Silchester International Investors LLP
(FRN 526527)
Pillar 3 Disclosure Statement
21st May 2021

Introduction

The Financial Conduct Authority ("**FCA**") has set out its regulatory capital requirements in its Handbook of Rules and Guidance for regulated firms. The regulatory framework has three "pillars":

- Pillar 1 sets out the minimum capital requirements for credit, market and operational risk and includes consideration of AUM and professional negligence risks;
- Pillar 2 requires regulated firms, and the FCA, to take a view on whether additional capital should be held against capital risks not covered adequately or at all by Pillar 1; and,
- Pillar 3 requires regulated firms to publish certain information on their risk management objectives and policies and on their capital resources.

These disclosures are made in respect of Silchester International Investors LLP ("**Silchester**") in compliance with the rules and guidance set out in the FCA Handbook and Silchester's disclosure policy[1]. The information contained herein has been prepared on an unconsolidated basis.

The Firm

Silchester is a private limited liability partnership providing 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.

Risk Management

The FCA requires that a regulated firm manage a number of different categories of 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, fund investments, cash deposits and prepaid expenses. Investment management 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. Market risk under Pillar 1 is therefore limited to foreign

[1] FCA rules provide that required disclosures may be omitted if the information is believed to be immaterial or where it is regarded as proprietary or confidential. Materiality is based on the criteria that the omission or misstatement could change or influence the assessment or decision of a user relying on that information. Information is regarded as proprietary if sharing that information with the public would undermine a firm's competitive position. Information is regarded as confidential where the firm is bound by conditions of confidentiality. Where a disclosure is considered to be immaterial, proprietary or confidential, this has been described.

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. Silchester is not required to calculate an operational risk requirement.

  - ***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.

  - ***Interest Rate Risk***. *The risk that significant changes in interest rates may have an adverse impact on the business.* Silchester does not engage in or run a trading book and has no borrowings. Given its cash balances, Silchester would expect to benefit from increases in interest rates as a result of increased interest income.

Silchester's Business Supervisory Group is responsible for determining Silchester's risk strategy, setting its risk appetite and ensuring that risk is monitored and controlled effectively. The Business Supervisory Group consults the Compliance Group and Operational Risk Management Group before deciding to make (i) material investments, loans or capital expenditures; (ii) significant investments; (iii) material changes in its cost structure, base salaries or the level of member drawings; or (iv) material repayments or distributions of member 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. Silchester aims to ensure that staff remain focused on compliance with applicable regulations, improving procedures, minimising risk and establishing a robust risk, capital and performance structure.

Capital Resources and Regulatory Obligations

Silchester must maintain capital equal to the higher of (i) its base capital requirement (€50,000), (ii) its fixed overhead requirement, (iii) the sum of its credit and market risk capital requirements and (iv) the sum of its funds under management and professional negligence capital requirements.

Capital Resources		**31st March 2021 £'000 (as reported)**
Tier 1 Capital	*LLP permanent regulatory capital*	14,000
Tier 2 Capital	*Revaluation Reserves**	6,969
Total Capital Resources		20,969
Pillar 1 Capital Requirement	*Capital requirement*	9,200
Surplus Capital Resources		11,769

*The revaluation reserve primarily includes changes in unrealised gains/losses on the investment in the Calleva Trust.

Silchester has prepared an assessment of capital adequacy (Internal Capital Adequacy Assessment Process document or "**ICAAP**") in accordance with CRD Pillar 2 requirements set out in BIPRU 2.2 of the FCA Handbook. The ICAAP takes account of the principal risks and uncertainties set out above. As a long only asset manager that invests client assets primarily in publicly traded non-US equity securities, Silchester is exposed principally to operational risk; however there is some small exposure both to business risk and credit risk. These exposures are regarded as 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 ICAAP process involves separate consideration of risks to firm capital combined with stress testing using scenario analysis and consideration of the financial resources required in a wind down situation. The ICAAP is updated formally on an annual basis and in the interim should a material change occur in the risk or business profile of the firm.

Non-trading book exposures in equities: Non-trading book exposures in equities are considered immaterial as any investment in equities is normally limited to investments in the Calleva Trust. Full disclosure of these investments and of the accounting techniques and valuation methodologies employed are disclosed in Silchester's audited annual report and accounts.

Remuneration Code Provisions

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

- Link between pay and performance: 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.

- Decision-making process for determining remuneration: Responsibility for determining variable remuneration 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 and fees are collected.

- Policy on Alignment and Co-Investment: 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. Silchester's 'financial year' runs from 1st April to 31st March. SCL shares can be purchased twice a year, as of 30th September and as of 31st March. 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. Additional investments, above and beyond the 10% figure, can be made in SCL, SPL shares and/or invested in Silchester's international equity programme.

- Code Staff Criteria: Given the size of the organisation, all permanent Silchester employees and working members are considered to be Code Staff.

- Quantitative Remuneration Disclosures: Code Staff received remuneration (inclusive of distributions allocated to members) of £114 million for the year ended 31st March 2021. Base salaries, monthly drawings to members and other elements of fixed remuneration accounted for approximately 10% of this figure. As Silchester offers only one investment programme and all staff are considered to be Remuneration Code Staff, this figure has not been broken down by business area or between senior management and other members of staff whose actions may have a material impact on the firm's risk profile. No material sign-on or severance payments were made.