Silchester International Investors LLP
(FRN 526527)
MIFIDPRU Disclosure Statement
7th September 2022

Introduction

In January 2022 the Financial Conduct Authority ("**FCA**") introduced the Investment Firms Prudential Regime ("**IFPR**"). IFPR applies to UK firms authorised under the Markets in Financial Instruments Directive ("**MiFID**"). The regulation that formalises this regime is called MIFIDPRU. This document has been prepared for Silchester International Investors LLP ("**Silchester**") on an unconsolidated basis in compliance with the rules and guidance set out in the FCA Handbook.

Silchester is a private limited liability partnership that provides discretionary investment management services primarily to institutional clients through commingled funds established, operated and managed by the firm. Silchester Continuation Limited ("**SCL**") is a member of Silchester and holds a significant proportion of Silchester's capital. Silchester has one subsidiary, Silchester International Investors, Inc. ("**SII Inc.**"). There are no current or foreseen material, practical or legal impediments to transfers of capital between Silchester and SII Inc.

Basis of Disclosure

Silchester's financial year ends each year on 31st March. Unless otherwise noted, all data in this document is as of 31st March 2022. Silchester must update this document on an annual basis and/or in the event of a major change to its business model. This document has not been audited.

Operational Risk Management

The Business Supervisory Group (the "Supervisory Group") is responsible for the firm's risk strategy, its risk appetite and ensuring risk is monitored and controlled effectively. The Supervisory Group consults the Compliance Group and Operational Risk Management Group before deciding to make (i) material investments, loans or capital expenditures; (ii) material changes in its cost structure, base salaries or the level of member drawings; or (iii) material repayments of member's capital. Silchester's operational risk management framework is updated when needed to reflect material changes in Silchester's business, capital obligations or resource requirements. Silchester's operational risk appetite is regularly reviewed. As a result of its normal business activities, Silchester is exposed to a variety of risks, the most significant of which are credit risk, market risk, liquidity risk, and business risk.

- ***Credit Risk.*** *The potential risk that arises from clients or counterparties failing to meet their obligations as they fall due.* Silchester has adopted a standardised approach to credit risk. Silchester's credit risk is limited to that arising in respect of unpaid investment management fees, commingled fund investments, cash deposits and prepaid expenses. Fees are calculated on an ad valorem basis in arrears and are normally paid within four business days of each month end. Silchester's investments comprise units in The Calleva Trust, an Irish UCITS. Silchester's cash deposits are primarily held in current accounts offered by major banking institution(s). No provisions have to date been required in respect of asset impairment or non-recovery. Credit risk arising in relation to prepaid expenses is not material.

- ***Market Risk.*** *The risk that the value of, or income arising from, assets and liabilities varies as a result of changes in interest rates, exchange rates or other market prices.* Silchester has no trading book and does not invest in commodities, futures, options or derivatives. Other than risks that arise from market prices on its commingled fund investments, Silchester's market risk is predominantly limited to foreign exchange fluctuations where Silchester's assets and liabilities are denominated in currencies other than GBP. Non-GBP assets primarily comprise investments in the Calleva Trust and a proportion of cash deposits. Silchester regularly assesses its foreign exchange needs and exposures and does not actively seek foreign exchange exposures via forward currency hedging activities.

- ***Liquidity Risk.*** *The risk that a firm may have insufficient liquid resources to cover cash flow shortfalls or fluctuations in funding and be unable to meet its obligations as they fall due.* Silchester has no borrowing and is not dependent on external financing. Silchester has some exposure in the event that a banking counterparty suffers severe financial distress and is unable to return some or all of Silchester's cash deposits. Silchester maintains sufficient assets in liquid form to meet its obligations as they arise and in practice the business has little liquidity risk.

- ***Business Risk.*** *The risk that a firm may not be able to carry out its business plan and/or desired strategy.* The principal business risks facing Silchester are:

    - ***Operational Risk.*** *The risk of loss, or breach of contractual requirements, resulting from inadequate or failed internal processes, people or systems; human error; or, external events.* This includes the risk of loss or breach arising from the inadequate supervision of third party service providers. Silchester seeks to mitigate these risks by (i) keeping its business simple; (ii) taking advantage of technology solutions; (iii) identifying and managing sources of risk, stress testing those risks and maintaining insurance or other capital to offset financial losses; (iv) documenting procedures; and (v) reviewing the operations of material business operations on a periodic basis.

    - ***Concentration Risk.*** *The risk that exposures to specific sectors or asset concentration could result in losses*. Silchester invests client assets principally in publicly traded non-US equity securities. Silchester's business could suffer (i) from a decline in its investment performance, (ii) a change of sentiment on the part of institutional investors away from publicly traded international equity securities and/or a shift of their asset allocations to private equity, hedge funds, commodities or other types of investments, or (iii) a sharp appreciation of the US dollar.

    - ***Insurance Risk***. *The risk of a failure of insurance cover.* Silchester maintains fiduciary liability (e.g., professional indemnity), crime (e.g., errors and omissions), ERISA and cybersecurity insurance at a level and with a deductible that Silchester considers appropriate for the business. Silchester seeks to obtain insurance only from well capitalised insurance firms to minimise the risk of loss arising from insurance risk.

Governance

The Supervisory Group notes the material risks that face Silchester's investment management business. The Supervisory Group meets regularly. The Supervisory Group is responsible for ensuring that Silchester has a suitably robust operational risk management framework in place to make sure that risks are adequately identified, assessed, and mitigated. Although the Supervisory Group has overall responsibility for oversight of the business, it delegates day to day responsibilities to various business groups. Each business group is required to meet regularly and provide certain reports to the Supervisory Group. As of 1st April 2022, the Supervisory Group has four members.

	Other Directorships Requiring Disclosure
Michael Cowan (Chairman)	<u>Director</u> Silchester Partners Limited Silchester Continuation Limited <u>Non-Executive Director</u> Colchester Global Investors Limited

	Other Directorships Requiring Disclosure
Tim Linehan (Head of Operations)	Director Silchester Partners Limited Silchester Continuation Limited Non-Executive Director Highclere Investment Management Limited Sanderson Partners Limited Cape Ann Asset Management Limited Velanne Asset Management Limited (in liquidation)
Ray Cheung (Head of Investment Administration)	Non-Executive Director Kiltearn Limited Edgbaston Limited
Farias Parakh (Head of Marketing and Client Service)	Director Silchester International Investors, Inc.

Own Funds

Under MIFIDPRU, Silchester is required to disclose:

1. The composition of Silchester's Own Funds;
2. A reconciliation of Silchester's Own Funds to the balance sheet presented in the most recent set of audited financial statements; and,
3. A description of any material aspects of Silchester's Own Funds.

(1) Composition of Own Funds:

	Item	Amount (in GBP as of 31st March 2022)	Page Reference in Silchester's audited Financial Statements
1	**OWN FUNDS**	21,990	Sum of items below
2	**TIER 1 CAPITAL**	-	
3	**COMMON EQUITY TIER 1 CAPITAL**	21,990	Sum of items below
4	Fully paid up capital instruments	14,000	Members' capital classified as equity (Page 14)
5	Share premium	-	
6	Retained earnings	-	
7	Accumulated other comprehensive income	-	
8	Other reserves	7,990	Revaluation Reserve (Page 14)
9	Adjustments to CET1 due to prudential filters	-	
10	Other funds	-	
11	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	-	
19	CET1: Other capital elements, deductions and adjustments	-	
20	**ADDITIONAL TIER 1 CAPITAL**	-	
21	Fully paid up, directly issued capital instruments	-	
22	Share premium	-	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	-	
24	Additional Tier 1: Other capital elements, deductions and adjustments	-	
25	**TIER 2 CAPITAL**	-	
26	Fully paid up, directly issued capital instruments	-	
27	Share premium	-	
28	(-) TOTAL DEDUCTIONS FROM TIER 2	-	
29	Tier 2: Other capital elements, deductions and adjustments	-	

(2) Reconciliation of Own Funds to the Balance Sheet set out in the Audited Financial Statements.

		a	b	c
		Amount per Silchester's audited Financial Statements	**Under regulatory scope of consolidation**	**Page Reference in Silchester's audited Financial Statements**
Assets - *Breakdown by asset classes according to the Partnership's balance sheet in the audited financial statements*				
	Investments	22,981	-	-
	Debtors	66,678	-	-
	Cash and short-term deposits	2,103	-	-
	Total Assets	**91,762**		-
Liabilities - *Breakdown by liability classes according to the Partnership's balance sheet in the audited financial statements*				
	Creditors	7,261	-	-
	Members' capital classified as a liability	950	-	-
	Total Liabilities	**8,211**	-	-
Equity				
	Members' capital classified as equity	14,000	-	Page 14
	Revaluation Reserve	7,990	-	Page 14
	Other reserves	61,561	-	-
	Total Shareholders' equity	**83,551**	-	-

(3) Description of Own Funds

Silchester's Own Funds consists of two components:

- Capital provided by SCL is permanent in nature and is not repayable except in extraordinary circumstances. It is included in Own Funds as provided by FCA rules. Capital contributed by individual members can be repaid and is shown as a liability.
- Silchester has invested the permanent regulatory capital provided by SCL into the Calleva Trust. The Calleva Trust is a UCITS. Silchester is the Calleva Trust's investment manager. Unrealised gains/losses on this investment are reflected in the revaluation reserve.

Own Funds Threshold

Silchester is required to hold Own Funds in a sufficient quantity and of sufficient quality to absorb certain losses and meet certain regulatory requirements (the "Own Funds Threshold"). For regulatory purposes, Silchester's Own Funds Threshold is the largest of the following items:

- *Permanent Minimum Capital established by FCA Rules*. This is currently £75,000;
- *Fixed Overhead Requirement*. Broadly speaking, this is equal to 25% of annual overheads. Silchester's computed Fixed Overhead Requirement as of 31st March 2022 is £4.0m; and,
- *Silchester's 'K' Factors*. Given the structure of its business, the only relevant K-factor to Silchester is K-AUM. Broadly speaking, a firm's K-AUM requirement is equal to 0.02% of average AUM. Silchester's computed K-factor total as of 31st March 2022 is £6.3m.

The Own Funds Threshold is increased if amounts need to be retained to meet costs related to an orderly wind down. Using reasonable assumptions, Silchester determined that £4.5m of excess costs would be incurred in a wind down situation. As this is less than the capital Silchester must have on hand due to its K-Factors, no additional capital must be retained. Silchester's Own Funds Threshold is £6.3m.

Overall Financial Adequacy Rule

The Overall Financial Adequacy Rule states that Silchester must, at all times, hold Own Funds and liquid assets which are adequate, both in their amount and quality, to ensure Silchester is able to (i) remain financially viable through the economic cycle, (ii) address any material risks arising from its ongoing activities and (iii) be wound up in an orderly manner. Silchester has Own Funds that are above its Own Funds Requirement and liquid assets that are above its liquid asset threshold. As a result, Silchester complies with the Overall Financial Adequacy Rule.

Level of Own Funds Held £'000	**Own Funds Requirement £'000**	**Excess £'000**
21,990	6,287	15,703

The equivalent position for liquid asset is as follows:

Core Liquid Assets £'000	**Liquid Assets Threshold Requirement £'000**	**Excess £'000**
43,151	5,846	37,305

ICARA Process Document

Silchester has prepared an Internal Capital and Risk Assessment document ("**ICARA**"). As a long only asset manager that invests client assets primarily in publicly traded non-US equity securities, Silchester is principally exposed to operational risk. There is, however, some small exposure to business risk and credit risk. These are typical for an asset management business. Silchester's Chief Compliance Officer, who is independent of the investment function, acts as operational risk manager and monitors and manages risk exposures with input from Silchester's business groups. In assessing operational risk appetite, consideration has been given to identifying the material risks facing Silchester's business. The ICARA process involves various stress tests. The ICARA is updated on an annual basis and periodically if a material change occurs in the risk or business profile of the firm.

Remuneration Code Provisions

For the purposes of these disclosures, Silchester International Investors LLP and Silchester International Investors, Inc. are referred to as "**Silchester**".

- <u>Link between pay and performance</u>: Silchester's limited liability partnership agreement (the "**LLP Agreement**") governs Silchester's business. The LLP Agreement specifies the ratio of profits less direct costs before any remuneration or drawings (internally referred to as profits before remuneration and tax or "**PBRT**") to be shared. These ratios ensure that employees and members are focused on growing Silchester's business in a profitable and efficient manner.

- <u>Decision-making process for determining remuneration</u>: Responsibility for determining remuneration and partnership participation levels rests with the Remuneration Group which seeks to obtain feedback on the performance and contribution of each individual employee or member. Remuneration and partnership distributions are not based on the profitability of any specific investment recommendation, the implementation of a given trade(s), the growth/retention of any particular investor, or the age, religion, gender, sexual orientation, ethnicity, or disability of any member of staff. Broad parameters have been established to reward individuals having regard to contribution and ownership of responsibility, reliability and total remuneration. Market levels are also taken into account. Variable remuneration payments are primarily made in the form of cash bonuses. Bonuses and discretionary drawings are only paid after Silchester ensures that FCA capital and liquidity requirements are satisfied.

- <u>Policy on Alignment and Co-Investment</u>: All employees and working members must invest 10% of total gross remuneration arising with respect to any given financial year into SCL shares. Choice is available as to timing but if insufficient investment has been made by the time final bonuses and/or partnership distributions are paid, the balance will be deducted from the final payment. Where an employee or working member is not eligible to purchase SCL shares (e.g., during a probationary period or when an individual and/or their families control more than 15% of Silchester Partners Limited ("**SPL**") shares), these individuals must invest 10% of total gross annualised remuneration arising with respect to any given financial year into the commingled funds forming part of Silchester's international equity programme. The investments made under this policy cannot be sold until an individual resigns, retires from or otherwise leaves the firm.

- Code Staff Criteria: All permanent employees and working members are considered Code Staff.

- Quantitative Remuneration Disclosures: Code Staff received remuneration (inclusive of distributions allocated to members) of £119 million for the year ended 31st March 2022. Base salaries, monthly drawings to members and other elements of fixed remuneration accounted for less than 10% of this figure. No material sign-on or severance payments were made.