EDGBASTON INVESTMENT PARTNERS

Edgbaston Investment Partners LLP
Pillar 3 Disclosure Statement
(FRN: 720002)

Introduction

Edgbaston Investment Partners LLP ("Edgbaston") is authorised and regulated by the Financial Conduct Authority ("FCA"). The 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 considerations 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.

Edgbaston is regulated as an Alternative Investment Fund Manager ("AIFM") pursuant to the Alternative Investment Fund Managers Directive ("AIFMD") and the FCA's adopting legislation. Edgbaston must meet AIFMD capital requirements and disclosure obligations as applicable to an AIFM. As a general rule, Edgbaston's capital requirements under AIFMD will be driven by Edgbaston's overall assets under management rather than underlying expenditure requirements and financial commitments. As such, AIFMD capital requirements will generally rise and/or fall in line with Edgbaston's assets under management.

This disclosure[1] is made in respect of Edgbaston's compliance with the rules and guidance set out in the FCA Handbook. The information contained herein has been prepared on an unconsolidated basis. Additional information is available from Edgbaston's Chief Compliance Officer, Stephen Shepherd (sshepherd@edgbastonip.com).

Business Structure

Edgbaston is a limited liability partnership that is managed by its members. It provides discretionary investment management services primarily to institutional clients through commingled funds established, operated and managed by the firm (referred to collectively as the "AIFs") and a segregated mandate. Edgbaston Partners Limited ("EP Ltd") is a member of Edgbaston and holds a significant (i.e., >90%) proportion of Edgbaston's capital.

Operational Risk Management

The FCA requires that a regulated firm manage a number of different categories of risk.

Credit Risk – clients or counterparties fail to meet their obligations as they fall due

[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.

Edgbaston's credit risk is limited to that arising in respect of unpaid investment management fees, fund investments and cash deposits. For its commingled funds, Edgbaston receives investment management fees on a monthly basis. These fees are computed based on the value of each underlying investor's holdings in the commingled funds. Investment management fees are paid within five business days of each month. Separate account clients are generally invoiced on a quarterly basis in arrears for the investment management services that Edgbaston provides. As Edgbaston only manages money on a "long only" basis and does not use leverage, margin or derivative products, there is little credit risk associated with the fees. Edgbaston's free cash flow is placed on deposit each month. Deposits are ordinarily placed with highly capitalised bank(s). The eligible banks are each approved by the Executive Committee. Credit ratings are monitored on a periodic basis. No provisions have to date been required in respect of asset impairment or non-recovery. Edgbaston does not utilise risk mitigation techniques (i.e., credit default swaps) to minimise financial exposure to deposits.

Market Risk – 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

As an asset management firm, Edgbaston's portfolios are subject to market risk. Edgbaston's fees are asset based fees and Edgbaston's revenues will fluctuate according to its AUM. Edgbaston has structured its business so that many costs are variable and will fall as its AUM falls. More importantly, Edgbaston keeps base salaries and monthly drawings low and can, if it chooses to, remunerate employees/partners through discretionary bonuses. Surplus liquid capital is not at risk until a loss fully offsets Edgbaston's PBRT less committed salaries, drawings and benefits. Edgbaston's core regulatory capital, surplus capital and free cash flow is primarily invested in (i) cash deposits, and (ii) unregulated collective investment schemes sponsored by Edgbaston.

Liquidity Risk – 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.

Liquidity risk consists of two primary items – funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that the counterparties who provide Edgbaston with short-term funding will withdraw or not roll over that funding. Market liquidity risk is the risk of a generalised disruption in asset markets that make normally-liquid assets illiquid. Edgbaston has no borrowing and is not dependent on external financing for any aspect of its business. As a result, Edgbaston is not exposed to funding liquidity risk. Edgbaston has some exposure to market liquidity risk. For example, one of Edgbaston's banking counterparties could suffer severe financial distress and elect not to return some of Edgbaston's cash deposits. The AIFs permit investors to make redemptions on the first business day of each month by providing twenty business days prior written notice. Edgbaston is permitted to satisfy any such redemption requests in cash or via an in-specie liquidation. Given that the AIFs principally invest in publicly traded Asia Pacific (excluding Japan) equity securities, these liquidity provisions are deemed to be appropriate and in accordance with rules established by the AIFMD.

Business Risk – a firm may not be able to carry out its business plan and/or desired strategy.

The principal business risks facing Edgbaston are:

- *Operational Risk – the risk of a direct or indirect loss, or breach of contractual requirements, resulting from inadequate or failed internal processes, people and systems or from external events.* Edgbaston attempts to mitigate these risks by (i) maintaining suitable financial resources; (ii) ensuring that Edgbaston is able to meet its regulatory capital obligations on an on-going basis as required under Pillar 1; (iii) identifying and managing sources of risk, stress testing those risks and maintaining insurance or other capital to offset financial losses that may be created by the various risks under Pillar 2; (iv) aligning the interests of all employees/members with the supervision of the operations of the business through its remuneration policies; (v) maintaining a risk matrix and key operating procedures ("KOPs") for material business areas; (vi) reviewing the operations of material business groups on a periodic basis; (vii) providing training where required; and (viii) keeping Edgbaston's business simple. Edgbaston 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.* Edgbaston principally invests client assets in publicly traded Asia-Pacific equity securities (excluding Japan). Edgbaston's business could suffer: (i) from a decline in its investment performance relative to benchmark indices; (ii) if institutional investors choose not to invest in publicly traded Asia Pacific (excluding Japan) equity securities and/or shift their asset allocations to private equity, hedge funds, commodities or other types of investments; or (iii) the US dollar sharply appreciates, negatively impacting relative returns. As of 31st August 2021, 132 underlying clients were invested in Edgbaston's AIFs, the largest of which accounted for 15% of Edgbaston's assets under management. The loss of any of these clients individually would be unlikely to have a major impact on Edgbaston's ability to continue operations.

- *Insurance Risk – the risk of a failure of insurance cover.* Edgbaston maintains fiduciary liability (also referred to as professional indemnity), crime (also referred to as errors and omissions), directors and officers, cyber, and ERISA insurance at a level which Edgbaston considers appropriate for the business and subject to a deductible which Edgbaston can reasonably afford to meet if called upon. Edgbaston would be exposed to potential losses in the event that an error occurred and its insurers did not pay the anticipated insurance settlement proceeds. Edgbaston attempts 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.* Edgbaston does not engage in any principal trades or run any trading book exposures that could be subject to interest rate risk. From a business perspective (given its cash balances) and assuming no impact on investment performance, Edgbaston would expect to benefit from increases in interest rates as its interest income would rise.

- *Proprietary Trading Risk/Value at Risk Measurements* – Edgbaston does not engage in any proprietary or principal trading activities. As a result, it does not monitor "value at risk" on a routine basis.

Edgbaston's Executive Committee is responsible for determining Edgbaston's risk strategy, setting its risk appetite and ensuring that risk is monitored and controlled effectively. The Executive Committee consults the Compliance and 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. Edgbaston's operational risk management framework is updated to reflect material changes in Edgbaston's business, capital obligations or resource requirements. Edgbaston's operational risk appetite is regularly reviewed. Edgbaston 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
Edgbaston must maintain capital equal to the higher of: (i) its base own funds capital requirement (€125,000), (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
Tier 1 Capital	3,112
Tier 2 Capital (*revaluation reserves*)	92
Deductions (*material holdings*)	(77)
[2]**Total Capital Resources**	**3,127**
[3]Capital Requirement	1,435
Surplus Capital Resources	**1,692**

Edgbaston 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 Asia Pacific (excluding Japan) equity securities, Edgbaston 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. Edgbaston's Chief Compliance Officer, who is independent of Edgbaston's investment function, acts as the operational risk manager and monitors and manages the risk exposures of the business with input from Edgbaston's various business groups. In assessing operational risk appetite, consideration has been given to identifying the material risks facing Edgbaston'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 Edgbaston Asia Pacific ex-Japan Equity Programme. Full disclosure of these investments and of the accounting techniques and valuation methodologies employed are disclosed in Edgbaston's audited annual report and accounts.

FCA Remuneration Code

Edgbaston has completed this section of the Pillar 3 disclosure document on the basis that it is a full scope AIFM firm that is subject to the remuneration rules set out in SYSC 19B and SYSC 19C of the FCA Handbook and is eligible to apply principles of proportionality pursuant to guidance set out in the Guidelines on Sound Remuneration Policies as published by the European Securities and Markets Authority ("ESMA") under the AIFMD. Market regulators impose a variety of requirements on asset management firms with respect to remuneration. The general thrust of these remuneration codes (in aggregate, the "Remuneration

[2] (Tier 1 capital + tier 2 capital) – deductions
[3] Fixed Overhead Requirement + Professional Negligence Capital Requirement

Code") is to ensure that regulated firms have: (i) robust governance arrangements in place, (ii) established remuneration controls for staff whose professional activities could have a material impact on the risk profile of their firms, and (iii) qualitative and quantitative disclosures of their remuneration policies.

Applicability of the Remuneration Code

Under the Remuneration Code, Edgbaston must "*establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management and do not encourage risk-taking which is inconsistent with the risk profile of the instrument constituting the fund of the AIFs it manages*". Under SYSC 19B and SYSC 19C, Edgbaston may apply the regulations in a proportionate manner based on the size, nature and complexity of its business. Edgbaston must assess its own characteristics and develop and implement policies and practices that appropriately align it with the risks faced by its business. Edgbaston must also ensure that adequate and effective incentives are given to all members of staff. In designing its approach towards remuneration and alignment, Edgbaston has taken into account its structure and the size, nature and complexity of its business.

Identification of Remuneration Code Staff

Edgbaston is required to identify those members of staff who are covered by the Remuneration Code (referred to as "Code Staff"). As a result of its small size (ten employees and three members) and the responsibilities assumed by all individuals, Edgbaston considers all staff to be Code Staff. All staff are provided with access to this remuneration code summary on an annual basis as part of Edgbaston's Compliance Manual. Certain more burdensome provisions of the Remuneration Code (i.e., the requirements to restrict the ratio of discretionary payments to base salary/bonuses, to defer remuneration and/or bonuses over a period of time or to pay a portion of remuneration and bonuses in shares) are currently not deemed to be applicable to Edgbaston's operations.

Organisational Factors

Edgbaston is not listed or traded on a regulated market. Edgbaston has a single investment strategy / style which it manages consistently across two AIFs and a segregated mandate. It does not delegate investment management discretion to a third-party. Edgbaston is classified by the FCA as a flexible portfolio firm from a conduct perspective and as a prudentially insignificant firm from a prudential perspective.

Investment Approach

Edgbaston invests client assets in publicly traded, Asia-Pacific (excluding Japan) equity securities. Edgbaston invests in developed markets, "emerging" markets such as India, Taiwan, Thailand, Malaysia, Pakistan and South Korea and "frontier" markets such as Sri Lanka, Vietnam and Bangladesh. Edgbaston does not short stocks, utilise derivatives or margin, underwrite securities, issue or write options, futures, warrants or over the counter ("OTC") instruments. Edgbaston does not participate in securities lending programmes. Edgbaston does not invest in fixed income instruments, physical real estate, commodities or contracts for difference. Assets included in client portfolios are normally priced by independent fund administrators using closing market prices and exchange rates. Edgbaston does not charge performance fees. It is therefore reasonable to assert that Edgbaston does not trade in unusual or high risk products and has designed its systems and controls with this in mind.

Edgbaston looks to add investments to client portfolios when they will help to maximise the earnings, assets and dividends of its investment programme. Such investments may be funded from the cash flow of the existing portfolio or by the sale of investments which have come to offer less value. This approach is generally evolutionary rather than revolutionary. Edgbaston usually maintain client cash balances at minimal levels. Typically, about 60 - 80 investments will be owned in client portfolios with a reasonable diversification by country, sector and capitalisation. In assessing risk, Edgbaston's investment philosophy focuses on three types of risk: valuation risk, business risk, and balance sheet risk. Of the three, valuation risk is considered the most important. High valuations lower the margin of safety inherent in the purchase price of an investment. Business risk is the visibility of earnings or the dependence of the company's profitability on the economic cycle. Balance sheet risk is determined by the quality of the balance sheet and appropriateness of the capital structure for the industry the company operates within. Risks must be balanced in any investment decision, but we avoid companies with both high balance sheet risk and high business risk.

Remuneration Policy

Edgbaston does not charge performance fees and receives asset based fees on a monthly basis. Costs are monitored closely. In order to ensure alignment between Edgbaston's members and employees, the LLP Agreement that governs Edgbaston's business specifies how the ratio of profits less direct costs (internally referred to as profits before remuneration and tax or "PBRT") is shared. The use of a PBRT model ensures that the aggregate spend on variable remuneration directly reflects Edgbaston's overall performance. The PBRT ratios on a longer term basis are:

60.0%	to employees/working members as remuneration/drawings
40.0%	to EP Ltd

Establishing these ratios in the LLP Agreement ensures that both employees and members are focused on growing Edgbaston's business in a profitable and efficient manner. While 60.0% of PBRT is distributed to employees/working members as remuneration/drawings, the split between each member of staff is determined by Edgbaston's Remuneration Committee.

The current members of the Remuneration Committee are Charu Fernando, Matthew Myles and Sarah Nichols. The Remuneration Committee obtains feedback on the performance and contribution of each member of staff. Advancement and compensation is based on an evaluation of a staff member's contribution to Edgbaston. This is done via a formal written appraisal carried out annually. All staff are eligible for an annual discretionary bonus coming from a pool which is tied to the overall profitability of the firm and ultimately the performance of the strategy. Edgbaston does not pay guaranteed variable remuneration. Fixed remuneration is comprised principally of salaries but also includes employee benefits. Individual bonus and compensation levels are reviewed and set annually based on that individual's contribution. This includes an assessment of the individual's work quality and commitment as opposed to any set performance criteria or mechanistic formulas. The Remuneration Committee consider the following factors when determining the levels of remuneration and/or discretionary bonuses paid to each member of staff:

- ***Contribution.*** Edgbaston wants to reward staff for their contribution to the success of the firm over a multi-year period and will consider their ownership of various responsibilities, whether related to investment, marketing and client service, investment operations, or firm management. Each area is important to Edgbaston's on-going viability. In order to assess individual contribution, Edgbaston utilises a framework that considers four key non-financial criteria:

    1. **Skill and expertise** are necessary attributes for undertaking any role. These can be tangible such as the ability to build a spreadsheet or organise a series of tasks (generally easier to measure) or they can

be intangible such as exercising judgement, acting sensibly under pressure, or problem solving (harder to measure). Some weighting will also be paid to the improvement in these skills over time.

2. **Reliability** measures the ability of an individual to get assigned tasks done on time with the requisite amount of care and accuracy. Our clients, prospects and colleagues should be able to rely on individuals to do what is promised and deliver it as planned. Part of the assessment in this area also needs to address how the individual manages the process when deadlines are not met and deliverables are behind schedule.
3. **Hard work**, an assessment of the effort expended is also a useful measure not just as a proxy for commitment but also to ensure the effort being expended is commensurate with the value of the work being produced. If two people are making a similar contribution but one does so with half the effort it raises issues of the suitability of the work assigned to individuals and whether the skill set is appropriate for the job.
4. **Teamwork and commitment** takes into account factors such an individual's professionalism, helpfulness, and flexibility. For example, does the person make a positive or negative contribution to the team and its working atmosphere?

- ***Market Levels***. Edgbaston believes that remuneration levels should be competitive. It is reasonable to offer remuneration above general market levels when Edgbaston believes that the value justifies such a course. Edgbaston also recognises that it must be competitive to attract and retain good staff in their various areas of activity.

- ***Success of Edgbaston***. If Edgbaston is successful there should be a benefit to all. Edgbaston recognises a system of this sort cannot deliver when the business is not doing well. In other words, if PBRT drops, remuneration and discretionary bonuses must fall.

- ***Split Between Fixed and Discretionary Components***. Fixed aspects of expenditure should be kept low as this provides the greatest level of flexibility and allows Edgbaston to withstand various stresses – performance volatility, loss of client assets, exchange rate volatility and changes in interest rates – without needing to terminate staff.

None of Edgbaston's staff have any component of their compensation tied to asset growth. However, staff compensation levels are naturally affected by firm profitability. Further, none of Edgbaston's investment professionals are compensated on the basis of how a particular stock they wrote on has performed or whether or not it was purchased for the Programme. Edgbaston strives to avoid creating advocates for stocks and indeed, the team member who writes the initial research report on a company will not be the person that writes the review note on the company 12-18 months later. This reinforces the team ethos and the investment team's collective responsibility for the Programme and helps to avoid conflicts of interest. Edgbaston's investment professionals are compensated instead based on the quality of their research, the thoughtfulness of their comments in Research Committee meetings, the quality of implementation and on their contribution to the Programme as a whole. Edgbaston believe this leads to better alignment with its clients' interests.

Notifications of discretionary payments are provided annually. Actual allocations can be amended at any time by the Remuneration Committee to reflect relative performance. Bonuses are only paid after Edgbaston ensures that FCA capital and liquidity requirements are satisfied and after all fees are collected. Edgbaston's remuneration policy is reviewed annually by its Compliance Group to ensure that it continues to comply with the policies and procedures for remuneration adopted by the Remuneration Committee.

Remuneration Code Staff received remuneration of approximately £4.2 million for the year ended 31st March 2021 (inclusive of distributions allocated to members). Base salaries and other elements of fixed remuneration accounted for approximately 30% of this figure. As Edgbaston only offers 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 various senior staff. No material sign-on or severance payments were made.

Edgbaston, its employees, members and their related parties have money invested in its investment programme. These investments are made on the same terms and liquidity rights and are subject to the same fees as those paid by commingled fund investors. Edgbaston, its employees, members and their related parties have a significant amount of alignment with investing clients.

How the Specific Principles of the Remuneration Code Apply
Edgbaston believes that its remuneration policy is consistent with and promotes effective risk management. Edgbaston's PBRT model helps to ensure that all staff are focused on growing Edgbaston's business in a profitable and efficient manner. The fact that remuneration is not based on the profitability of any specific investment recommendation, the implementation of a given trade(s) or the growth/retention of client assets removes short term incentives. Performance fees are not charged which helps to preserve a longer term perspective. Fixed elements of remuneration are kept relatively low so the firm can withstand various market pressures while still meeting its ongoing obligations.

Edgbaston documents its business strategy, objectives, values and long term objectives in its Compliance Manual and Personnel Handbook. Its investment philosophy, investment guidelines, and a summary of risks inherent in its investment approach are set out in the Offering Memorandum and Prospectus of its commingled funds. Edgbaston summarises its remuneration policy in its Master DDQ and in consultant databases when this is deemed to be of interest. Edgbaston's Executive Committee has reviewed and adopted its remuneration policy in conjunction with the Compliance Group. Amendments are made as required. The Executive Committee has a significant amount of experience in the industry. Except for the Non-Executive member, all members are involved in the day to day business and are responsible for ensuring that the operational and compliance controls are adequately resourced and operating effectively. The Chief Compliance Officer reports directly to the Executive Committee. All material issues identified in the Compliance and Risk Testing Programme that cannot be resolved in a timely and appropriate manner are raised with the Executive Committee. The Remuneration Committee directly oversees the remuneration payable to members of the risk management and compliance groups. Given its size, nature and complexity, Edgbaston believes that these controls are adequate.

In its ICAAP, Edgbaston assesses its capital requirements. Edgbaston also documents the material and non-material risks facing its business and whether additional capital is necessary to mitigate those risks.

Disapplication of Remuneration Code Provisions
Given the size and internal organisation of Edgbaston's business and the nature, scope and complexity of its activities, Edgbaston has dis-applied provisions related to: (i) retained units, shares or other instruments (SYSC 19B.1.17R); (ii) deferral (SYSC 19B.1.18R); and (iii) performance adjustments (SYSC 19B.1.19R, SYSC 19B.1.20G). Edgbaston has considered the impact of remuneration policies on its capital requirements, ICAAP and Compliance and Risk Testing Programme.