Pillar 3
Disclosures

Mondrian Investment Partners

December 2020

Mondrian Investment Partners Limited
Fifth Floor, 10 Gresham Street, London EC2V 7JD

Authorised and regulated by the Financial Conduct Authority

1. Introduction

These Pillar 3 disclosures are made in relation to Mondrian Investment Partners Limited ('Mondrian') in accordance with the Financial Conduct Authority ('FCA') Prudential Sourcebook for Banks, Building Societies and Investment Firms, BIPRU 11 ('Pillar 3').

2. Purpose of Pillar 3

The Capital Requirements Directive ('CRD') represents the European Union's interpretation and application of the proposals arising from the Basel Committee. Specifically, this included the provision of a framework for the international convergence of capital measurement standards to be applied across all European regulated firms other than Insurance Companies. This was implemented in the UK through changes to the FCA Handbook of Rules and Guidance, and specifically through the creation of the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

The Directive sets out a three Pillar framework:

- Pillar 1 sets out a rules-based minimum capital standard that firms are required to meet for credit, market and operational risk;
- Pillar 2 requires firms, and the FCA, to take a view through its Internal Capital Adequacy Assessment Process ('ICAAP') on whether additional capital should be held against capital risks not covered by Pillar 1; and
- Pillar 3 requires firms to publish certain details of their capital, risks and risk management process and is intended to enhance market discipline.

3. Scope of Application

This disclosure relates solely to Mondrian, a UK based asset manager specialising in global equity and fixed income investment.

Mondrian is a 'BIPRU 50,000 limited licence firm' without retail clients, and is not authorised to hold client money or to take proprietary trading positions.

The disclosures in this document are made in accordance with Mondrian's Disclosure Policy and have been subject to review, as required under BIPRU 11.3.3. The Policy takes consideration of BIPRU 11.3.8 through to 11.3.10 and 11.4.4.

4. Risk Management Objectives and Policies

Mondrian's Board consider that they have successfully established a low risk investment and operational environment. Empirical evidence to support this includes low performance dispersion and defensive performance characteristics, no insurance claims since Mondrian's inception in 1990, no material client complaints, zero exposure to high risk investment instruments and a relatively low operational error experience.

In addition, Mondrian holds no client monies, cannot take proprietary trading positions and has very clear segregation of duties between investment, trading, settlement and portfolio administration.

Mondrian understands that to run a business efficiently and cost effectively, risk cannot be entirely eliminated. However, it must be managed in full knowledge of the risks being run. Mondrian's 'Risk Appetite' defines the level and nature of risks to which senior management considers it is acceptable to expose Mondrian. It therefore defines the boundaries of activity that the Board intends for Mondrian and is an essential component of its risk framework.

4.1. Risk Management Framework

4.1.1. Structure and Organisation of Risk Management Function

Mondrian has devised an integrated risk management process ('Framework'), which aims to bring together the monitoring, identification, mitigation and/or management of risks faced by the business under a single umbrella and attempts to align the framework to corporate and operational strategy and vice versa. The framework is approved and overseen by the Board (either directly or by way of Board-appointed Committee).

4.1.2. Governance

Governance provides an over-arching risk management structure within Mondrian's culture. Mondrian has established 'Three Lines of Defence' which underpin risk management, to ensure the risks taken by the business are appropriate. These lines are represented firstly by business managers who assess risks and implement appropriate controls; secondly by the functions of Risk Management and Compliance who oversee the Framework; and lastly by the independent assurance provided by Internal Audit. Each of the three assurance functions report to a member of the Board, or a Board appointed Committee (note that all Board-appointed Committees are chaired by a member of the Board).

4.1.3. Scope and Nature of Risk Reporting

Mondrian applies tolerance levels to each risk it has identified and measures key risk indicators ('KRI') established to monitor each risk against these tolerances.

Risk Management compiles and distributes a number of risk reports on at least a quarterly basis; interim reports are prepared as required. These reports are circulated to the Board, or to their appointed Committees/functions and, in some cases, to managers.

There are two key risk reports: the 'Risk Heat-map', which plots the 'location' of each risk's determined impact and probability; the KRI summary, which details current KRI against their agreed tolerance and any outstanding mitigants underway.

The purpose of risk reporting is to allow to the Board and senior management to determine whether risks pose a significant enough threat to be mitigated or transferred (i.e. insured against), or whether they are a low enough threat as to be accepted as a cost of business. Furthermore, they view risk on a holistic basis, so that it can be considered when determining business strategy.

4.1.4. Policies for Mitigating Risk

As previously described, Mondrian has adapted an integrated risk framework, which in addition to highlighting potential risk issues, aims to help shape and focus the strategic and operational goals of the company. By using a score card approach to assessing both the effectiveness and efficiency of controls and processes, Mondrian's risk function is able to influence the decision making process in order to improve both the control environment and the efficiency and scalability of the business.

Mondrian has a formal and documented process for the investigation and mitigation of errors ('errors' are considered not only to be events resulting in financial loss to the business or our clients, but any event that that has a negative impact on our operating environment, or does not meet a prescribed procedure).

4.2. Types of Risk Considered

4.2.1. Strategic Risk

Mondrian considers its core strategic risks to be its human capital, investment performance and characteristics, and client concentration.

Mondrian has arrangements in place to reduce human capital risk for key staff and has benefited from what the company believes to be one of the lowest turnover rates for investment staff in the fund management industry as a result.

Poor investment performance, or uncharacteristic returns could result in client terminations or withdrawals and an associated drop in assets. Mondrian accepts this business risk and has developed a broad product range to diversify the potential impact of poor performance. The investment process is closely monitored by each product's Investment Committee. Relative performance is carefully monitored using a variety of sources, such as competitor comparative analysis and consultant meetings.

Mondrian has historically accepted the concentration risk of deriving the majority of its income from the US. It has attempted to reduce this risk via the diversification of its products, client domicile and type over the past thirteen years.

4.2.2. Credit and Liquidity Risk

Mondrian is primarily exposed to credit risk through its own cash deposits and trade debtors. The Standardised Approach is applied for calculating credit risk capital. Stringent counterparty limits and credit rating requirements are set for institutions with which cash is deposited.

Mondrian has no material exposure to counterparty risk. Client portfolios are traded on a delivery-versus-payment basis and so Mondrian is only liable to clients if it is negligent in choosing the counterparty for client investments. This is considered as part of operational risk.

Liquidity risk is the risk that Mondrian does not hold sufficient resources to meet its obligations as they fall due. Mondrian, typically, has low Liquidity Risk due, for example, to limited borrowing and diversified deposits. As required by the FCA under PS09/16 'Strengthening Liquidity Standards', Mondrian has documented its Liquidity Risk Framework. This comprises three key elements:

- Adequate Liquidity and Self Sufficiency;
- Systems and Controls Requirements;
- Stress Testing and Contingency Funding.

4.2.3. Market Risk

Mondrian understands that variability of its income as a result of capital market falls can have a significant impact on results. It accepts these risks as a necessary part of the business. Since fees are linked with asset levels Mondrian has aligned market risks and rewards of market movements with its clients.

As Mondrian does not operate proprietary funds, it is again primarily exposed to market risk through fluctuations in foreign exchange rates on its own cash deposits and trade debtors, which are considered under BIPRU 11.5.5 (ii). This is due to revenues being collected in US Dollars and core expenses being in British Pounds. Mondrian applies a capital charge for foreign currency balances in accordance with BIPRU 7.5.1 (4).

4.2.4. Operational Risk

As a BIPRU limited licence firm with a fixed overhead capital requirement, there is no regulatory requirement for an operational risk charge under Pillar 1. However, Mondrian has a formal process for monitoring, valuing and mitigating operational risks as is required under GENPRU 1.2.30R (the 'overall Pillar 2 rule'). Furthermore, Mondrian's operational control environment is subject to external scrutiny as part of its annual controls report audit under ISAE 3402 and AT-C 320 auditing standards.

4.2.5. Other Risks Described under Pillar 3

A number of further risk types have been considered (such as interest rate and securitisation), but have either been deemed to be immaterial or not applicable as they relate to activities in which Mondrian does not engage.

5. Capital Resources

Mondrian takes a prudent approach to the management of its capital base and ensures that at all times it has sufficient capital to meet its obligations.

Mondrian has concluded, as part of its ICAAP, that it has adequate capital to face its key risks, that its capital resources are sufficient to support its operations over the next year, and that no additional injections of capital are necessary.

6. Capital Requirements and Adequacy

The amount and type of capital resources and the capital requirement of Mondrian as at 31 December 2020 are set out below:

Capital Resources	£M
Tier One Capital	54
Tier Two Capital	0
Tier Three Capital	0
Deductions from Total Capital	0
Total Capital Resources	**54**

Capital Resources Requirement	£m
Pillar 1	
a) Base requirement EUR 50k	0
b) Fixed overhead requirement	9
Credit risk requirement	5
Market risk requirement	4
c) Total credit risk and market risk	9
(i) Pillar 1 Total (Higher of a), b), c))	9
(ii) Pillar 2 Total	10
Total Capital Requirement: (Higher of (i) or (ii))	**10**
Total Surplus Capital	**44**

7. Remuneration

7.1. Regulatory Requirement

The below disclosures are in accordance with the Financial Conduct Authority ('FCA') Handbook for Banks, Building Societies and Investment Firms ('BIPRU') 11.5.18 R (1) through (7), and Appendix 2 of the FCA General Guidance on Proportionality: The Remuneration Code (SYSC 19c) and Pillar 3 disclosures on remuneration (BIPRU 11).

In line with the above regulations, this disclosure provides information regarding the remuneration policies and practices for those staff whose professional activities have a material impact on the firm's risk profile (the 'Code Staff Population').

As defined at Part C: 25 of the FCA General Guidance on Proportionality: The Remuneration Code (SYSC 19c) and Pillar 3 disclosures on remuneration (BIPRU 11), Mondrian is a Tier Three Remuneration Code firm.

7.2. Mondrian Context

Mondrian is satisfied that its remuneration arrangements do not encourage inappropriate risk taking. This is due to the features inherent its business model and the key elements of its compensation procedures which are described below.

Business Model Features:

- Mondrian is a conservative, long-only investment manager investing in quoted securities as agent for large sophisticated institutional clients.
- Other than the temporary seeding of new products which accounts for less than 0.1% of total assets under management, Mondrian does not take principal investment positions.
- Mondrian typically holds investments in its client portfolios for long periods and the investment approach does not seek or encourage short term trading.
- Other than the use of defensive covered forward currency hedge positions in an unleveraged manner, Mondrian typically does not use derivative instruments so there is very a controlled environment for investment staff to use derivatives to leverage performance.
- The implementation of investment recommendations is a tightly controlled team process. It is not possible for an individual portfolio manager to implement an investment idea without considerable scrutiny by colleagues and the relevant investment committee.
- The profit share pool that drives the bonus pool for all staff is derived from audited profits (before variable remuneration and tax) in the current fiscal year.
- Mondrian's revenue is earned based on a percentage of clients' assets under management.
- Clients generally judge Mondrian's investment performance over relatively long-term rolling 3/5 year periods.

7.3. Process used for Determining the Remuneration Policy

Mondrian's Board of Directors has established a Remuneration Committee which is a sub-Committee of Mondrian's Board. Accordingly, the Board has delegated responsibility for the oversight of Mondrian's Remuneration Policy and for remuneration arrangements to the Remuneration Committee. The Remuneration Committee reviews the Remuneration Policy and is responsible for its implementation.

The Remuneration Policy and procedures are subject to independent challenge by Mondrian's Compliance and/or Internal Audit and/or Human Resources staff at any time. A key part of this review will be to ensure that the Remuneration Committee decisions are consistent with an assessment of Mondrian's financial condition and future prospects where relevant and do not encourage inappropriate risk taking.

Mondrian is ultimately owned by an employee partnership so the individuals setting and controlling the remuneration policy represent shareholders. As staff motivation and retention is critical to the on-going success and stability of the business, this alignment of interests of management and shareholders is highly beneficial.

7.4. Composition and Mandate of Remuneration Committee

The Remuneration Committee is a sub-Committee of Mondrian's board and all members of the Committee are directors. Mondrian's Board of Directors is responsible for risk oversight so remuneration decisions are overseen by the same group who are ensuring risk is correctly managed in the firm.

The Committee is currently made up of three Directors; additional Directors may be appointed at the discretion of the Committee.

The Committee's key responsibilities are to:

- Approve and periodically review the adequacy and effectiveness of Mondrian's remuneration arrangements
- Ensure that remuneration practices are consistent with effective risk management and do not encourage excessive risk taking
- Ensure that Mondrian's remuneration arrangements adhere to the relevant aspects of the FCA Remuneration Code
- Control fixed costs by ensuring that remuneration expense varies with profitability
- Link a significant portion of staff member's total remuneration to the long term financial and operational performance of the firm
- Determine base salary rates/bands as part of an annual salary review process
- Allocate the annual discretionary profit share pool in line with agreed guidelines
- Recommend the award of partnership ownership interests
- In order to ensure that remuneration remains competitive, the Committee seeks input from external consultants who provide comparative remuneration data from their universe of other financial services firms

Mondrian's Compliance and Risk team is required to report to the Committee on any activities, incidents or events that warrant consideration in making compensation decisions.

7.5. Link between Pay and Performance

Variable remuneration is based on a fixed proportion of corporate profits and is specifically calculated and audited for this purpose.

Mondrian staff variable remuneration awards funded from this formulaic profit related bonus pool focus on the key areas of investment research quality, long-term and short-term investment performance, teamwork, client service and marketing.

Investment management at Mondrian is not 'star manager' based but uses a team system. This means that Mondrian's investment professionals are primarily assessed on their contribution to the team's effort and results, though with an important element of their assessment being focused on the quality of their individual research contribution.

No element of portfolio manager compensation is based on the performance of individual client accounts.

Mondrian has no contractual obligation to make any award to an employee under its discretionary bonus scheme.

7.6. Aggregate Quantitative Information on Remuneration

Mondrian considers that there is only one business area within the firm, which is investment management and the associated support and administration functions. For the year ended 31 December 2020 the aggregate remuneration for the Code Staff Population was £23.7m.

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