Silchester International Investors LLP
(FRN 526527)
Pillar 3 Disclosure Statement
1st June 2017

Introduction

The EU's Capital Requirements Directive ("**CRD**") and the Alternative Investment Fund Managers Directive ("**AIFMD**") have been implemented in the UK through rules established by the Financial Conduct Authority ("**FCA**") in its Handbook of Rules and Guidance for regulated firms. The CRD created a regulatory capital framework consisting of three "pillars":

- Pillar 1 sets out the minimum capital requirements for credit, market and operational risk and under AIFMD this extends to include 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 Capital 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. Under certain circumstances, Silchester's limited liability partnership agreement (the "**LLP Agreement**") calls for SCL to invest additional capital where this is required by Silchester to meet its business requirements.

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. Because of the nature of its business, 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 primarily comprise units in The Calleva Trust, an Irish UCITS vehicle established to provide non-US investors access to Silchester's investment programme. Silchester's cash deposits are primarily held in current accounts or in cash management products 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 considered material for the purposes of this disclosure.

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[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 for the purpose of making economic decisions. 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 there are obligations to customers or counterparties binding a firm to confidentiality. Where a disclosure is considered to be immaterial or has been omitted on the grounds that it relates to information that is proprietary or confidential in nature, this has been described.

- ***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 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 relative to benchmark indices, (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 US dollar negatively impacting relative returns.

    - ***Insurance Risk***. *The risk of a failure of insurance cover.* Silchester maintains fiduciary liability (also referred to as professional indemnity), crime (also referred to as errors and omissions) and ERISA insurance at a level which Silchester considers appropriate for the business and subject to a deductible which Silchester can reasonably afford to meet if called upon. 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 that might give rise to interest rate risk. From a business perspective (given its cash balances) and assuming no impact on investment performance, Silchester would expect to benefit from increases in interest rates as a result of increased interest income.

Silchester's Supervisory Group is responsible for determining Silchester's risk strategy, setting its risk appetite and ensuring that risk is monitored and controlled effectively. The 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's Pillar 1 capital requirement is calculated with regard to the FCA's requirements under both the CRD and AIFMD. The firm is required to maintain capital equal to the higher of (i) the base capital requirement for limited licence firms (€50,000), (ii) its fixed overhead requirement, (iii) the sum of its credit and market risk capital requirements and (iv) the sum of its AIFM funds under management and professional negligence capital requirements.

Capital Resources		**31st March 2017 £'000 (as reported)**
Tier 1 Capital	*LLP permanent regulatory capital*	14,000
Tier 2 Capital	*Revaluation Reserves**	6,093
Total Capital Resources		20,093
Pillar 1 Capital Requirement	*AIFM capital requirement*	8,894
Surplus Capital Resources		11,199

*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 a business engaged in the activity of asset management. Silchester's Chief Compliance Officer, who is independent of Silchester's investment function, acts as the firm's operational risk manager and monitors and manages these 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: Disclosures of non-trading book exposures in equities are considered immaterial under BIPRU 11.3.5R (Exemption from disclosure; Materiality) as any investment in equities is limited to investments in the commingled funds for which Silchester has been appointed as investment manager. 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

Silchester has completed this section on the basis that it is a full scope AIFM that is subject to the remuneration rules set out in SYSC 19B. The FCA has stated that adherence to SYSC 19B can be taken as evidence of adherence to SYSC 19C (BIPRU Remuneration Code). In developing its remuneration policy, Silchester has reviewed and applied the proportionality guidance set out in the Guidelines on Sound Remuneration Policies as published by the European Securities and Markets Authority ("**ESMA**") under the AIFMD. ESMA rules and guidance are incorporated within the FCA rules published in SYSC 19B. Details of the FCA's Remuneration Code can be found at www.the-fca.org.uk. For the purposes of this part of the disclosure document, Silchester International Investors LLP and Silchester International Investors, Inc. are referred to as "**Silchester**".

- Link between pay and performance: The LLP Agreement specifies the ratio of profits less direct costs before any remuneration or drawing (internally referred to as profits before remuneration and tax or "**PBRT**") to be shared. The split between each working member and each employee is determined by the Remuneration Group. The current members of the Remuneration Group are the members of the Supervisory Group. The use of a PBRT model ensures that the aggregate spend on variable remuneration directly reflects Silchester's overall performance. Fixed remuneration is comprised principally of salaries but also includes employee benefits which are provided to all employees. All staff receive a salary that reflects their talent, skills, competence and contribution relative to the market for their roles.

- Decision-making process for determining remuneration: Responsibility for the determination of 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) or the growth/retention of any particular investor. 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 hold at least 50% of their total remuneration in Silchester Partners Limited ("**SP Ltd**") or SCL shares or in investments in Silchester's international equity programme. Where this threshold is not met, 25% of gross variable remuneration must be invested into either SP Ltd or SCL shares or the international equity programme each year until such time as the 50% threshold is met. Silchester also believes that further investment above and beyond this 50% threshold requirement is desirable for Silchester's clients and the partnership and that some regular and continuous investment is good for alignment. Consequently, even once the 50% threshold has been met, all employees and working members must invest 10% of their gross variable remuneration arising with respect to a given financial year into either SP Ltd or SCL shares or Silchester 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 £125 million for the year ended 31st March 2017. Base salaries, monthly drawings to members and other elements of fixed remuneration accounted for approximately 6% 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.