Kiltearn Partners LLP “Kiltearn”)
(FRN 540470)
IFPR Annual Disclosure Statement
31 March 2023

Introduction

Kiltearn Partners LLP (“**Kiltearn**”) is authorised and regulated by the Financial Conduct Authority (“**FCA**”) as an Alternative Investment Fund Manager (“**AIFM**”) and complies with applicable rules and capital requirements adopted by the EU and the FCA with respect to the Alternative Investment Fund Manager Directive (“**AIFMD**”). Kiltearn is a full-scope UK AIFM.

The Firm is also subject to the Investment Firms Prudential Regime (**“IFPR”**) and the implementing rules in the MiFID Prudential Sourcebook (**“MIFIDPRU”**) and the Interim Prudential Sourcebook for Investment Businesses (**“IFPRU(INV)”**). Kiltearn is categorised as a Collective Portfolio Management Investment firm (**“CPMI”**) for prudential purposes and as such is subject to the rules in IFPRU(INV) 11 for its AIFMD business in parallel with the applicable rules in MIFIDPRU in respect of its MiFID business. Kiltearn is categorised as a non-SNI firm (small and non-interconnected) firm under IFPR.

The Investment Firms Prudential Regime (“IFPR”) which came into force on 1 January 2022 establishes the amount and nature of capital that MiFID investment firms must maintain.

The FCA regulations for the disclosures required under IFPR are contained in the MiFID Prudential Sourcebook (**“MIFIDPRU”**). Further information on MIFIDPRU 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 in compliance with MIFIDPRU 8 unless that disclosure has been regarded by Kiltearn as being immaterial, proprietary or confidential. Additional information is available from Douglas McArthur (dmcarthur@kiltearnpartners.com), Kiltearn’s Chief Compliance Officer or the compliance team (compliancegroup@kiltearnpartners.com).

Governance Arrangements

Kiltearn is a private limited liability partnership that is managed by its members. Kiltearn employees, contractors and members are collectively referred to as “**Staff**” in this statement. Kiltearn Limited (“**KP Ltd**”) is a member of Kiltearn and holds a significant proportion of Kiltearn’s capital. Kiltearn has one subsidiary, Kiltearn Partners, Inc. (“**KP Inc.**”). There are no current or foreseen material practical or legal impediments to transfers of intra-group capital between Kiltearn and KP Inc. Kiltearn’s LLP agreement permits, but does not obligate, KP Ltd to invest additional capital in Kiltearn where this is needed by Kiltearn.

Diversity

Kiltearn has an Equal Opportunities, Diversity, Equality and Inclusion Policy in place at the firm level. Kiltearn provides regular and ongoing training on discrimination, diversity, equality and inclusion issues. We comply with applicable laws on these matters. Given the size of the firm and low turnover of staff, we do not have a policy promoting diversity at the Supervisory Group level.

We look at diversity, equality and inclusion through the prism of our partnership structure. We ask ourselves whether any particular individual can, given the opportunity and necessary training, grow their contribution and become a partner in the firm over time. We look to evaluate the final results that are generated rather than pursuing a 'tick box' exercise approach that can arise from multiple policies and procedures. The following might be helpful:

- Kiltearn looks to foster talent and to provide a career for its staff and partners. To that end, Kiltearn looks to provide equal opportunities to all staff and partners and ensure that they are treated without discrimination with respect to the all characteristics protected by the relevant law (including, as appropriate, age, race, sex, colour, nationality, ethnic or national origin, religion, belief, creed, citizenship, military or veteran status, disability, sexual orientation, reproductive healthcare decisions, gender identity or expression, gender reassignment, alienage, marital or civil partner status, domestic violence victim status, criminal or arrest record or predisposing genetic characteristic or any other characteristic protected by law). This policy governs all aspects of employment, including but not limited to the following: recruitment, advertising or selection, hiring, job assignment, rates of pay or other forms of benefits or compensation, selection for training including apprenticeship, promotion, transfer or demotion, discipline, layoff, redundancy or termination.

- Kiltearn accommodates disabilities in a reasonable manner and in accordance with the provisions of the relevant applicable law. Everyone has a moral and legal obligation not to discriminate against any individuals. Any breach of this obligation will be regarded as a disciplinary offence.

- As of the end of March 2023, Kiltearn had 20 people directly supporting the Global Equity programme:
    - 5 of the 20 people are women (25%);
    - 2 of the 9 members of the investment team, are women (22%)

- The percentage of females within Kiltearn has gradually increased since inception. From one individual (14%) in 2011/2012 to six individuals (25%) as at March 2023.

- The positions and responsibilities of the females within the firm varies greatly. All women, and staff, play a part in the Global Equity programme. Anna Vandor is our marketing and client service manager. Helen Franklin and Jennifer Reid are members of our investment Management team (22% of this group). Laura Fong provides support to the Investment Management team and Anna Allan works within our Compliance & Risk Management team (33% of this group).

- Of the 20 people supporting the Global Equity programme:
    - 18 of those individuals identify as 'White' in accordance with the definitions outlined in the last US census. Seven of these individuals are Partners. Six are members of the investment team.
    - One of the individuals identified as 'Asian' in accordance with the definitions outlined in the last US census. This individual is a Partner.
    - One of the individuals identified as 'Two or More Races' in accordance with the definitions outlined in the last US census. This individual is a Partner and Investment Manager.

- The definition of 'minority' in the UK differs from the definition of 'minority' in the USA. It is not common in the UK to record ethnicity or to track the domicile of parents and/or grandparents. As a result, we do not track statistics on ethnicity or national origin. The individuals working for the firm hold passports from (amongst other locations) the United

Kingdom, Hungary, Canada and the United States. A wide variety of language skills are available to the firm, although English is our working language.

- It is worth noting, that Scotland offers a much less ethnically diverse pool of potential employees than the US. The 2011 Census showed that Asian individuals made up ~2.7% of Scotland's total population, Black individuals made up ~0.6% of Scotland's total population and the only other ethnic group comprising more than 0.1% of Scotland's population is Arabs.

- The team at Kiltearn ranges in age and experience. We believe that this provides a long term view to the firm and the potential for seamless transition over time. As of March 31, 2023, the average age of Kiltearn staff & partners is 42.

Risk Management

Kiltearn's Supervisory Group is responsible for determining Kiltearn's risk strategy, setting its risk appetite and ensuring that risk is monitored and controlled effectively. Kiltearn does not have a separate risk committee and is not required to establish one per MIFIDPRU 7.3.1. Kiltearn's risk management framework is updated, as necessary, to take into account material changes in Kiltearn's business, capital obligations, or resource requirements. Kiltearn's risk appetite is regularly reviewed. Kiltearn sets out the amount and types of risk that are considered appropriate for Kiltearn to accept in order to execute its business strategy. Kiltearn 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, whether it is covered by insurance, and what mitigating procedures can be put in place to control the risk of error. Kiltearn's culture aims to ensure that each Partner is focused on improving procedures, minimising risk and establishing a robust risk, capital and performance structure.

Kiltearn's minimum capital requirement is the greater of (i) its permanent minimum capital requirement (ii) the sum of its risk-Factor requirements; and (iii) its fixed overhead requirement. From July 2014, Kiltearn also became subject to the capital requirements under AIFMD for which Kiltearn are required to calculate the sum of its core regulatory capital and its professional liability risks capital requirement. Kiltearn has £17.987 million of permanent regulatory capital.

Kiltearn's ICARA analysis highlights that Kiltearn had surplus capital as of 31 March 2023 compared to the capital resource requirements, and will based on its projections, maintain surplus capital under AIFMD rules. This capital requirement will be recalculated in the event of material changes occur to Kiltearn's business.

Kiltearn's surplus capital will be impacted if (i) the FCA requires discretionary staff bonuses to be included in fixed overhead requirement computations, and (ii) the FCA requires monthly partner drawings to be included in fixed overhead requirement computations.

As required according to MIFIDPRU 7.4, Kiltearn is required to prepare and review an internal capital adequacy and risk assessment ("ICARA") on at least an annual basis. The ICARA document is prepared by the Risk Management & Compliance groups, under the supervision of the Chief Compliance Officer. However the sufficiency of the ICARA is ultimately the responsibility of the Supervisory Group.

Kiltearn's ICARA analysis and stress tested scenarios highlights that Kiltearn had surplus capital as of 31 March 2023 compared to the capital resource requirements computed under applicable capital resource requirement rules – also known as **IFPR and CPMI**. As of 31 March 2023, Kiltearn has ~£14.27 million of surplus capital (31 March 2022: GBP £13.09 million surplus capital) showing it conforms to the overall financial adequacy rule and the ability to absorb future losses that may unexpectedly materialise. All of Kiltearn's capital held is comprised of Common Equity Tier 1 capital (**"CET 1"**).

Composition of regulatory own funds			
	Item	**Amount (GBP thousands)**	**Source based on reference numbers/letters of the balance sheet in the audited financial statements**
1	**OWN FUNDS**	17,987	
2	**TIER 1 CAPITAL**	17,987	
3	**COMMON EQUITY TIER 1 CAPITAL**	17,987	
4	Fully paid up capital instruments	10,811	P13 – Balance at 31 March 2023 of Members capital (classified as equity) & Members capital (classified as debt)
5	Share premium	-	
6	Retained earnings	1,728	P13 – Balance at 1 April 2022 of Other reserves less distributions made post year end to members
7	Accumulated other comprehensive income	-	
8	Other reserves	5,447	P13 – Balance at 31 March 2023 of Revaluation Reserve less current year gains
9	Adjustments to CET1 due to prudential filters	-	
10	Other funds	-	
11	TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	-	
19	CET1: Other capital elements, deductions and adjustments	-	
20	**ADDITIONAL TIER 1 CAPITAL**	-	
21	Fully paid up, directly issued capital instruments	-	
22	Share premium	-	
23	TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	-	
24	Additional Tier 1: Other capital elements, deductions and adjustments	-	
25	**TIER 2 CAPITAL**	-	
26	Fully paid up, directly issued capital instruments	-	
27	Share premium	-	
28	TOTAL DEDUCTIONS FROM TIER 2	-	
29	Tier 2: Other capital elements, deductions and adjustments	-	

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements				
		a	b	c
		Balance sheet as in published/audited financial statements	**Under regulatory scope of consolidation**	**Cross-reference to template OF1**
		As at period end 31 March 2023	**As at period end 31 March 2023**	
Assets - *Breakdown by asset classes according to the balance sheet in the audited financial statements*				
1	Investments	18,837,701		
2	Tangible fixed assets	3,152		
3	Debtors	2,624,672		
4	Cash at bank	4,008,401		
x	**Total Assets**	23,287,197		
Liabilities - *Breakdown by liability classes according to the balance sheet in the audited financial statements*				
1	Trade creditors	707,893		
2	Other taxes and social security costs	200,486		
3	Accruals and deferred income	1,278,351		
4				
x	**Total Liabilities**	2,186,730		
Members' interests				
1	Members capital classified as a liability	337,500		Row 10 Other funds
2	Other amounts	2,417,514		Row 6 Retained earnings (opening balance not including LLP only profit for year)
3	Members capital classified as equity	10,473,820		Row 10 Other funds
4	Revaluation reserve	6,063,547		Row 8 Other reserves (opening balance not including gains in year)
5	Other reserves	3,994,816		Not included as current year profit distributed to members post year end
x	**Members' total interests**	23,287,197		

As at 31 March 2023, Kiltearn's capital requirements are as follows:

Higher of:	(GBP)
Permanent minimum capital	150,000
K-AUM	152,000
Fixed Overhead requirement	1,562,000
IFPR Capital requirement	**1,562,000**
CPMI requirement	**1,816,000**
Additional capital requirements	1,900,000
ICARA Total Capital Requirement	**3,716,000**

As at 31 March 2023, Kiltearn's capital reserves are as follows:

	(GBP)
CET1 own funds	17,986,789
AT1 own funds	0
T2 own funds	0
	17,986,789

As a long only asset manager that primarily invests client assets in publicly traded global equity securities, Kiltearn 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. Kiltearn's Chief Compliance Officer, who is independent of Kiltearn's investment function, acts as the operational risk manager and monitors and manages the risk exposures of the business with input from Kiltearn's various business groups. In assessing the risk appetite of the business, consideration has been given to identifying the material risks facing Kiltearn'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 (2) 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. Kiltearn is subject to credit risk. Kiltearn receives investment management fees from clients invested in commingled funds on a monthly basis and from separate account clients normally on a quarterly basis. These fees are computed based on the value of each investor's holdings. Investment management fees for commingled fund clients are normally paid within five (5) business days of each month end based on a standing instruction from Kiltearn to Northern Trust. As the commingled funds are "long only" equity funds that cannot use leverage, margin or derivative products, there is no credit risk associated with Kiltearn's fees.

Kiltearn's free cash flow is maintained in a current account as interest rates are similar to current deposit interest rates. Deposits would normally be placed with our current banking partner. As available amounts increase, and if Kiltearn wish to, we would expect to split them between different financial institutions, depending on available interest rates. The eligible banks are each approved by the Supervisory Group (Northern Trust and Handelsbanken are currently approved counterparties). The credit rating and financial strength of each bank is subject to an annual appraisal by the Risk Management group. The Dealing Group monitors the credit rating of Northern Trust (Kiltearn's largest counterparty) and Handelsbanken on a monthly basis. The Risk Management Group has determined that there is little, if any, credit risk associated with these deposits. Kiltearn does not utilise any credit risk mitigation techniques (such as credit default swaps) to minimise Kiltearn's financial exposure to bank deposits. In response to the bankruptcy of various market counterparties and pressures on the UK banking industry, Kiltearn prepares a Counterparty Risk Assessment Note for distribution to clients and other interested third parties. Given the above, the Compliance and Risk Management Group have determined that no additional capital needs to be maintained to address credit risk.

Market Risk. As an asset management company, Kiltearn's portfolios are subject to market risk. Kiltearn's fees are asset based fees and Kiltearn's revenue increases as AUM increase and will fall if AUM falls. Kiltearn has structured its business so that many costs are variable (i.e., custody costs) and will fall as its AUM fall. More importantly, Kiltearn keeps base salaries low and remunerates employees through discretionary bonuses. Members receive a limited proportion of the partnership share through a monthly drawing and periodic discretionary distributions. Any excess drawings above a member's final allocable partnership share must be repaid. Surplus liquid capital is not at risk until a loss fully offsets Kiltearn's profit before remuneration and taxes ("**PBRT**") less committed salaries, and benefits. Kiltearn's core regulatory capital is primarily invested in cash deposits and the Kiltearn Global Equity (Ireland) Fund, an Irish UCITS vehicle formed to accommodate non-US investors wishing to allocate moneys to Kiltearn's investment programme.

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 Kiltearn 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. Kiltearn has no borrowing and is not dependent on external financing for any aspect of its business. As a result, Kiltearn is not exposed to funding liquidity risk. Kiltearn has some exposure to market liquidity risk. One of Kiltearn's banking counterparties could suffer severe financial distress and elect not to return some of Kiltearn's cash deposits.

Following the suspension of the LF Woodford Equity Income Fund, liquidity considerations are not confined to those open-ended funds with exposure to property or other immovables. It states that liquidity issues can extend to other open-ended funds, including UCITS, where they have holdings of less liquid assets, even including investments in listed equities if there is not a liquid market in those equities.

Both the FCA and ESMA are introducing forms of stress testing and in particular, around redemptions. ESMA has released guidelines which aim to increase the standard, consistency, and in some cases, frequency of liquidity stress tests of assets and liabilities. These guidelines apply from 30 September 2020.

Kiltearn is monitoring developments in order to have processes in place to ensure a good standard of reporting ahead of the deadline.

Given the above information, the Compliance & Risk Management Group have determined that no additional capital needs to be maintained to address liquidity risk which can be seen in the liquid assets test shown in the Risk Management section above.

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. Kiltearn attempts to mitigate these risks by (i) maintaining substantial financial resources, (ii) aligning the interests of all Staff with supervision of the operations of the business through its remuneration policies, (iii) maintaining a risk matrix and key operating procedures ("**KOPs**") for all material business areas, (iv) reviewing the operations of all material business groups annually, (v) providing training where required and (vi) keeping Kiltearn's business relatively simple.

Concentration Risk. Concentration risk is the risk that exposures to specific sectors or asset concentration could result in losses to Kiltearn or its business. Kiltearn principally invests client assets in publicly traded global equity securities and earns its revenue primarily from a US client base. Kiltearn's business could suffer (i) from a decline in its investment performance relative to benchmark indices, (ii) if US institutional investors spoil on investing on a global basis 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. There is little Kiltearn can do to minimise this risk except focusing on keeping its business simple and aligned with clients, and minimising overheads.

Business Risk. Business risk arises from changes in the business that prevents Kiltearn from carrying out its business plan and desired strategy. Kiltearn is a private limited partnership. All material structural changes to Kiltearn's business are subject to discussion at the Supervisory Group level. The Supervisory Group consults the Compliance & Risk Management groups before (i) an investment, loan or capital subscription is made; (ii) before a significant investment is made in any unregulated collective investment scheme; (iii) before any material change in Kiltearn's cost structure, base salaries or a material change in the level of member drawings; or (iv) before any repayment or distribution of member capital is permitted.

Interest Rate Risk. Kiltearn 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, Kiltearn would expect to benefit from increases in interest rates as its interest income would rise.

Insurance Risk. Kiltearn 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 Kiltearn considers appropriate for the business of Kiltearn and subject to a deductible which Kiltearn can reasonably afford to meet if called upon. Kiltearn would be exposed to potential losses in the event that an error occurred and XL Insurance Company SE, AXIS Speciality Europe SE & Travelers Insurance Company Ltd did not pay the anticipated insurance settlement proceeds. Kiltearn attempts to obtain insurance only from well capitalised insurance firms to minimise the risk of loss arising from insurance risk.

Summary - Capital Resources and Regulatory Obligations

Kiltearn has calculated its capital needs in accordance with relevant FCA regulations and has determined that it has surplus regulatory capital.

Remuneration Code Provisions

Kiltearn has completed this section of the disclosure document on the basis that it is a full scope AIFM non-SNI firm that is subject to the remuneration rules set out in SYSC 19B, SYSC 19C and SYSC 19G. Market regulators impose a variety of requirements on asset management firms with respect to remuneration. The general thrust of the FCA remuneration Code's objective is to ensure that all regulated firms and their related parties have (i) robust governance arrangements in place, (ii) established remuneration controls for Partners whose professional activities could have a material impact on the risk profile of their firms, and (iii) prepared qualitative and quantitative disclosures of their remuneration policies. Kiltearn is authorised and regulated by the FCA. Kiltearn is subject to the Remuneration Code. Kiltearn Partners LLP and Kiltearn Partners, Inc. are referred to as "**Kiltearn**" in this discussion of the Remuneration Code.

Applicability of the Remuneration Code

The principles of the Remuneration Code are codified in the systems and controls handbook ("**SYSC**"). Under SYSC 19A.3.7 and 19B.1.2R, Kiltearn 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*". The FCA expects Kiltearn to apply the Remuneration Code in a proportionate manner based on the size, nature and complexity of its business. Kiltearn is required to assess its own members and staff characteristics and to develop and implement policies and practices that appropriately align Kiltearn with the risks faced by its business and investors. Kiltearn must also ensure that adequate and effective incentives are given to all members of Staff. The FCA is not expecting all firms to adhere to the remuneration requirements in the same way and to the same extent, i.e. there is no 'one-size fits all' approach. Kiltearn has taken into account its structure (i.e., that of a legal partnership) and the size, nature and complexity of its business.

Identification of Code Staff

Kiltearn is required to identify those members of Staff who are covered by the remuneration code (referred to as "**Code Staff**"). Because of its small size and the responsibilities assumed by various individuals, Kiltearn considers all but the most recent joiners to be Code Staff. This would include any individuals who are approved persons on the FCA register, working members, or senior management of the firm, individuals engaged in control functions (such as dealing), individuals that receive total remuneration in an amount similar to that as other members of senior management, risk takers and individuals whose professional activities (including members of the marketing and client service, operations or administration groups) could have a material impact on Kiltearn's risk profile or day to day business operations. As of 31 March 2023, Kiltearn had eight (8) staff that are legally considered to be working members and senior managers. a senior manager, with twelve (12) staff that are employees and material risk takers who are all identified as code staff under AIFM regulations. As a result, Kiltearn has twenty (20) Code Staff. Code Staff are provided with a copy of this remuneration code summary when Kiltearn's annual disclosure document is updated. A copy of this summary is also included in Kiltearn's compliance manual. The more burdensome provisions of Principle 12 of the Remuneration Code (i.e., the requirement to restrict the ratio of discretionary payments to base salary/drawings, to defer remuneration and/or drawings over a period of time or to pay a portion of remuneration and drawings in shares) do not apply.

Investment Approach; Risk Tolerance

Kiltearn invests client assets in publicly traded global equity securities. Kiltearn primarily invests in developed markets, although a proportion of client portfolios may also be invested in the more developed "emerging" markets such as Taiwan, Thailand, Mexico, Malaysia and South Korea. Kiltearn does not short stocks, utilise derivatives or margin, underwrite securities, issue or write options, futures, warrants or over-the-counter ("**OTC**") instruments, or allow its clients to participate in securities lending programmes. Kiltearn does not invest in fixed income instruments, physical real estate, commodities or contracts for difference. Assets included in client portfolios are priced by each client's fund administrator using closing market prices and exchange rates. Kiltearn does not invest in "hard to value" assets. Kiltearn does not speculate in stock markets or charge performance fees. It is therefore reasonable to state that Kiltearn does not trade in unusual or high risk products and has designed its systems and controls with this in mind.

Kiltearn looks to add investments to client portfolios when they will help to maximise the earnings, assets and dividends of its 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. Kiltearn usually maintain client cash balances at minimal levels. Typically, about 50 - 90 investments will be owned in client portfolios with a reasonable diversification by country, industry and sector. Kiltearn analyse currency fundamentals and can periodically undertake forward currency hedging transactions, although such activity is limited to 20% of the portfolio's value when the hedges are established and is not intended as a major part of the overall investment management programme. Kiltearn have no bias in terms of market capitalisation and seek opportunities in small, mid and large cap companies. In assessing risk, Kiltearn does not refer to stock market volatility. Rather, Kiltearn sees risk as the possibility of paying a price above the intrinsic value of a business, thereby suffering a permanent loss of capital.

Kiltearn's Remuneration Policy

Kiltearn does not charge performance fees and receives asset based fees from its client accounts on a periodic (normally monthly) basis. Costs are monitored closely. In order to ensure alignment between members and Staff, the limited liability partnership agreement (the "**Partnership Deed**") that governs Kiltearn business specifies the ratio of profits less direct costs (internally referred to as profits before remuneration and tax or "**PBRT**") is shared. The ratios are:

Accounting Year	PBRT Allocated to Working Members and Employees	PBRT Allocated to Kiltearn Ltd
2017/2018 onwards	60%	40%

The PBRT sharing model has governed Kiltearn's business since its establishment. Under the terms of Kiltearn's Partnership Deed, the members of the LLP may vary the above ratios by a supermajority so long as a majority of KP Ltd shareholders also agree to the amendment. Establishing these ratios in the Partnership Deed ensures that both employees and members are focused on growing Kiltearn's business in a profitable and efficient manner. While PBRT is distributed to employees as remuneration and to working members as drawings, the split is determined by the Remuneration Group. Kiltearn has a 31 March accounting year end and allocations of PBRT run from 1 April to 31 March. Kiltearn do not deem it appropriate to disclose the split of remuneration between staff as, given the size of the firm, this would involve disclosing information that Kiltearn deems private and confidential.

The current members of the Remuneration Group are Murdoch Murchison and Ed Clarke. Kiltearn does not believe that the appointment of external staff to the Remuneration Group would benefit the firm or its clients. The Remuneration Group obtains feedback from the members of the firm on the performance and contribution of each individual. 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 client assets. In determining the levels of remuneration and/or discretionary drawings paid, the Remuneration Group considers the following:

Contribution and Ownership of Responsibility. Kiltearn looks at contribution to the success of the firm over a multi-year period and will consider its ownership of various responsibilities, whether related to investment, marketing and client service, investment administration, operations, or firm management. Each area is important to Kiltearn's on-going viability.

Market Levels. Kiltearn believes that base salaries and monthly drawings should be competitive. It is reasonable to offer remuneration above general market levels when Kiltearn believes that the value justifies such a course. Kiltearn also recognises that it must be competitive to attract and retain good colleagues in their various areas of activity.

Sustainability Integration. As noted above, the determination of remuneration is based on an individual's contribution, which is an overall assessment of their work quality and commitment rather than any set performance criteria or algorithms. In the case of members of the Investment Team, this includes an assessment of the quality of their research, which explicitly incorporates consideration of companies' material environmental, social and governance (collectively, "sustainability") risks, opportunities and practices. Similarly, for members of the Governance Group, this includes an assessment of the quality of the execution of the firm's engagement and proxy voting activities, which typically relate to portfolio companies' sustainability practices.

Reliability. This may be viewed as part of contribution, but it is a great benefit to a lean organisation when Kiltearn can rely on someone over a period of years to get a task done. Good work which has needed a great deal of supervision is less valuable, although, of course, totally normal in the early stages of responsibility.

Success of Kiltearn. If Kiltearn is successful there should be a benefit to all. It must of course be recognised that a system of this sort cannot deliver when the business is not doing well. In other words, if PBRT drops, remuneration and discretionary distributions must fall.

Split Between Fixed and Discretionary Components. Fixed aspects of remuneration should be more oriented to those with a reliable proven record of adding value and discharging responsibility. Where such a record has not been established the flexibility of discretionary payments is more appropriate. Fixed aspects of expenditure should be kept low as this provides the greatest level of flexibility and allows Kiltearn to withstand various stresses – performance volatility, loss of client assets, exchange rate volatility and changes in interest rates – without needing to terminate the employee or ask members to leave the partnership.

Members are notified of their share of income profits on an annual basis. Adjustments can be made at any time by the Remuneration Group. Profits are only allocated and paid after Kiltearn ensures that FCA capital and liquidity requirements are satisfied. Employees receive a base salary and are entitled to participate in Kiltearn's discretionary bonus pool.

The Remuneration Group and the Compliance Group review Kiltearn's liquidity and capital requirements before making any discretionary payments or setting fixed levels of remuneration (i.e., base salaries or monthly drawings). They will also ensure that the payments do not adversely impact Kiltearn ability to meet the obligations that it may owe from a client, legal, regulatory (e.g. FCA regulatory capital and FCA liquidity requirements) or other financial perspective.

As of 31 March 2023, Kiltearn, its staff, partners, SP Ltd and their related parties have significant moneys invested in its investment programme. These investments are made on substantially the same terms and liquidity rights and are subject to substantially the same fees as those paid by third party investors.

Kiltearn's Policy on Alignment and Co-Investment

In accordance with the spirit of SYSC 19B, from September 2014, all employees and working members were required to hold a minimum of 30% of their total remuneration in Kiltearn. This is a requirement should be undertaken by the end of the third year after joining the firm, although the remuneration group may alter the percentage of aligned investment required for individuals based upon underlying facts at its sole discretion.

Effective 1 April 2020 onwards, all employees are required to invest a minimum of 10% of their prior year's total compensation on an annual basis. For working members this increases to 20% of their prior year's total compensation over the coming years. These ensure a continuous co-alignment policy.

Alignment can be achieved in a number of ways, including the following:

- Shareholdings in KP Ltd – Although not the investment management business, it accrues all the capital value of the investment management business through its interest in Kiltearn. Further, the limited company will receive 40% of PBRT in profit share as a member of Kiltearn Partners LLP. The shareholders of the limited company require the continued success of the investment management business for the value of their holdings to be maintained.
- Partner Capital - All partners of Kiltearn are committed to invest material capital into the partnership, which is immediately at risk should the business fail.
- Pensions and ISA's – Staff can invest their SIPP/ISA's into the commingled funds. This can also be done for spouses or dependents. The value of these investments directly links staff to the performance of the investment programme.
- Direct Investments – Staff can invest into the commingled funds. This can also be done for spouses or dependents. The value of these investments directly links staff to the performance of the investment programme.

How the Specific Principles of the Remuneration Code Apply to Kiltearn

Kiltearn believes that its remuneration policy is consistent with and promotes effective risk management. Kiltearn's PBRT model helps to ensure that all Staff are focused on growing Kiltearn's business in a profitable and efficient manner. The fact that 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 client assets further removes short term incentives. Performance fees are not charged to clients preserving a longer term perspective. Fixed elements of remuneration and drawings are kept relatively low so the firm can withstand various market pressures while still meetings its on-going obligations.

Kiltearn 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 various commingled funds. The Supervisory Group has reviewed and adopted this policy in conjunction with the Compliance Group. The Supervisory Group has a significant amount of experience in the industry and is 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 Supervisory Group. All material issues identified in risk management monitoring reviews that cannot be resolved in a timely and appropriate manner are raised with the Supervisory Group. The Remuneration Group directly oversees the remuneration and drawings payable to members of the risk management and compliance groups. Given Kiltearn's size, nature and complexity, Kiltearn believes that these controls are adequate. In its ICARA, Kiltearn assesses its capital requirements and the material and non-material risks that may trigger additional capital requirements.

Disapplication of Remuneration Code Provisions

Given the limited size, scope and nature of Kiltearn's activities and consistent with the explicit guidance given by the FCA, Kiltearn 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. Kiltearn has considered the impact of remuneration policies on its capital requirements, ICARA and monitoring programme.