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**"). Edgbaston is categorised as a BIPRU firm and is subject to the following capital framework:

- Pillar 1 specifies the minimum capital that Edgbaston is required to carry to cover business risks;
- Pillar 2 sets out the supervisory review process to be used by Edgbaston and the FCA to determine whether additional capital should be maintained against any other risks not covered under Pillar 1;
- Pillar 3 specifies the disclosure requirements which Edgbaston is required to make of its capital, risk exposures and risk assessment processes.

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 the 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 is prepared on the basis that Edgbaston is a full scope AIFM subject to BIPRU regulations for the disclosures required under Pillar 3 contained in the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") and the AIFMD capital requirements contained in the Interim Prudential sourcebook for Investment Businesses ("IPRUINV"). Further information on BIPRU and IPRUINV can be found on the FCA website (www.fca.gov.uk). These rules allow each firm to exclude disclosures where the information is regarded as immaterial, proprietary or confidential. Disclosures have been made in this document subject to those rules. Additional information is also available from Edgbaston's Chief Compliance Officer, Matthew Myles (mmyles@edgbastonip.com).

Business Structure

The disclosures contained in the document relate to Edgbaston's business. Edgbaston is a private limited liability partnership that is managed by its members. Edgbaston Partners Limited ("EIP Ltd") is a member and holds a significant (i.e., >90%) proportion of Edgbaston's capital.

On 1st April 2016, EIP Ltd contributed its investment management business to Edgbaston Investment Partners LLP (which had been formed in 2015) in exchange for a partnership interest in Edgbaston. Following the contribution, Edgbaston Investment Partners Limited changed its name to Edgbaston Partners Limited. All of EIP Ltd's employees, including all portfolio managers, research analysts and members of its operations and administration groups, became employees or members of Edgbaston. In connection with this transaction, Edgbaston succeeded to EIP Ltd's FCA and SEC registrations. All references to Edgbaston refer to Edgbaston Investment Partners LLP for the period beginning 1st April 2016 and to Edgbaston Investment Partners Limited for the period prior to 1st April 2016.

Operational Risk Management

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 work closely with the Compliance and Risk Management Groups. Edgbaston's risk management framework is updated, as necessary, to take into account material changes in Edgbaston's business, capital obligations, or resource requirements. Edgbaston's risk appetite is regularly reviewed by considering various tests that set out the amount and type of risks that are considered appropriate for Edgbaston to accept to execute its strategy. Edgbaston has developed a risk matrix that is broken down by business function and each underlying process within the business function. Each risk is then assessed to determine, for example, the type of risk exposure, its materiality and what mitigating procedures can be put in place to control the risk of error.

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Edgbaston's culture aims to ensure that all staff remain focused on improving procedures, minimising risk and establishing a robust risk, capital and performance structure.

Edgbaston is not authorised to take proprietary trading positions or hold client money. Edgbaston is exempt from the operational risk requirement at Pillar 1 and is not required to calculate an operational risk capital charge. Edgbaston must calculate the sum of its core regulatory capital and its professional liability risks capital requirement. These are set out in the following table:

	31st March 2016 £ '000
Total capital after deductions	1,002
Capital requirement	676
Excess capital before stress test	326
Additional capital from stress test	0
Excess capital after stress test	326

Edgbaston's ICAAP analysis highlights that Edgbaston had surplus Tier 1 capital as of 31st March 2016 compared to the capital resource requirements computed under Pillar 1 and will maintain surplus capital under AIFMD rules. The capital requirement will be recalculated in the event any material changes occur to Edgbaston's business.

Under Pillar 2 and as required according to GENPRU 1.2, Edgbaston is required to adopt an internal capital adequacy assessment process ("ICAAP"). In its ICAAP analysis, Edgbaston has prepared various scenario analyses. The most extreme scenario (that of a complete wind down of the firm over a three month period with no revenues received during this time), highlights the fact that Edgbaston needs to maintain c£356,000 of capital to fulfil its financial obligations which is significantly less than its Pillar 1 obligations. As a result, Edgbaston has surplus liquid capital compared to the capital resource requirements computed under **Pillar 2**.

Risk Assessments and Impact on Capital Computation

As a long only asset manager that primarily invests client assets in publicly traded Asia-Pacific equity securities (excluding Japan), Edgbaston is mainly exposed to operational risk; however there is some small additional exposure both to business risk and credit risk. All of these exposures are regarded as typical for a business engaged in the activity of asset management. 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 the risk appetite of the business, consideration has been given to identifying the material risks facing Edgbaston's operations. These include risks at both the client level and at the firm level and take the form of loss of revenue, loss of assets or higher costs. Two specific factors have been considered in defining the risk appetite; firstly, the likelihood of occurrence of an event and secondly, the impact level of an event. Further information is set out below:

- ***Credit Risk.*** As an asset management firm, Edgbaston is subject to credit risk. 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. 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 Dealing Group also monitors credit ratings of these banks on a periodic basis. Edgbaston does not utilise risk mitigation techniques (i.e., credit default swaps) to minimise financial exposure to deposits.

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- ***Market Risk.*** As an asset management firm, Edgbaston's portfolios are subject to market risk. Edgbaston's fees are asset based fees and Edgbaston's revenue increases as AUM increase and will fall if AUM falls. Edgbaston has structured its business so that many costs are variable and will fall as its AUM falls. More importantly, Edgbaston keeps base salaries low and can, if it chooses to, remunerate employees through discretionary bonuses. Surplus liquid capital is not at risk until a loss fully offsets Edgbaston's profit before remuneration and taxes ("**PBRT**") less committed salaries 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.*** 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 for which Edgbaston has been appointed as investment manager permit investors to make redemptions on the first business day of each month by providing ten 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 non-US equity securities, these liquidity provisions are deemed to be appropriate and in accordance with rules established by the AIFMD.

- ***Operational Risk.*** Operational risk refers to the risk of a direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Edgbaston attempts to mitigate these risks by (i) maintaining substantial 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 test those risks and maintain insurance or other capital to offset financial losses that may be created by various risks under Pillar 2; (iv) aligning the interests of all staff with 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.

- ***Concentration Risk.*** Concentration risk is the risk that exposures to specific sectors or asset concentration could result in losses to Edgbaston or its business. 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 international 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.

- ***Business Risk.*** Business risk arises from changes in the business that prevents Edgbaston from carrying out its business plan and desired strategy. Edgbaston is a small, closely held organisation, where senior management also own a significant stake in the business. All material structural changes to Edgbaston's business are subject to discussion at Edgbaston Executive Committee level. The Edgbaston Executive Committee consults the Compliance and Risk Management Groups before (i) an investment, loan or capital subscription is made; (ii) before a significant investment is made; (iii) before any material change in Edgbaston's cost structure or base salaries; or (iv) before any share buyback occurs.

- ***Interest Rate Risk***. 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.

- ***Insurance Risk.*** Edgbaston maintains fiduciary liability (also referred to as professional indemnity), crime (also referred to as errors and omissions) and ERISA insurance. Professional indemnity, crime and ERISA fidelity bond cover is set at a limit which Edgbaston considers appropriate for the business of Edgbaston 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.

Capital Resources and Regulatory Obligations
Edgbaston has calculated its capital needs in accordance with relevant FCA regulations and has determined that it has surplus regulatory capital.

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FCA Remuneration Code

Edgbaston has completed this section of the Pillar 3 disclosure document on the basis that it is a full scope AIFM BIPRU firm that is subject to the remuneration rules set out in SYSC 19B and SYSC 19C and is eligible to apply principles of proportionality pursuant to BIPRU rules. 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 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. For ease of reference, Edgbaston Investment Partners LLP and its wholly owned subsidiaries will be referred to as "Edgbaston" in this disclosure.

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 effective risk management. The policies, procedures and practices must not encourage excessive risk-taking*". 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 "**Remuneration Code Staff**"). Because of its small size and the responsibilities assumed by various individuals, Edgbaston considers all staff to be Remuneration Code Staff. All staff are provided with a copy of this remuneration code summary on an annual basis as part of Edgbaston's Compliance Manual. Certain 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.

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, South Korea and "frontier" markets such as Pakistan, 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 state 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 our 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 capitalization. In assessing risk, Edgbaston does not refer to stock market volatility. Rather, Edgbaston sees risk as the possibility of paying too high a valuation for a business and thereby denuding the margin of safety captured in cheap valuations. High valuations increase the possibility of a permanent loss of capital.

Edgbaston's 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 ratios on a longer term basis are:

60.0%	to employees/working members as remuneration/drawings
40.0%	to EIP 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 the Remuneration Committee.

The current members of the Remuneration Committee are Charu Fernando, Tim Linehan, Matthew Myles, Sarah Nichols and Corrinn Davis. The Remuneration Committee obtains feedback on the performance and contribution of each member of staff. Remuneration distributions are not based on the profitability of any specific investment recommendation, the implementation of a given trade or the growth/retention of any particular investor. The Remuneration Committee considered 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 administration, 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 areas:

    1. **Skill and expertise** are necessary attributes for undertaking any role. These can be tangible such as the ability to build a spreadsheet or organize 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. **Team play** 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.

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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. Remuneration Code Staff received remuneration of approximately £5.6 million for the year ended 31st March 2016. 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.

As of 31st March 2016, Edgbaston, its staff, 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 third party investors. Edgbaston, its staff, members and their related parties have a significant amount of alignment with investing clients.

How the Specific Principles of the Remuneration Code Apply to Edgbaston

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 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 and are involved in the day to day business, 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 risk management monitoring reviews 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 limited size, scope and nature of Edgbaston's activities and consistent with the explicit guidance given by the FCA, Edgbaston has disapplied provisions or proportionately applied provisions related to (i) leverage for fixed and variable components of remuneration; (ii) retained shares and other financial instruments; (iii) deferral; and (iv) performance adjustments. Edgbaston has considered the impact of remuneration policies on its capital requirements, ICAAP and monitoring programme.