

Pillar 3 Disclosure

Introduction

The European Union Capital Requirements Regulation and Directive have created a regulatory capital framework across Europe governing how much capital financial services firms must retain, based upon the risks associated with the firm's business and the firm's control environment. In the UK, the Financial Conduct Authority (FCA) is responsible for the implementation and enforcement of the directive.

The FCA's framework consists of three 'Pillars':

- Pillar 1 specifies the minimum capital requirements that firms need to retain to meet their credit, market and operational risk;
- Pillar 2 requires each firm to take a view on whether the firm needs to hold additional capital against firm-specific risks not covered by Pillar 1 (this process is carried out through the Internal Capital Adequacy Assessment Process (ICAAP)); and
- Pillar 3 requires public disclosure of information about the firm's underlying risks, risk management controls and capital position which will allow market participants to assess key information.

The provisions for Pillar 3 disclosure are set out in Rule 11 of BIPRU and this document has been produced in order to meet the disclosure obligations of Genesis Investment Management, LLP ("GIM", "Genesis" or "Firm").

The rules provide that a firm may omit one or more of the required disclosures if it believes that the information is immaterial, confidential or proprietary in nature. In these instances, the reasons for non-disclosure are outlined.

We have made no omissions on the grounds that it is immaterial, proprietary or confidential.

The capital and risk disclosures required under Pillar 3 are produced annually (or if there are material changes to Genesis' business) and available on Genesis' website.

Background/Scope

Genesis has managed active emerging markets equity portfolios since its establishment in 1989.

In 2004, an agreement was reached with Affiliated Managers Group, Inc. (AMG) for AMG to purchase a majority interest in the Genesis Group. The remaining interest is owned by ten individual Partners and an internally-managed trust which permits recycling of equity interests to Partners. The individual Partners and the trust currently own 41% of the equity in GIM and AMG owns 59%.

GIM commenced operations on 17th June 2004 and is authorised and regulated by the FCA and SEC. GIM is classified by the FCA as a Collective Portfolio Management Investment firm, a BIPRU firm and a full-scope UK AIFM. It is an investment management firm and as such has no trading book exposures.

Risk Management Framework

Governance Structure

Although AMG owns a majority of the equity of Genesis, the Governing Board of GIM – on which three AMG nominees and two Genesis nominees sit – deals by exception with major corporate matters only. AMG delegates authority to set policy on all other matters to the GIM Operating Board, which acts as the principal strategy and policy setting forum for GIM.

The GIM Operating Board meets at least four times a year in London and receives formal reports on investment, finance, operations, compliance matters and approve changes to material firm-wide policies. The GIM Operating Board is composed of four Genesis Partners - the Chair, the Managing Partners, and the Managing Director - and two Non-Executive Members. The GIM Operating Board delegates certain matters to a number of formal committees:

- The Group Risk Committee meets quarterly and oversees the risk management framework. Specifically, the effectiveness of the risk management framework, governance and compliance activity within Genesis. The Group Risk Committee is composed of three members, the Managing Director/CCO, and two Non-Executive Members to ensure the risk management function has at least the same authority as the portfolio management function.
- The Group Audit Committee meets quarterly and is responsible for certain financial and internal control matters. Responsibilities include monitoring and reviewing the internal financial control systems, reviewing the accounting policies and making recommendations to the GIM Operating Board in relation to the appointment of external auditors, monitoring the independence and objectivity of auditors and reviewing the annual financial statements. The Group Audit Committee is composed of two Non-Executive Members and one Genesis Partner.
- The Portfolio Coordination Team ensures the investment team members act in accordance with Genesis' agreed investment process, analyses and provides feedback to investment team members about portfolio risk and return, and coordinates process improvements and investment discussions. The Portfolio Coordination Team is comprised of three portfolio managers (one rotating and two permanent) and one representative of the Risk Management Committee who is not a portfolio manager.
- The Operations Executive Committee is composed of the Managing Director and a number of senior managers and is responsible for day-to-day operations of Genesis.

Risk Management

In addition to the formal committees, certain day-to-day matters are delegated to a number of management committees, including the Risk Management Committee. The Risk Management Committee of GIM is responsible for the design, implementation and monitoring of Genesis' internal risk management framework. It is chaired by the CRO and includes appropriate senior management representation from all relevant business areas. The CRO is responsible to the GIM Operating Board and the Group Risk Committee for risk management arrangements throughout Genesis, ensuring the operation of an effective risk management framework and the provision of clear risk management information and analysis to senior management.

The risk management framework at Genesis is as follows:

- **Risk Appetite Statement:** Genesis has a qualitative Risk Appetite Statement which is supported by a framework of Key Risk Indicators which quantitatively monitor specific risks within the business.
- **Key Risk Indicators:** The Key Risk Indicators (KRIs) allow Genesis to monitor specific risks throughout the business evidencing that Genesis is operating within its stated 'low' appetite for operational risk and communicating when specific risks tolerances are breached.
- **The Risk and Control Self-Assessment (RCSA):** The RCSA is Genesis' primary risk identification tool which ensures that all material risks to the business are identified, monitored and mitigated by well-designed controls.
- **Principal Risk Identification Document:** The Firm's Principal Risks are considered in a top down analysis to identify material business risks, operational risks and portfolio risks.
- **Assurance/Compliance Monitoring:** Risks within the RCSA are also an integral part of the testing undertaken as part of Genesis' internal monitoring programme. Testing challenges the quality of operating procedures and effectiveness of relevant internal controls, thus adopting an 'internal audit' approach.

A summary of the risk framework is presented on a quarterly basis for discussion and challenge at the Risk Management Committee, Group Risk Committee and the GIM Operating Board including (but not limited to): a summary of the KRIs and (potential) impact(s) on the Firm's risk appetite, RCSA summary (including highest residual risks to the Firm), highlighted Incidents (error reports) and summary from the Compliance and Assurance testing.

Assurance Process

The monitoring of risks and controls, and the assessment of the operational risk framework, are integral parts of the testing and reviews undertaken as part of Genesis' internal compliance monitoring and assurance programme. The testing focuses on the quality of operating procedures and the effectiveness of relevant internal controls, thus adopting an 'internal audit' approach. Monitoring results are presented quarterly to the Risk Management Committee and the Group Risk Committee. The Head of Legal, Compliance and Risk conducts an annual review of the Firm's compliance programme and risk assessment process; the results are reported to senior management.

Genesis' financial controls and procedures are subject to review and testing through the annual financial audit undertaken by the external independent auditor. The internal control framework is also subject to annual audit and assessment by the external independent auditor, through their formal inspection of the control framework and issuance of the 'Report in Internal Controls (ISAE 3402 and AAF 01/06)' to certify Genesis' internal controls. External auditors also review Genesis' investment performance reporting to ensure it is compliant with Global Investment Performance Standards (GIPS®).



Principal Risks

As a fundamental part of the ICAAP, the ICAAP working group conduct a thorough risk analysis of the Firm. The ICAAP working group considered the types of risk which could impact an asset manager, any relevant risks specific to Genesis' business model, and the risk management practices in place to mitigate these risks. This process (conducted by senior management within the business who are also subject matter experts) is designed to ensure that all sources of risk to the business are captured.

The principal risks faced are considered to be Operational Risk, Business Risk and Reputational Risk.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events (including legal risk). The management of operational risk and Genesis' control environment are overseen by the GIM Operating Board as outlined in the risk management section.

Business risks are primarily a result of Genesis' emerging market focus, exposing Genesis to the risk that emerging markets become unattractive as an asset class and the potential volatility of emerging equities. Additionally, investment under performance or loss of key personnel may result in clients choosing to withdraw the funds that Genesis manage and hence reduce revenues. These risks are mitigated by Genesis' experienced Investment Team through their disciplined investment approach, aligned long-term incentives and the business' strong cost controls.

Reputational Risk is viewed as a consequence of the crystallisation of other risks. Therefore, it is captured at the 'root cause' of the risk crystallising within the Risk Management Framework (and the ICAAP).

Other risks considered within the Risk Management Framework (and the ICAAP) include the following:

Credit risk is the risk of financial loss arising from a counterparty failing to meet its obligations to repay outstanding amounts as they fall due. GIM is not exposed to high levels of credit risk, as it does not undertake any principal trading in relation to its own account, only places cash on deposit with a select list of highly rated counterparties, and has historically experienced a negligible rate of non-payment of management fees.

Market risk due to adverse changes in market prices and/or exchange rates reducing the value of client portfolios and impacting revenues is treated as a business risk. GIM is subject to a small amount of foreign exchange market risk as some management fees and assets are denominated in euros. Foreign exchange risk is carefully monitored as management fees are earned in US dollars and most costs are paid in Sterling.

Liquidity risk is the risk that the firm does not have sufficient financial resources to enable it to meet its obligations as they fall due. Genesis complies with BIPRU 12 and has in place systems and controls that enable it to monitor liquidity risk and maintain on an ongoing basis the amounts, types and distribution of liquidity resources that it considers adequate. Liquidity risk is mitigated by the monitoring of management fee receipts, strong control over costs and the timing of remuneration payments.

Concentration risk is the risk that a Firm may have sectoral, geographic or asset concentrations. The primary concentration risk for Genesis is the singular emerging market investment strategy which is considered a business risk.



Group risk is defined as the risk that an action or event at the parent or consolidated group level may impact Genesis. Genesis operates autonomously, is not reliant on AMG operationally, has independent relationships with clients, is not dependent on AMG for product distribution, has reputational independence from AMG, and a collapse of AMG would not change the commercial operations of the business.

Insurance risk is considered annually by the Risk Management Committee and Group Risk Committee.

Several risks were discussed but not considered relevant to Genesis' business model such as pension obligation risk (defined contribution pension schemes), securitisation risk, interest rate risk, and residual risks.

Capital Requirements and Resources

Pillar 1 Capital Requirement

Pillar 1 is the minimum capital requirement defined by the FCA regulatory regime in the UK. The Pillar 1 capital requirement is the higher of i) the minimum capital requirement (€50,000), ii) the combined credit and market risk capital requirements, or iii) fixed overhead requirement (FOR).

For Pillar 1, GIM holds the combined credit and market risk capital requirement.

Pillar 1 Capital Requirement		GIM
		Dec 2019
		US\$000
FCA Capital Requirement		
i. Minimum	€ 50,000	56
ii. Combined Credit and Market Risks		
	Credit Risk - Cash	734
	Credit Risk - Fixed Assets	5
	Credit Risk - Investments	293
	Credit Risk - Debtor Balances	5,070
	Market Risk	600
		6,702
iii. Fixed Overhead Requirement		4,878
Pillar 1 Capital Requirement (greater of i, ii & iii)		6,702
Regulatory Capital Resources as a % of Capital Requirement		545%

The credit risk capital requirement is calculated in accordance with the standardised approach. Market risk relates to foreign exchange. GIM's Pillar 1 Requirement for 2019 is US\$6,702,000.

Pillar 2 Capital Requirement

Under Pillar 2 the Firm conducted a risk assessment to determine whether the minimum capital requirement (under Pillar 1) is adequate to mitigate all risks to which the Firm is or may be exposed.

The Pillar 2 capital assessment was conducted in order to evaluate risks to the business, develop stress tests to run against a five-year financial base case and quantify the maximum capital resources required to support an orderly wind down of the business.

The Firm has applied a 'Pillar 1 plus approach' which includes the combined credit and market risk capital requirements under Pillar 1 with additional capital determined in light of the risks deemed relevant for the Firm. Following a risk assessment of the business, additional capital was deemed necessary in relation to operational risk. The severe stress tests modelled and the orderly wind down did not result in holding additional capital.

Pillar 2 Capital Requirement	GIM
	Dec 2019
	US\$000
ii. Combined Credit and Market Risks	6,702
Operational Risk Capital Requirement Liquidity, Insurance, Concentration, Residual, Securitisation, Business, Interest Rate, Pension Obligation, and Group Risk	11,057
Pillar 2 Capital Requirement	17,759
Regulatory Capital Resources as a % of Capital Requirement	206%

Capital Resources as at 31st December 2019

	US\$000
Core Tier 1 Capital	110,757
Deductions from Tier 1 Capital	(76,451)
Total Tier 2 and Tier 3 Capital	Nil
Total Capital Resources, Net of Deductions	34,306
Pillar 1 Capital Requirement	6,702
Additional Requirement under Pillar 2	11,057
Total Pillar 2 (CCMR + additional requirement)	17,759

Remuneration

Genesis' primary aim is to achieve excellent investment performance for our clients. We believe this emphasis on asset performance has been a key contributor to our success in the past and will continue to be so in the future. We believe that fund management organisations with strong alignment structures are best placed to attract, retain and motivate key talent and hence have the greatest likelihood of generating long-term outperformance.

Our remuneration philosophy reflects this primary aim and is based on rewarding individual contribution whilst ensuring that we remain a cohesive group with a strong team-based culture. Our goal has been to create and subsequently maintain a culture of remuneration which is based on performance rather than entitlement, and long-term business viability rather than short-term personal gain.

Under the UK Financial Conduct Authority BIPRU Remuneration Code (“Code”), GIM must disclose certain information regarding its remuneration policies and practices for individuals whose professional activities have a material impact on its risk profile (“Code Staff”).

The disclosure provided below for GIM is appropriate to its size, internal organisation and the nature, scope and complexity of its activities. The disclosure includes profit for the financial year available for discretionary division among members. GIM adopts a prudent approach when determining the total amount of variable remuneration that is distributable.

The Decision-making Process

GIM has the following arrangements in place to oversee remuneration effectively:

- The remuneration of Genesis’ Partners and Investment Team Associate Partners are approved by AMG, the majority owner of Genesis, and reviewed by the Remuneration Advisory Board (composed of an independent member of the GIM Operating Board and the Chair of GIM).
- The remuneration of Non-Executive Members is subject to a periodic review by the GIM Operating Board.
- The GIM Operating Board acts as the remuneration committee and confirms remuneration recommendations in respect of all other GIM staff members.

The Link between Pay and Performance

The remuneration framework for the main categories Code Staff are described below.

- **Partners**

Partners are advanced an equal, fixed level of drawings and – depending on capital requirements and the overall profitability of the firm in a given year – receive a share of net profits on a discretionary basis in accordance with their individual contribution.

A framework is used to assess the individual contributions of Investment Team Partners on a rolling five-year basis and rewards their contribution to investment performance, and their long-term impact on the business and on team culture. The majority of remuneration is based on their direct and indirect contribution to investment work, with a smaller allocation awarded for business matters.

The remuneration of Partners not involved in investment decisions is based on an assessment of their contribution to the business.

- **Associate Partners**

Associate Partners receive a fixed salary and a discretionary award. Discretionary awards for Investment Team Associate Partners are based on the same framework as Partners. Non-Investment Team Associate Partners discretionary awards follow the Staff annual performance management process. Associate Partners may also be granted Associate Partner Points which provide an equity type of incentive in order to motivate Associate Partners as owners of the business. Associate Partner Points vest after five years and once vested have similar income and valuation characteristics as Partnership equity although without voting rights.

- **Non-Executive Members**

The Non-Executive Members receive a fixed fee, recorded in relevant letters of engagement, for their services on the Operating Board, Group Risk Committee and Group Audit Committee.

- **GIM Staff Members**

Investment Team staff members receive a salary (capped at the level of Partners' drawings) and, as a general principle, a discretionary bonus of up to 200% based on their investment performance.

Non-investment staff members receive a salary and discretionary bonus which are subject to the same caps as the Investment Team staff members. Genesis runs an annual appraisal process to assess each individual's performance and their contribution to Genesis. The overall bonus pool for non-investment staff is dependent on Genesis' annual results. However, the remuneration of individuals with legacy Control Functions who are now included within the Certification Regime is based on objectives relating to their roles and responsibilities, independent of the performance of the business area they oversee and profitability of the Firm. Individual bonuses are benchmarked to relevant market surveys.

- **Deferred Remuneration**

Remuneration derived from Genesis' fund business is subject to deferral and retention in accordance with SYSC 19B. Code Staff will have between 40%-60% of their variable remuneration deferred pro-rata over three years according to the amount and proportion of their total and variable remuneration. 50% of variable remuneration will be held in units of Genesis Emerging Markets Investment Company SICAV (Genesis' core Emerging Markets product) and subject to six months retention post the award vesting. The Firm has the discretion to apply deferred remuneration to key staff members who are not Code Staff.

- **Performance Adjustments**

Our policies comply with specific rules regarding performance adjustments. Such adjustments can be applied at the time an award is made, when deferred remuneration vests and can include adjustment for malus. In exceptional circumstances clawback may be applied. Performance adjustments can apply individually or collectively.

- **Avoidance of conflict of Interests**

Our policies comply with specific rules designed to avoid conflicts of interest, particularly with persons involved in valuation and control functions.



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- **Guarantees and Pension Schemes**

Guarantees, buyouts and retention bonuses are only made on an exceptional basis. Guarantees for bonuses may only be offered in the initial year of joining and limited to the first 12 months of service. Genesis operates a defined contribution pension scheme which is available to all Staff members.

Aggregate Quantitative Information on Remuneration

The aggregate remuneration of Code Staff from GIM in 2019 was US\$59,329,000. Code Staff were identified as those in Senior Manager Functions, Senior Management and Risk Takers within the Certified Regime (these members previously held Control Functions prior to SMCR), and any employee receiving total remuneration that was in the same remuneration bracket as Senior Managers, Senior Management and Risk Takers within the Certified Regime, whose professional activities had a material impact in the firm's risk profile. GIM has only one business line: the provision of investment management and advisory services to institutional clients investing in equity securities in emerging markets.

Genesis Investment Management, LLP

as at 31st December 2019