FIRST SENTIER INVESTORS EUROPE HOLDINGS LIMITED PILLAR 3 DISCLOSURES

For the period ended 31 December 2021

First Sentier Investors

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1 INTRODUCTION

The provisions of the Basel 2 Capital Accord as encapsulated in the Capital Requirements Directive ("CRD") issued by the European Union have been enacted in the United Kingdom through the Financial Conduct Authority's ("FCA") Handbook and particularly within the General Prudential Sourcebook ("GENPRU") and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU").

This regulatory capital framework comprises three "pillars":

- **Pillar 1**: the minimum capital requirement that is required to cover credit, market and operational risk
- **Pillar 2**: a more company-specific internal assessment of risk to determine whether additional capital should be maintained against risks not covered by Pillar 1
- **Pillar 3**: requirements for disclosure of capital, risks and risk management procedures and specific remuneration disclosures.

This Pillar 3 disclosure relates to the UK consolidated subsidiaries of First Sentier Investors Europe Holdings Limited (together, "FSI") which includes three subsidiaries authorised and regulated by the Financial Conduct Authority ("FCA")[1].

FSI has adopted a disclosure policy which complies with the requirements taking into account that certain information of a confidential, immaterial and proprietary nature may not be disclosed. In these instances FSI has outlined the reason for non-disclosure.

2. SCOPE OF APPLICATION

2.1 Group structure

As FSI is subject to consolidated supervision, the disclosures given under Pillar 3 are at a consolidated level for all the regulated subsidiaries of First Sentier Investors Europe Holdings Limited.

FSI is part of First Sentier Investors (together, the "Group") headquartered in Australia. The FSI Group is part of Mitsubishi UFJ Trust and Banking Corporation ("MUTB") a wholly-owned subsidiary of Mitsubishi UFJ Financial Group Inc. an entity incorporated in Japan. The Group operates as a standalone global asset management business, overseen by MUTB.

[1] Two of these subsidiaries (First Sentier Investors (UK) IM Limited and First Sentier Investors International IM Limited) are BIPRU firms. The third (First Sentier Investors (UK) Funds Limited) is a UCITS Management Company and AIFM but is included in the capital resources elements of this Pillar 3 disclosure for completeness and transparency.

2.2 FSI corporate structure

The three FSI group subsidiaries (the ‘Firms’) that are individually registered with the FCA and are subject to individual Pillar 1 capital requirements are as follows:

- First Sentier Investors (UK) Funds Limited
- First Sentier Investors (UK) IM Limited
- First Sentier Investors International IM Limited

The Pillar 3 report will be made available on an annual basis based on the statutory accounts to 31 December each year.

3. RISK MANAGEMENT OBJECTIVES AND POLICIES

Our **Risk Appetite Statement** (“**RAS**”) articulates the Board-level risk appetite for the FSI Group including the degree of risk that the Group is willing to accept to achieve its business and strategic objectives.

- FSI’s Strategy, Business Plan and Vision outline what we want to achieve as a business, why we want to achieve it and how. The Risk Appetite Statement tells us the degree of risk we are willing to take and the risks we are not willing to take in pursuit of the Vision, Strategic and Business objectives.
- The Board, senior management and employees are expected to be risk-aware and have an understanding of FSI’s risk appetite and the value that effective risk management adds to the organisation.

FSI’s Risk Appetite Statement is applicable to, and reflects, key risks for all of FSI's businesses globally. It has a key role in promoting risk culture by:

- Providing the FSI Board and employees with a clear understanding of the key risks for the business, the tolerance for those risks and the parameters for the management of those risks
- Setting out the risk appetite for each of FSI’s material risk categories and contains qualitative statements of risk appetite and risk tolerances and is supported by key risk indicators (“KRIs”)
- Defining governance processes and disciplines to ensure adherence to all boundaries and underlying limits

The RAS, risk tolerances and KRIs are monitored and dynamically managed in line with the Group’s strategy and business changes as well as material changes to the Group’s risk profile.

The **Risk Management Strategy (‘RMS’)** supports FSI to achieve its business strategy through the clear articulation of how risk is to be effectively managed.

- The RMS is a statement of the principles and minimum requirements for managing the Firms’ risks.
- It provides guidance on the boundaries for risk acceptance, i.e. the extent and circumstances under which the Firms are prepared to accept risk (the ‘Risk Appetite’).

The purpose of the RMS is to

- Articulate how risk is to be effectively managed within the Risk Management Framework; and
- Detail responsibilities and accountabilities in relation to the identification, management, monitoring and reporting of risks

The RMS applies to all business units and subsidiaries within the FSI group and to all Employees.

The **Risk Management Framework (“RMF”)** covers the policies, processes, systems and people within FSI that identify, measure, evaluate, monitor, report and control or mitigate all internal and external sources of harm. This Framework is founded on the Risk Appetite Statement the Risk Management Strategy and FSI’s Strategy/Business plan.

Regular risk reporting is provided to the FSI Boards and committees including the EMEA Risk Committee, Global Risk Committee, and the Global Audit and Risk Committee.

3.1 Credit risk

FSI is not subject to significant amounts of credit risk and is limited to cash held with external banks and, to a lesser extent, inter-group receivable balances with other entities in the Group.

3.2 Market risk

Market risk only exists for the value of any investments held directly by FSI. Certain FSI group companies may hold seed capital positions in new funds at various points in time which, to date, have not been of a material amount.

3.3 Business risk

FSI considers a prolonged and significant market downturn to be the single largest business risk as it will have an adverse impact on assets under management (‘AUM’) and directly impact revenue generated by the business.

As part of the Internal Capital Adequacy Assessment Process (‘ICAAP’) various ‘stress tests’ are performed on the financial and capital forecasts of the Firms to enable management to understand the effect on the business.

FSI has taken a number of measures to mitigate other business risks such as:

- Key system or infrastructure failure: FSI has a fully tested Business Continuity Plan (‘BCP’) in place to ensure that all critical processes can be carried out within maximum acceptable outage levels. Cyber Security is a growing risk globally and the Firms have implemented additional controls, training and system enhancements to ensure this external risk is mitigated as much as possible
- Key fund manager retention: FSI has put in place appropriate remuneration schemes that promote retention of key individuals. Strong succession planning is also conducted.

3.4 Concentration risk

Concentration risk is concerned with the possible lack of diversification of asset strategies, clients or distributors leading to the amplification of various other risk effects.

The largest asset strategies are the emerging market equity strategies managed by the Stewart Investors team globally. These are complemented by direct infrastructure, and a range of other equity strategies managed within the FSI group.

FSI has a wide client base across its products ranging from private investors investing direct, through those investing through fund supermarkets and other intermediaries, to large institutional clients. The client base is also geographically diverse. FSI does not believe there is any significant concentration risk associated with location or type of client.

FSI also has relationships with a large number of intermediaries and asset consultants, mitigating concentration risk within the group.

3.5 Operational risk

Operational risk is the risk of loss resulting from inadequate internal processes and/or failures in relation to the people and systems of the Firms or from external events. It is this risk that is the most significant with regards to its potential impact on FSI.

To address this risk FSI have in place a Risk Management Framework which proactively manages operational and non-financial risk in the business by the identification, assessment, management and reporting of risks on a consistent and reliable basis. Following the change in ownership of the firm a new risk framework has been produced in line with the replacement of the risk management system. Key elements of the new approach are:

- Governance
- Framework
- Talent and Culture
- Technology and Data
- Management Reporting

Operational risk is also assessed under the ICAAP process and appropriate capital is maintained against those risks deemed to be material to the business.

3.6 Other risk

FSI takes into account the following additional risks as part of the ICAAP process - liquidity risk, group risk and residual risk. None are deemed material and/or relevant.

4. CAPITAL RESOURCES

FSI's Tier 1 capital was £102.5m at 31 December 2021.The Pillar 1 capital requirement is calculated as the higher of (1) the sum of the credit risk and market risk capital requirements and (2) the fixed overheads requirement. Each of the credit risk, market risk and fixed overheads requirements are calculated in accordance with regulatory (GENPRU) requirements.

The Pillar 2 capital requirement involves a detailed assessment and capital modelling of all relevant risks the Firms are exposed to whilst executing their business strategy and is documented in the Firms' ICAAP process.

The ICAAP process adopted by FSI is dynamic as the risks impacting the group and its capital resources change over time. The ICAAP is an integral part of a company's risk management process, integrating financial forecasts, capital planning as well as risk information and modelling.

The ICAAP is included in the FCA's supervisory review process.

The Pillar 1 and Pillar 2 capital calculations as at 31 December 2021 are set out in the following table.

FSI Capital at 31 December 2021	**Pillar 1 £'m**	**Pillar 2 £'m**
Share capital and reserves	102.5	102.5
Tier 1 capital	102.5	102.5
Capital requirement	36.9	52.5
Surplus capital	65.6	50.0

All modelling has been undertaken using the most likely outcome based on past history and current experience of the business. FSI maintains an excess of capital above the most likely modelling scenarios.

The stress testing that was undertaken as part of the ICAAP considered various levels of market correction looking out for 3 years from the date of preparation.

5. REMUNERATION DISCLOSURES

5.1 Decision-making process for remuneration policy

FSI operates a Remuneration Assurance Committee ('Committee').

The Committee provides monitoring, oversight and direction in relation to the Group remuneration policy and practices as they apply to EMEA staff and ensures management information regarding EMEA staff remuneration is available to the FSI EMEA group Boards (as necessary or on request) in order to support those governing bodies in delivering against their respective responsibilities.

The Committee may escalate to the Chief Executive Officer of the FSI Group (the "CEO") for final resolution, any matters concerning the remuneration of EMEA staff at any time, including in the event that the Committee considers that any proposed award is or might be inconsistent with legal or regulatory requirements in force from time to time or with FSI Group remuneration policies and practices.

The Committee has a mandate to:

- Make recommendations to the FSI Group People & Remuneration Committee in relation to FSI EMEA relevant personnel;
- Monitor adherence by FSI EMEA with applicable FCA Remuneration Codes as amended or replaced from time to time and the FSI Group Remuneration Policy;
- Ensure that the Heads of Risk & Regulatory Compliance for EMEA have appropriate input into remuneration policy, and to consider any concerns raised by the Risk and Compliance functions about the behaviours of Code Staff or risks in any business undertaken;
- Review performance management frameworks and processes; and
- Ensure that the bonus pool totals do not limit FSI's ability to build its capital base.

Membership of the Committee is as follows:

- Managing Director, FSI EMEA
- Chief People & Culture Officer, FSI Group
- Chief Legal and Risk Officer, FSI Group; and
- Other Members as may be determined by the Managing Director, FSI EMEA, from time to time.

The Committee was first established during May 2011. There were two meetings of the Committee in respect of the performance period 1 January 2021 – 31 December 2021.

5.2 External consultants

The Committee received independent advice on executive remuneration issues from K&L Gates as part of an annual regulatory update. Other consultants are used from time to time to advise on specific issues.

5.3 Role of the relevant stakeholders

The Committee takes full account of FSI EMEA's strategic objectives and is mindful of its duties to shareholders and other stakeholders. The Committee seeks to preserve shareholder value by ensuring the successful retention, recruitment and motivation of employees.

No individual can approve decisions relating to their own remuneration.

5.4 Code Staff criteria

When determining whether an individual meets the criteria for Code Staff, the following information is considered:

- The role the individual performs;
- The reporting lines for the role;
- The number of staff reporting to the role;
- Specific authority to carry out decisions under the role, any limits on authority and required sign off;
- Whether the individual performs a significant influence function;
- Whether the individual heads a business line that is accountable for a material portion of the annual revenue of FSI and they have a material impact on risk;
- Whether the individual performs a controlled function for FCA purposes;
- Whether the individual's business activities are able to create material levels of risk for the Company.

The determinants above result in all members of the Boards of Directors, Executive Committee and investment desk Heads being designated as Code Staff.

5.5 The link between pay and performance for Code Staff

At the core of our approach to pay, we aim to provide market competitive pay for our people and Code Staff, ensuring outstanding performance is recognised in a fair and equitable manner, whilst recognising FSI overall business performance and the available pools for distribution.

Remuneration outcomes reflect the careful consideration of each person's remuneration relative to objective market benchmarks, the individual's sustained performance and capability in the role, relative to peers in similar roles, relevant market practices and the budget available.

At FSI, we take a Total Reward approach to pay – whilst base remuneration and variable remuneration (short-term incentives and in some instances long-term incentives) are the main focus, we also offer a broader range of other regional employee benefits.

We aim to ensure that total actual remuneration is positioned against the market upper quartile for high performers.

We have designed our remuneration framework to attract and retain motivated, high calibre employees who will deliver on our strategy.

When setting and reviewing remuneration, we give consideration to the following financial and non-financial criteria:

- the responsibilities of the role and individual competencies required;
- individual contribution to business performance and sound and effective risk management (including sustainability risks for investment professionals);
- other internal relativities including behaviours and impact on risk; and
- external competitiveness.

The approach used to determine remuneration will take into account the availability of talent, competitor practices, and talent succession requirements.

Fixed Remuneration is set at market competitive levels, while Variable Remuneration outcomes are differentiated in line with performance.

5.6 Design and structure of remuneration for Code Staff

5.6.1 Salary and fees

All Code Staff receive a base remuneration which reflects the responsibilities of the role and individual competencies required, their individual contribution to business performance and sound and effective risk management (including sustainability risks for investment professionals). Consideration is also given to other internal relativities and external competiveness.

5.6.2 Annual Incentives – Short-term and Long-term Incentives

We provide various forms of Variable Remuneration, depending on the role and seniority level. Variable Remuneration arrangements are governed by the respective plan rules. These plan rules provide details of the practical application of the arrangements. Plan rules and payments under these rules are managed by the Board, or through their authorised delegates within the organisation as defined in the Remuneration Delegation Framework.

Variable Remuneration, including the measures used to assess outcomes, is underpinned by the following remuneration principles:

- A continued focus on creating value and achieving strategic goals that contribute to long-term performance.
- Remuneration arrangements that reflect the measurable value of performance.
- A clear linkage between performance and reward for all employees through Variable Remuneration (Short Term Incentives "STI" and Long Term Incentives "LTI").

- Adherence to the risk management framework to promote individual and collective accountability for sound risk management practices.
- Motivating and rewarding responsible and sustainable outperformance and adherence to Responsible Investment Principles.
- The provision of remuneration that is market competitive to attract and retain high-calibre talent.
- Provision of appropriate levels of deferred compensation to support employee retention and sound risk management (including sustainability risks for investment professionals).
- Promotion of a value-based culture that strongly influences all employee remuneration elements and outcomes.

In some instances, an employee may be required to defer a portion of their STI as governed by the respective plan rules or due to regulatory obligations. LTI is awarded to key individuals within the business. All STI deferred and LTI awards, are generally deferred for three years with vesting of deferred awards subject to meeting minimum service, performance and risk criteria as well as the business' capacity to pay.

5.6.3 Risk Adjustment

We actively manage risk associated with measuring and delivering short-term and long-term performance. All activities are carefully managed within our risk framework, and individual variable remuneration outcomes are reviewed and may be reduced in the light of any associated performance and risk outcomes in relation to an individual's performance, the performance of the business unit and the performance of the business as a whole. For investment professionals, this includes an assessment of sustainability risks.

Performance and risk management is built into our remuneration framework by ensuring that all employees are assessed against risk and behavioural standards, which are considered upon the application of short-term and long-term incentives and again upon vesting of deferred incentives to confirm they have appropriately demonstrated FSI values. This assessment ensures that Variable Remuneration outcomes are based on both what was achieved (goals) and how it was achieved (values), with adjustments for risk outcomes applied where required. The values assessment includes adherence to the firm's Responsible Investment and Stewardship Principles.

Risk is managed through the mandatory deferral of a substantial and meaningful portion of the STI and/or LTI of the employees with significant performance based remuneration. This deferral serves as an important retention mechanism which helps us manage the risk of losing key executive talent. Any risk or performance issues that may impact the vesting of deferred awards are highlighted to the Committee, along with any recommendations for the reduction or cancellation of any deferred awards (as appropriate).

The Committee reviews risk and compliance issues in relation to the vesting of deferred awards for all employees. Compliance is monitored throughout the vesting period by the Heads of Risk and Regulatory Compliance and their departments, who report the information to the Committee for assessment.

5.6.4 Aggregate remuneration cost for Code Staff by business area

There were 34 employees identified as BIPRU Code Staff during the remuneration 12 month period, 1 January 2021 - 31 December 2021. Aggregate remuneration expenditure for the period in respect of BIPRU Code Staff was as follows:

First State Investments
£ 58,389,446

5.6.5 Fixed/Variable remuneration

Fixed remuneration consists of base salaries for executives and benefits such as pension contributions. Variable remuneration consists of STI and LTI awards, which are wholly discretionary and are awarded based on sustained performance, with an overlay of the business' capacity to pay.

	Senior Management	Other BIPRU Code Staff
Number of BIPRU Code Staff	26	8
Fixed remuneration	£6,036,929	£1,337,325
Variable remuneration	£40,957,791	£10,057,401

Note: sections 5.7 and 5.8 cover remuneration data for the two BIPRU subsidiary companies: First Sentier Investors (UK) IM Limited and First Sentier Investors International Limited covering the 12 month period, 1 January 2021 - 31 December 2021.

First Sentier
Investors