Capital Requirements Directive
Pillar 3 Disclosures
Edinburgh Partners Limited.

INTRODUCTION

The Capital Requirements Directive ("CRD") created a revised regulatory framework across Europe. This was implemented in the United Kingdom through changes to the Financial Conduct Authority ("FCA") Handbook of Rules and Guidance. The framework consists of three "pillars":

- Pillar 1 sets our minimum capital requirements that we are required to meet for credit, market and operational risk;
- Pillar 2 requires Edinburgh Partners Ltd ("EPL") and the FCA, to take a view on whether additional capital should be held against capital risks not covered under Pillar 1; and
- Pillar 3 requires us to publish certain details of our risks, capital and risk management process.

TERMS OF REFERENCE

Chapter 11 of the FCA publication, The Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"), provides full details of the disclosure requirements of Pillar 3 that relate to EPL.

BIPRU Section 11.5 specifically details the relevant information to be disclosed under Pillar 3 and covers areas such as a firm's risk management objectives and policies and its capital resources from a regulatory perspective.

EPL has adhered to the disclosure requirements within BIPRU Chapter 11, detailing below our objectives and policies that cover various specific types of risk that the firm is exposed to. As permitted by the rules within sections 11.3.5 and 11.3.6 these disclosures take account of the materiality and the confidential nature of the disclosures to the user of the statement.

The disclosures in this document are made in respect of EPL which provides discretionary investment management to professional investors and eligible counterparties only. Under CRD EPL is a limited licence firm which means that it does not have authority to deal on its own account.

RISK MANAGEMENT OBJECTIVES & POLICIES

The risk management policies for EPL reflect the business and regulatory requirement to manage several different categories of risk. These risks include: credit, business, operational, market, insurance, and liquidity risk. In respect of this disclosure it is the first three of these risks that are most relevant, however, further information on all the risks is set out below.

Credit Risk

With regard to debtors and in particular the non-payment of fees, the extent to which we provide credit to clients and therefore the extent to which we are subject to credit risk and how we mitigate this is governed by the terms and conditions of each individual agreement that we have with clients. The terms of these agreements are subject to confidentiality clauses and are therefore not disclosed.

Regarding bank deposits, we only deposit money with approved counterparties on agreed terms.

Business Risk

Our Pillar 2 business risk assessment principally examines two main types of risks.

A period of persistent poor investment performance could lead to a loss of existing business with a resultant decline in income. EPL mitigates this risk by adopting a thorough and consistent investment approach which includes detailed empirical research. In addition, this investment proposition is regularly reinforced to clients.

The second key business risk involves the potential loss of a key employee from the firm. EPL has in place “key man” insurance to help mitigate any potential client losses.

Operational Risk
Most of our risk management efforts are focussed on operational and financial risk. This ranges from high level strategic risk to risk of administrative errors. Our policy is to operate a robust and effective risk management process, which is embedded within the governance and management structures of our business.

Our risk management framework is reviewed and approved by the Board of EPL on an annual basis. Throughout the year the processes and structures within the business are subject to regular review by our Regulatory and Operational Risk team. During these reviews, potential and actual operational risks are identified and assessed and where necessary controls are put in place to mitigate these.

Market Risk
Under Pillar 1, our market risk is our exposure to foreign currency fluctuations, due to some assets and liabilities being denominated in currencies other than sterling. This risk is not considered material for the purposes of this disclosure.

Our Pillar 2 market risk assessment considers the risk of a fall of assets under management following a market downturn which would lead to lower management fees. To mitigate the Company maintains sufficient flexibility within its cost base structure to allow the taking of necessary precautionary action on costs to ensure the Company is still able to meet its regulatory capital requirements.

Liquidity Risk
EPL has some limited exposure to liquidity risk should a bank holding the firm’s cash deposits experience difficulties. To mitigate this risk cash is held in accounts with highly rated counterparties and cash positions are actively reviewed by EPL’s Finance function.

Insurance Risk.
EPL has little insurance risk and as a result this risk is not considered material for the purposes of this disclosure.

CAPITAL RESOURCES

EPL’s capital resources currently comprise of Tier 1 capital only and, as of 30 September 2020, were £27 million. After the deduction of illiquid assets total capital resources were £24.6 million.

In accordance with GENPRU 2.1.45 R and our limited licence firm category, our current variable capital requirement has been determined as being our fixed overhead requirement.

In addition the overall firm approach to assessing the adequacy of our internal capital is set out in our Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP process involves separate consideration of risks to our capital combined with stress testing using scenario analysis. We assess the impact by modelling changes in our income and expenses caused by various potential risks over a 1 to 5 year time horizon which cumulates in us calculating a minimum amount of capital that we believe is adequate against the risks identified during the ICAAP process.

Our current ICAAP capital assessment under the Pillar 2 requirement has been assessed as being greater than our Pillar 1 requirement. Our minimum regulatory capital requirement that we currently hold is therefore our ICAAP capital figure.

It is our aim to carry out a detailed review and update of our ICAAP process and the calculation of our Pillar 2 requirement regularly and any necessary reporting requirements following such reviews will be communicated through this section of our website. Further reviews deemed necessary will be carried out following any material change in the EPL business model or where, from a capital adequacy position, EPL is likely to be materially impacted by external influences.

Disclosures in relation to credit and market risk are considered immaterial as our current variable capital requirement is our fixed overheads requirement rather than the sum of our credit and market risk requirements.

REMUNERATION

Background

Amendments to the Capital Requirements Directive (Third Capital Requirements Directive) introduced requirements for firms to make public disclosures on remuneration under their Basel Pillar 3 framework.

These changes were implemented by the FCA in 2011 and required that firms make their first disclosure by 31 December 2011 and at least annually thereafter. The disclosures are designed to benefit stakeholders by providing greater clarity regarding firms' remuneration practices and how they support effective risk management.

Remuneration Policy

Edinburgh Partners Ltd and Edinburgh Partners AIFM Limited (EPAL) have remuneration policies in accordance with the remuneration code requirements applying to firms as set out by the FCA. EPL is classified as a Tier 3 firm by virtue of it being a limited licence BIPRU firm. As such, EPL is permitted to disapply some of the provisions in the FCA's rules. These include:

- The requirement to have a separate Remuneration Committee; and
- The rules on leverage, retained shares, deferral and performance adjustment.

EPAL is also permitted to disapply these rules after careful consideration of its size, internal organization, and the nature, scope, and complexity of its activities.

The firms are also permitted to take account of their specific features when considering Profit based measurement and risk adjustment and remuneration structures.

The policies are designed to address potential conflicts of interest and to ensure staff are not rewarded for taking inappropriate levels of risk.

Link between pay and performance

Remuneration comprises a basic salary, pension contribution as a fixed percentage of salary and a discretionary bonus. Remuneration is typically reviewed annually and is determined by consideration of individual performance and that of the firm. Individuals' performance is measured in a formal appraisal process and considers achievement of objectives, general contribution, knowledge, and skills. The decision to affect such schemes will be taken in order to align the long-term interest of those managing the business and working directly on client portfolios within the Company and its clients. There are no minimum pay increases or bonuses.

Code Staff

EP's policies have identified certain staff as 'Code Staff' to whom the requirements of the FCA's rules apply. Code Staff have been determined as those who are employed in a Significant Influence Function as well as senior management, risk takers and employees who receive remuneration in the same bracket as senior management and risk takers, whose activities have a material impact on the firm's risk profile.

Remuneration Oversight

The Franklin Resources, Inc remuneration committee is responsible for the Remuneration Policies. The Chief Executive Officer and Chief Operating Officer will review and consider the firms' financial performance, strategic objectives, risk appetite and the associated amount of capital deemed necessary to run the business when determining individual discretionary awards. In performing this role and oversight in general they will receive input from Human Resources and the Head of Regulatory and Operational Risk if there are relevant matters to bring to their attention.

The Chief Operating Officer is responsible for overseeing the compensation process, implementing the aggregate remuneration policy as directed by the Board of Directors and where appropriate advising on amounts to individual departmental managers.

Remuneration disclosure for EPL

Disclosures in this section are for 12 months, 1 October 2019 to 30 September 2020. For the year ended 30 September 2020 the total remuneration of Code Staff engaged in asset management activities was £7,650,000 which includes fixed and variable remuneration.

Remuneration Disclosure for EPAL

Members of staff and senior management of Edinburgh Partners Limited provide services to both EPL and subsidiary companies such as EPAL. Therefore the figures disclosed below are an apportioned amount of fixed and variable remuneration for relevant staff and Code Staff. As such, the figures are not representative of any individual's actual remuneration.

For the 12-month period ended 30 September 2020 the total remuneration attributed to staff engaged in AIFM activities was £27,850 which is comprised of fixed remuneration of £24,800 and variable remuneration of £3,050. There were 4 beneficiaries of the remuneration detailed above.

The total remuneration of Code Staff for the same period was £429,500.

Edinburgh Partners Limited
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