly defined process that:

- Enables timely action to minimise the event or issue's impact, preventing further significant problems arising
- Provides clarity on the level of risk the business is exposed to, both at an individual (each risk event) and aggregate (across all risk events) level and whether this is within or outwith abrdn's risk appetite.
- Supports decision making on where to direct resources to remediate and mitigate control deficiencies.

2.3.6 Risk taxonomy

abrdn's risk taxonomy is the foundation to the effective operation of the ERMF and provides a clear set of risk categories that drive a consistent and methodical approach to identifying and reporting on risks across the business.

All risks are grouped under twelve principal risks:

<table>
<tr><th>Principal risk</th><th>Risk category</th></tr>
<tr><td>Process execution and trade error</td><td rowspan="8">Operational risks</td></tr>
<tr><td>People</td></tr>
<tr><td>Technology</td></tr>
<tr><td>Security & resilience</td></tr>
<tr><td>Fraud and financial crime</td></tr>
<tr><td>Change</td></tr>
<tr><td>Third party risk management</td></tr>
<tr><td>Financial management process</td></tr>
<tr><td>Conduct</td><td>Conduct risks</td></tr>
<tr><td>Regulatory and legal</td><td>Regulatory and legal risks</td></tr>
<tr><td>Strategic</td><td>Strategic risks</td></tr>
<tr><td>Financial</td><td>Financial risks</td></tr>
</table>

Further detail on our principal risks can be found in the Risk Management section of the ARA 2023.

2.3.7 Oversight and assurance

The Risk and Compliance Monitoring and Oversight teams provides independent assurance over regulatory compliance to senior management and Boards, applying a risk-based approach. The outcome of the reviews is reported to the relevant entity Boards and other Governance for approval. Where relevant, this includes the Risk and Capital Committee, Audit Committee and Executive Leadership Team meetings.

Assurance activities include both thematic reviews of risk or regulatory topics and focused reviews on specific regulatory or customer outcomes. The Monitoring and Oversight teams work closely with key stakeholders in the businesses, CROs, Compliance Officers and other functions, including Internal Audit.

2.3.8 Strategic and emerging risks

Strategic risk management forms an integral part of the strategic planning process and is directly linked to the vision of the business. abrdn has an appetite for strategic risk that arises as a consequence of pursuing its chosen business objectives. abrdn will proactively identify and understand the strategic risks that the abrdn group is exposed to and the options available to manage them to inform strategy formation and business planning.

Considering the potential impacts of emerging strategic, operational and financial risks is a key part of the ERM Framework, and the ability to detect and adapt to changes in abrdn's environment may not only prevent problems arising but may also help abrdn identify new opportunities.

The ERM Framework has tools and processes to allow it to identify and recognise new and emerging issues and risks that may impact the risk profile of the business.

2.3.9 Financial and operational resilience

Financial resilience is managed through the abrdn Internal Capital Adequacy and Risk Assessment (ICARA) process. The ICARA is documented and approved by the Board at least annually and a set of ICARA triggers are in operation to identify whether elements of the ICARA need to be refreshed between formal annual reviews if there are material changes to abrdn's risk profile or the risk profile of the MIFIDPRU investment firms.

Operational resilience is the embedding of capabilities, processes, behaviours and systems which allows an organisation to continue to carry out its business in the face of disruption regardless of the source of the disruption. abrdn has also been developing its operational resilience to comply with regulation in respect of its important business services.

abrdn has contingency plans that cover key aspects of our operations. These plans support our recovery following various events ranging from computer system failure to total disruption to our offices/working environment.

abrdn's business continuity management helps to ensure that key services continue at pre-determined, acceptable levels should a disruptive event occur.

2.3.10 Training and advice

Delivery of the ERM Framework and a strong risk culture across the business is reinforced through a programme of face-to-face training, e-learning modules, and the provision of other support and guidance accessible to all colleagues through a dedicated Risk and Compliance intranet site.

Mandatory training on risk policy is provided at regular intervals during the year and completion rates are monitored closely.

3 Risk categories and risk management

All wholly owned MIFIDPRU investment firms are assessed for the potential for them to cause material harm:

- Harm to consumer
- Harm to market
- Harm to firm

In relation to harm to consumer, the nature of the MIFIDPRU investment firms means that it is necessary to consider harm in relation to:

- The management of clients' assets
- The handling of clients' orders
- The safeguarding and administration of clients' assets
- The holding of clients' money

Harm is a consequence of a risk event and the material risks which relate to the above fall into the following key categories:

- Operational risks
- Market and credit risks
- Liquidity risks

Each of the MIFIDPRU investment firms has exposure to such risks and we also consider, and manage, concentration risks across different types of exposure.

These key categories of risks are described further in the sections which follow.

3.1 Operational risks

The MIFIDPRU investment firms have the potential to cause material harm through failures in the operating environment. Operational risk is the risk of loss or adverse consequences for the business resulting from inadequate or failed internal processes, people or systems, or from external events.

The top level risks are set out in section 2.3.8 with more granular operational risks relating to the operation of the business (and the consequential harms caused) being assessed and managed.

The risk management objective is to minimise operational risks through robust processes and controls. We also put a strong emphasis on reducing risks that arise from complexity and from reliance on manual processes. Insurance policies are also held by abrdn to mitigate financial impacts should risk events occur. The MIFIDPRU investment firms also hold capital and liquidity to cover residual material risk exposures which could cause harm.

Investments MIFIDPRU investment firms

For MIFIDPRU investment firms within the Investments business the key operational risks stemming from the business strategy which could result in harm include the interruption of the investment process, trading errors and mandate breaches, regulatory compliance, failure of third parties, failures in client communications and data security. The harms which could be caused include:

- Negative impact on the value of clients' assets / portfolio performance.
- Clients are exposed to risk outwith their tolerance or appetite.

- Clients are exposed to investments not consistent with or unsuitable to their objectives.
- Clients are unable to access assets, cash or liquidity on agreed terms.
- Missed gains or actual losses for clients as new client money is not processed correctly or clients' instructions are not fulfilled.
- Clients are mis-sold a proposition at outset or during the lifecycle of proposition.
- Clients, regulators or relevant authorities are not provided with information on assets and transactions in a timely manner.
- Higher risk clients (such as long-standing or vulnerable clients) are not treated fairly or appropriately identified for additional safeguards.
- Clients suffer fraud, data breach or identify theft.
- Clients are unable to value fund holdings or portfolios, or deal in funds as a consequence of unavailability of prices.
- Clients' assets and money are not appropriately safeguarded, segregated and/or identifiable.

Adviser MIFIDPRU investment firms

For MIFIDPRU investment firms within the Adviser business the key operational risks stemming from the business strategy which could result in harm include trading errors, regulatory compliance, failure of third-parties and technology resilience. The harms which could be caused include:

- Clients are unable to access assets, cash or liquidity on agreed terms.
- Missed gains or actual losses for clients as investment/disinvestment or instructions are not fulfilled.
- Delay or inability of clients to receive distribution payment or cash from delayed settlement of redemptions.
- Clients are unable to value fund holdings/portfolios accurately.
- Clients are unable to gain access to customer services or self-service portals.
- Clients are unable to deal in abrdn funds with certainty or value holdings as a consequence of unavailability of pricing for abrdn funds.
- Clients, regulator or relevant authorities are not provided with information on assets and transactions in a timely manner.
- Clients' assets and money are not appropriately safeguarded, segregated and/or identifiable.
- Advisers are unable to receive adviser charge.

ii MIFIDPRU investment firms

For MIFIDPRU investment firms within ii the key operational risks stemming from the business strategy which could result in harms, including:

- Clients' assets and money are not appropriately safeguarded, segregated and/or identifiable.
- Customers are exposed to investments not consistent with or unsuitable to their objectives.
- Customers are unable to access assets, cash or liquidity on agreed terms.

- Missed gains or actual losses for customers as new client money is not processed correctly or customers' instructions are not fulfilled.
- Delay or inability of customers to receive distribution payment or cash from delayed settlement of sale transactions.
- Customers, regulators or relevant authorities are not provided with information on assets and transactions in a timely manner.
- Higher risk clients (such as vulnerable clients) are not treated fairly or appropriately identified for additional safeguards.

Managing operational risk

The ERM Framework described in section 2 provides the tools used to manage operational risk with the following elements being particular pertinent:

- Culture - encouraging values and behaviours that steer how employees conduct their work and the decisions they make (see section 2.3.1).
- Accountability - clarity of accountability and responsibilities is critical to sound management and the efficient running of the business (see section 2.3.1).
- Appetite - a common framework to enable the abrdn plc Board, the Chief Executive Officer, and the Executive to communicate, understand and control the types and levels of risk that abrdn is willing to accept in pursuit of its strategy and business objectives (see section 2.3.2).
- Policies - captures the standards expected from businesses/functions to manage the key risks (including operational risks) while being beneficial in running the business to deliver the strategy (see section 2.3.3).
- Risk and Control Self-Assessment - designed to integrate and co-ordinate risk identification and risk management efforts, and improve the understanding, control and oversight of operational and conduct risks (see section 2.3.5).
- Events and issues management - events and issues can cause client, partner, shareholder and/or employee harm, so must be identified quickly, understood and appropriately responded to (see section 2.3.5).
- Operational resilience - the embedding of capabilities, processes, behaviours and systems which allows abrdn to continue to carry out its business in the face of disruption regardless of the source of the disruption (see section 2.3.9).

Third parties

abrdn makes extensive use of the expertise and efficiencies provided by third parties and hence failure of third-parties is a risk inherent in our business that we manage. A Third-Party Risk Management Framework operates across the MIFIDPRU investment firms for the onboarding and managing of third-party relationships The operational risks are managed and monitored through processes and controls to reduce the risk of harm.

3.2 Market and credit risks

Market risk is the risk that arises from exposure to market movements, which could result in income, the value of financial assets and liabilities, or cash flows relating to these, fluctuating by differing amounts.

Credit risk is the risk of exposure to loss if a counterparty, issuer or borrower fails to perform its financial obligations, including failure to perform these obligations in a timely manner.

The MIFIDPRU investment firms are agency businesses which do not deal on their own accounts and as such the market and credit risks typically reside with clients through their portfolios and funds they invest in.

There are some exceptions to this in relation to risks which relate to the balance sheet exposures of the MIFIDPRU investment firms and occur as a result of the strategies adopted or are as a result of the normal course of business. The harms which potentially result as a consequence of these risks are harms to the MIFIDPRU investment firms rather than a direct harm to their clients.

Co-investment is normally a long-term arrangement where abrdn invests alongside a client. Hedging market risk other than foreign exchange risk is usually not permissible as the intention is to bear risk alongside the client and is not the policy of abrdn; however, our policy is to hedge any related foreign exchange risk. The only MIFIDPRU investment firm exposed to this risk is abrdn Investment Management Ltd; other co-investment (and seeding of funds) is performed outwith the MIFID investment firms and there are overall limits and hedging requirements in place to manage the risks.

The counterparties that the MIFIDPRU investment firms hold cash and money market instruments with could default, resulting in loss. This risk is managed through the Treasury and Capital Management Policy which applies across the MIFIDPRU investment firms and ensures that abrdn only transacts with counterparties that are able to meet satisfactory credit standards and sets limits outlining the maximum acceptable exposure to a single counterparty to ensure diversification.

Financial debtors relate to accrued income, fee revenue due from clients and other financial debtors and these exposures result in credit risk for the MIFIDPRU investment firms. This risk is a result of business-as-usual activity and is managed through timely conversion of accrued revenue to invoice, monitoring of aged debt and escalation via client relationship teams, as required.

Subscription debtors arise when the Adviser MIFIDPRU investment firms place an order with the trustees of a fund. The risk to the Adviser MIFIDPRU investment firms is that the client fails to settle the transaction and the firm has to cancel or reverse the purchase of units in the fund. Any movement in the fund price between placing the order and cancelling/reversing the order would normally be borne by the Adviser MIFIDPRU investment firms. This risk is a result of business-as-usual activity and is managed through established processes and controls.

Through the application of the controls outlined above, the market and credit risks are reduced and hence the risk of harm is also reduced.

3.3 Liquidity risks

Liquidity risk is the risk that a firm does not have access to liquid resources which are adequate, both in amount or quality, to ensure that they can meet all liabilities as they fall due. Liquid resources are held in the MIFIDPRU investment firms to meet contractual, business, and regulatory obligations both in a business-as-usual and in a combined market and idiosyncratic severe but plausible stress scenario.

A robust framework is in place to manage liquidity risk, designed to ensure that the MIFIDPRU investment firms are able to meet their liabilities as they fall due. The key steps of the framework are:

- Maintain a risk register of all material liquidity risks that could lead to harm.
- Identify and implement mitigation measures to reduce these risks.
- Stress the remaining liquidity risks to inform the amount of liquid assets the MIFIDPRU investment firms need to hold to meet regulatory requirements.

- Monitor liquid assets against risk appetites, over and above regulatory requirements.
- Conduct cash flow forecasting and maintain contingency funding plans.

Through the application of the controls outlined above, the liquidity risks are reduced and hence the risk of harm is also reduced.

3.4 Concentration risks

Whilst the MIFIDPRU investment firms do not deal on their own accounts, concentration risks can still exist and need to be managed.

- Earnings – the MIFIDPRU investment firms are all part of the wider abrdn group and as such earnings concentrations are managed at group level. abrdn has taken steps to diversify its earning across its Investments, Adviser and ii with the acquisition of Interactive Investor in 2022 being a significant step in delivering this change. Diversification of earnings is also supported through revenue models (ad valorem fee and subscription models), global client base, asset classes and products / services. We make use of contractual terms to mitigate earnings concentration risks where it is feasible to do so. The abrdn business planning and strategy processes support the management of earning diversification.
- Third-parties - the management of the associated concentration risks is set out in section 3.1.
- Client money - concentration risk relating to client money is managed through diversification of counterparties that the money is held with, in accordance with our Client Money Diversification Policy.
- Cash and money market instruments – the management of the associated concentration risks is set out in section 3.2.

Through the wider business strategy and the application of the controls outlined above, the concentration risks are reduced and hence the risk of harm is also reduced.