Pillar Three Disclosure Statement

31st January 2021

1. Introduction

The Capital Requirements Directive ("CRD") of the European Union ("EU") established a regulatory capital framework across Europe governing the amount and nature of capital that credit institutions and investment firms must maintain. The Alternative Investment Fund Managers Directive ("AIFMD") introduced an EU wide capital regime in respect of fund management firms managing Alternative Investment Funds ("AIFs"). In the United Kingdom, CRD has been implemented by the Financial Conduct Authority ('FCA') in its regulations through the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU'). The FCA implemented the AIFMD requirements pertaining to capital resources and requirements through the Interim Prudential Sourcebook for Investment Businesses ('IPRU-INV).

The FCA CRD framework consists of three 'Pillars':

- Pillar 1 specifies the minimum capital requirements of firms to cover credit, market and operational risks to their business.
- Pillar 2 requires regulated firms to assess the risks attached to their business and determine whether additional capital is required to cover the risks not adequately provided for in Pillar 1. All regulated firms are required to carry out this review as part of the Internal Capital Adequacy Assessment Process ("ICAAP").
- Pillar 3 requires firms to publish their capital positions and requirements, certain details of their risk exposures and risk management processes.

For firms subject to the capital regimes of both the AIFMD and CRD, capital requirements arising from Pillar 1 and Pillar 2 of the CRD are compared to any higher requirements arising from an AIFMD asset based requirement together with a Professional Negligence Capital Requirement to derive a total regulatory capital requirement.

2. Scope of Application

Lindsell Train Limited (the "Company") is an independent investment management firm that manages assets predominantly for institutional clients, both based in the U.K. and internationally, but it also acts as an Alternative Investment Fund Manager ("AIFM") to an Alternative Investment Fund. As such Lindsell Train Limited is authorised and regulated by the FCA as a full scope AIFM providing discretionary investment management services to alternative investment funds and segregated, managed accounts. Lindsell Train Limited is categorised by the FCA as a collective portfolio management investment firm ("CPMI") and a BIPRU €50,000 firm for regulatory capital purposes.

This disclosure is made in accordance with the requirements of Section 11 of BIPRU by the Company to convey its risk profile comprehensively on an annual basis to market participants. This disclosure and certain information contained herein is based on the annual financial report as at 31st January 2021. Pillar 3 disclosures are prepared and issued annually after the Company's annual financial statements are audited and submitted to the FCA unless there is a material change in the risk profile or characteristics of the firm in which case certain disclosures may be made more frequently. BIPRU rules provide that certain disclosures of information may be omitted if they are regarded as confidential or non-material.

This disclosure document does not constitute audited financial statements of the Company and the information provided herein is unaudited.

Important Note – COVID 19
The outbreak of COVID 19 has had, and continues to have, a material impact on businesses and the economic environment in which they operate. We have a comprehensive governance and internal control framework through which we have managed, and continue to manage, the impacts of the outbreak on our investment business, clients and staff.

Business continuity plans have been invoked, and we continue to manage and adapt these plans and arrangements to meet the developing impacts of the pandemic. To date, we have not experienced any material disruptions to the provision of investment services to our clients, nor any notable deterioration in the adequacy and effectiveness of our governance and internal control arrangements.

3. Risk Management

The Company's business strategy and risk appetite are determined by the Board of Directors, who are responsible for the strategic, financial, operational and compliance arrangements of the organisation which specifically includes the establishment of sound and robust internal control systems and the maintenance of an effective enterprise-wide risk management framework. The internal control framework is designed to mitigate and manage risks within a tolerance level but not necessarily eliminate them entirely. The implementation of the risk management system and internal control process that are appropriate to the size, nature and complexity of the business is delegated by the Board to the Chief Operating Officer ("COO"). Day to day management of the key risks is overseen by the COO and the Company's Risk Management Committee (a sub-committee of the Board) who works closely with executive directors and business units to design and implement suitable and appropriate risk management systems and controls. Significant risk issues identified are discussed with senior management and formally escalated to both the Risk Management Committee and the Board of Directors if required or appropriate.

The Directors consider the following as key risks that may materially impact the business and have put in place appropriate measures to mitigate the effects of such risks:

Market Risk
Market risk is the risk that the value of assets will decrease due to the change in value of the market risk factors. Lindsell Train does not trade as principal and therefore the potential impact of market risk is considered low. Exposure to other market risks is limited to foreign currency fluctuations from fee income earned in non-Sterling assets under management. This risk is considered minimal due to the majority of funds under management, and the fee income derived therefrom, being denominated in Sterling.

Credit Risk
The main credit risk to which Lindsell Train is exposed is in respect of the failure of its debtors to meet their contractual obligations and is thus limited to third party fees receivable monthly or quarterly from institutional clients who are mainly regulated entities such as mutual fund management companies. The Company is also exposed to credit risks from commercial banks where the Company's deposit and current

accounts are maintained. Sound financial controls are established to monitor credit risks and late payments. Cash assets are only held with large well capitalised banks and are diversified across several banking institutions. The Company does not have a history of bad debts from clients and as such, this risk is considered low.

Liquidity Risk

Liquidity risk is the risk that the Company does not have adequate liquid assets to meet its obligations as they fall due. Lindsell Train maintains healthy financial resources to meet its liquidity obligations. The Company has significant excess cash which is held in (instant access) deposit accounts with UK banks. Cash and capital forecasts are performed regularly to ensure that the Company has sufficient cash resources to meet future cash flow requirements and regulatory capital.

Lindsell Train maintains sufficient surplus capital and liquid resources to ensure that the business is sufficiently financed in the long term and able to meet the challenges from stressed business and market conditions.

Operational Risk

Operational risk is the focus of management's attention as it has the potential to impact the financial status and the reputation of the business resulting from inadequate or failed internal processes, people and systems. The Company seeks to minimise operational risk through a robust internal control framework with an emphasis on sound operational procedures and controls which are regularly reviewed.

Lindsell Train is inherently exposed to the following key operational risks; systems failure, dealing and/or trading errors, serious regulatory breaches, key persons risk and failure of key third party providers. Appropriate policies are in place to mitigate against these risks, and the Company also has adequate professional indemnity insurance cover, key man insurance cover, business continuity planning and has established appropriate information security arrangements. These measures are supplemented by targeted staff training and awareness initiatives, as well as regular monitoring and oversight. Additionally, operating procedures are subject to an annual external review by reporting accountants and reported in the form of AAF 01/06.

Business Risk

Business risk is the risk that the Company may not be able to carry out its business plan or strategy. As an asset manager, Lindsell Train is reliant on the investment performance of its client portfolios to retain assets under management and hence to derive fee income. As such Lindsell Train is exposed to risks resulting from general business and economic conditions which can lead to a reduction in assets under management and hence reduced management fees. Note however, that the Company's profitability is not reliant on performance fee income specifically. Business risk is mitigated by the Company maintaining high surplus regulatory capital, and by its conservative approach to managing the business and its long-term investment approach.

Concentration Risk

Concentration risk is the risk arising from the Company having a large exposure to a particular counterparty, market or client. Lindsell Train has a diversified client base and is not overly dependent on revenues from a single client, or a small group of clients. The Company offers several equity strategies within associated pooled fund products, helping to mitigate business concentration risk.

Regulatory Risk

Regulatory risk is the risk of financial, reputational or litigation damage suffered by the Company through failure to manage its regulatory compliance risks and obligations. Internal policies and controls that are designed to prevent, detect and correct potential violations are implemented by the Company to ensure compliance with all applicable laws and regulations. Training and awareness measures ensure that all members of staff are fully aware of the compliance requirements applicable to the Company's business. Regular compliance monitoring of the business is undertaken by a functionally independent Compliance team to help identify and manage regulatory risks to mitigate any potential liability. Compliance risk assessment reports together with mitigating controls are reviewed by Senior Management regularly and by the Board annually. The Company's overall compliance framework and arrangements are also reviewed semi-annually by an independent third-party compliance consultant.

4. Internal Capital Adequacy Assessment Process ("ICAAP")

Lindsell Train uses the ICAAP process to formally assess the adequacy of its capital arrangements to support current and future business activities, and to formally assess and mitigate the risks to which the Company is exposed. The ICAAP is updated by the COO and formally reviewed and approved by the Board of Directors at least annually. A more frequent review may be initiated where there is a material change in the risk profile of the Company's business. Relevant scenario analysis and stress testing is performed to assess Lindsell Train's risk exposures to more extreme events and to ensure that appropriate steps can be taken to mitigate such risks. Additional capital is set aside to meet the potential residual risk impact as calculated in ICAAP.

5. Capital Resources

Lindsell Train's regulatory capital based on results for the year ended 31st January 2021 is summarised below:

	£000s
Tier One Capital (Share Capital & Audited Reserves)	80,125
Tier 2 and Tier 3 Capital	-
Total Capital Resources	80,125

In terms of its regulatory categorisation as a CPMI firm, Lindsell Train is required maintain own funds in excess of the following:

- The higher of:
  i. The Company's funds under management requirement (which in turn is the Company's base funds requirement of €125,000 plus 0.02% of funds under management in excess of €250 million (where funds under management is calculated as the sum of all AIFs managed by Lindsell Train)); and
  ii. Own funds based on fixed overheads (the fixed overhead requirement or "FOR"), equating to 25% of 12 months audited fixed overhead expenses to 31 January 2021.

- Plus, Professional negligence capital requirement which is calculated as 0.01% of AIFs funds under management.

The Own Funds requirement of Lindsell Train, as at 31 January 2021 is set out in the table below:

	£000s
Initial Capital or Base Funds Requirement	111
• Higher of: i. Funds under management requirement ii. Fixed overheads requirement	 253 1,646
• Professional negligence capital requirement	134
Total own funds requirement as a CPMI firm	1,891

Note
(1) The fixed overhead requirement (FOR) is based on 25% of 12 months audited fixed overhead expenses to 31 January 2021.
(2) Under the requirements of FCA IPRU-INV 11.2.1 R, the Company is also required to hold liquid assets that equal or exceed this CPMI Own Funds requirement. As at 31 January 2021, the Company held liquid assets in excess of its Own Funds.

As a BIPRU firm, Lindsell Train must at all times maintain capital resources equal to or in excess of the higher of:

- The Pillar 1 capital requirement, calculated in accordance with the provisions of FCA GENPRU 2.1.45 R: and
- The Pillar 2 capital requirement based on the Board's assessment of the capital required to mitigate the key risks that the Company's business and organisation are exposed to: and
- The Board's assessment of the capital required to meet the costs that would be incurred facilitating an orderly wind down of the business.

As previously noted, Lindsell Train is a BIPRU €50,000 firm and as such its Pillar 1 Requirement is the higher of the sum of its Credit and Market Risk Requirements, and its Fixed Overhead Requirement. As at 31 January 2021, Lindsell Train's capital resources requirements were as detailed in the following table:

	£000s
Total Capital Resources	80,125
Pillar 1 Capital Requirements, higher of : • Fixed overhead requirement (FOR) £1,646K • Aggregate of market (£246K) and credit (£2341K) risk requirement = £2,587K	2,587
Pillar 2 additional capital provision	3,413
Surplus Capital	74,365

Note
(1) Aggregate market and credit risk requirement is based on the sum of non trading book exposure.

Lindsell Train's Pillar 2 Capital Requirement is an assessment of the additional capital required to cover risks not included in Pillar 1 based on the firm's latest available ICAAP review. Having undertaken an analysis of the Pillar 2 capital requirement, the Company assessed that additional capital provisioning of £3,413,000 is required to supplement the Pillar 1 requirement.

6. Remuneration Disclosures

Lindsell Train has adopted a remuneration policy that complies with the FCA Remuneration Code Rules (the "Code") and guidance. This Code is applicable to those members of staff classified as Code Staff (such as those in significant harm functions) as described by the FCA rules.

The Company's remuneration policy is designed to ensure that the firm's compensation arrangements:

- are consistent with and promote sound and effective risk management
- do not encourage excessive risk taking
- include measures to avoid any conflicts of interest; and
- are in line with the firm's business strategy, objectives, values and long-term shareholders' interests.

Under the Code, Lindsell Train falls within proportionality level three and is allowed to disapply certain of the Code requirements. Owing to the size, internal organisation, nature, scope and complexity of our business, the Board is satisfied that proportionality can be applied to the Company's remuneration policy.

Decision making

Lindsell Train seeks to ensure that members of staff are properly and competitively remunerated for their role, level of responsibility and efforts in contributing to the firm's success.

Due to its small size, nature and lack of complexity, our Company does not have an independent remuneration committee. Final decisions on staff remuneration (both fixed and variable) are determined by the two founder directors (who are also majority shareholders of Lindsell Train) after consultation with the other directors.

Link between performance and remuneration

Employees receive remuneration comprising both fixed and variable components.

Employees are paid a fixed annual salary that reflects their responsibilities and competitive market rates in those roles. In addition, a discretionary bonus is awarded at the end of each financial year when it is sustainable to the overall financial position of the firm. LT takes into account the financial and non-financial factors, including LT's profitability and individual and team performance, productivity and contributions to the success of the business. This is determined by the two founder directors (who are also majority shareholders in LT), after appraising that individual's performance and in consultation with the other directors of LT.

Consideration has been taken to ensure that any incentive reward does not generate a conflict of interest where there is a possibility the employee may not be acting in the best interests of a client. No employee is offered a guaranteed bonus other than in exceptional cases such as a new hire in the first year of employment as additional joining compensation.

LT offers employees the opportunity to own the firm's shares. LT also operates a shadow equity scheme available to key employees which is aligned to the profitability of the business. Participants of the scheme share an agreed proportion of the post-tax profits with a requirement to invest 25% of any pay out to LT shares.

The aggregate remuneration paid out to LT staff is fixed at a prudent proportion of variable investment management fee received by LT, bound by LT's shareholders' agreement. The founder directors' themselves earn a variable remuneration, which is dependent on the balance available from the remuneration pool after paying out LT's employee pay.

Aggregate remuneration costs for Code Staff

The aggregate remuneration of Code Staff for the year ended 31st January 2021 was £29m.

Disclaimer

This document is for professional investors only. It is produced for information purposes in relation to the Company's capital adequacy and it's identified risk exposures. It may not include all of the firm's risks and reliance should not just be placed in making any judgement on the financial position or risks faced by the Company. The information contained in this document has not been audited and does not form part of the Company's financial statements. This document is updated and published annually but may be published more frequently if there is a material change in the business.

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