Dundas Partners LLP: Internal Capital Adequacy and Risk Assessment (ICARA)

Dundas Partners LLP will be referred to as Dundas in this document.

The information in this document has not been audited by Dundas' external auditors and does not constitute any form of financial statement. It must not be relied upon in making any judgement on Dundas.

This document serves as our MIFIDPRU8 Disclosure.

Executive Summary

- Dundas Partners LLP is authorised and regulated by the Financial Conduct Authority (FCA) registration number 587649 since 26 February 2013. It is a MiFID investment firm as defined in the FCA Handbook and therefore subject to the Investment Firms Prudential Regime (IFPR). Dundas is a non-Small and Non-Interconnected (non-SNI) firm as defined under the IFPR rules. Dundas changed its status to a non-SNI in November 2022 as it passed the threshold of £1.2billion of MiFID assets under management. Dundas does not hold client money nor has permission to deal on its own account. As a non-SNI firm Dundas is required to maintain an own funds requirement which is the higher of its permanent minimum capital requirement, its fixed overheads requirement or its K-factor requirement. The requirement to consider the additional K-factor calculations has not changed Dundas' capital requirement and therefore its own funds requirement is equal to three months of the Fixed Overhead Requirement (FOR) on a forward-looking basis. This is defined as the firm's 'Expenditure Based Requirement' (EBA).
- This report confirms that the firm has adequate capital for its size and business complexity.
- The firm has only one regulated entity that is covered by the assessment. It is not part of a group.
- The material risks identified by the firm are a prolonged period of negative global equity returns resulting in a decline in fees earned and loss of a major client or a significant increase in costs bases. The impact of these would be felt through declining profitability.
- The findings of the ICARA analysis are:
    - The firm's risk management process has been reviewed by the Partnership Board and by Azets as part of their controls audit and found to be satisfactory.
    - The firm has adequate resources over its planning horizon taking into account the potential impact of an economic downturn as a continued result of the Covid-19 global pandemic and other global factors.
    - The firm has conducted a thorough wind-down analysis of the business and has the necessary capital in place in the event of this.

- The firm has examined credit, market, and operational risks – the details of which are in the attached table. The firm has determined that given its business model these risks are modest and appropriately mitigated.
- The firm has identified harms to its Risk Register and consider those mitigants within its control.
- The firm considers ongoing analysis is required given the expected growth in regulatory funds under management. The firm will review the K-AUM periodically in case it becomes the highest and the firm is required to increase the capital requirement held. The firm ensures the cash balance does not fall below the equivalent of three months of operating costs, this will be reviewed on an ongoing basis. A full review will be undertaken at the half year in November of 2023 following 2023 financial year end audited accounts being agreed.
- The ICARA was prepared on behalf of the firm by the Partner responsible for Governance and Compliance. It was then reviewed and challenged by at the Partners on 25 June 2023.

Background

The Investment Firms Prudential Regime (IFPR) reflects the EU Investment Firms Directive/ Regulation on Prudential Supervision which the UK had significant input into prior to leaving the EU on 31 December 2020. As such, the UK has decided to implement a largely similar regime to achieve equivalency of the UK/EU financial services industries in this area. This was implemented on 1 January 2022.

The IFPR is specifically designed for FCA regulated investment firms and represents a significant change to how firms are prudentially regulated. The new requirements seek to capture the potential harm posed by firms to their clients and the markets in which they operate. It also considers the amount of capital and liquid assets a firm should hold to wind-down or exit the market in an orderly way.

The IFPR means there will be a single prudential regime for all MiFID investment firms, simplifying the current approach. Its aim is to allow for better competition between investment firms. The regime introduces meaningful capital and liquidity requirements for some investment firms for the first time, aligned with the potential harm they can cause to their clients and the markets in which they operate.

All the current definitions of investment firms, such as BIPRU, IFPRU, exempt-CAD, have ceased to exist from 1 January 2022. Instead, there are two broad categories of investment firm, either a ‘small and non-interconnected’ (SNI) investment firm, or a non-SNI. The prudential requirements in the IFPR are designed to scale with the size and complexity of the firm and implementation should be proportionate to the size and complexity of the investment firm.

The IFPR introduces a new sourcebook; MiFIDPRU. The current BIPRU sourcebook will be deleted as well as GENPRU 2 and other related parts of GENPRU. The MIPRU sourcebook will be amended to remove BIPRU references.

Firm overview

Dundas Global Investors Ltd was set up in 2010 as a Limited Company by Alan McFarlane, Senior Partner. It transferred to Dundas Partners LLP on 26 February 2013. Dundas Global Investors is the trading name of the partnership which it continues to market itself as.

Once all overheads have been settled and employees paid, the remaining profit is available for distribution to Dundas' partners at the discretion of the Senior Partner. Where necessary, funds are retained in response to the need for capital or if there is the need for a higher fixed overhead requirement and its associated level of capital.

Dundas is an institutional manager working with large superannuation funds and their advisors in Australia, New Zealand, the USA and the UK. The firm provides separate accounts, sub-advisory portfolios and has Funds available in the UK and Australia. To the extent the firm has individual investors these are through the regulated Funds.

At the fiscal year end 2022/23 clients from Australia represented 56% of the firm's total assets under management while clients in the United States represented 30% of the total and those from the UK represented 14% of total AUM. Dundas' top five clients at the end of fiscal 2022/23 represented 89% of the firm's assets under management. Over the last twelve months growth in assets has come mainly from the UK market.

Business strategy

Dundas is a global equity manager for institutional clients. It runs one investment strategy: selecting stocks for a portfolio of 120-150 global businesses across two UK Funds which generate both capital and dividend growth. To date Dundas' Australian clients have requested global mandates excluding stocks in the Australian market. Clients in the US have made the same request: global mandates excluding those from the domestic market. Given the significance of the US stock market in global indices Dundas calls this portfolio its International Strategy.

The principal activities of Dundas are to act as a fee-based investment manager of separate accounts and of open-ended investment funds. Its business objective is to profitably grow assets under management from the 31 March 2023 level £1.9 billion. Through 2023/24 it plans to:

- expand the Australian fund, focusing on the ETF strategy and segregated mandates currently managed through a distribution agreement with Apostle Funds Management in Sydney.
- continue to grow the assets managed in the UK UCITS funds, the Heriot Global Fund and Heriot Global Smaller Companies Fund (which was launched in October 2021), through its distribution relationship with LGBR Capital, and T. Bailey Fund Services as the ACD.
- continue to establish a presence and grow assets in the US. Dundas signed a distribution agreement in 2015 with South Avenue Investment Partners (SAIPUS) to distribute its strategy to a US client base this contract was up for renewal in August 2022 and Dundas took the decision not to renew and bring the US business development activity internal. In addition, Dundas manages money for wealth managers through its 20 stock ADR, 30 stock ADR and best picks funds. Dundas has been successful with several emerging managers programs facilitated by Xponance and Bivium Capital Partners, LLC.

During the last financial year (ended 31 March) Dundas has maintained sufficient capital to meet its regulatory and business needs. The business model of Dundas is predicated on the need to keep costs down and pass this on to clients in the form of lower fees.

Dundas has implemented the Consumer Duty rules which come into effect on 31 July. As a co-manufacturer of the Heriot Global Fund and Heriot Global Smaller Companies Fund, Dundas is required to map the Consumer Duty across the distribution chain from product and service origination through to distribution and post sales activities. Dundas does not have permission to engage with

retail clients, we have therefore worked with independent financial adviser clients to understand the retail customer journey.

Dundas reviewed and approved its wind-down plan at committee level. The review takes into account, the governance process for the wind-down scenario, operational analysis, detailed estimated revenue/cost schedule and resource assessment.

There are no significant planned changes to the firm's strategy or objective. Today Dundas extends to a team of fifteen members. During the year, Dundas added two new members to the team, a Finance and Compliance Manager and an Investment Support Analyst. As the firm grows its client base and its assets under management it expects to add additional members to its team. The addition of new team members will induce a rise in the firm's Fixed Operating Costs and therefore its Expenditure Based Requirements, which will be reflected in the Q2 2023 review.

New staff and larger capital projects will be considered throughout the year particularly following flows of additional assets under management. The business is therefore projected to be able to generate whatever additional regulatory and business capital may be required as a result of further growth internally.

Since the firm began the global investment environment has resulted in strong returns in the US market while the remaining markets have generated poorer returns. Dundas' Global Strategy has now outperformed over one year, five years and ten years. Its International ADR Strategy has outperformed significantly since inception, and its International Strategy is approaching its seven-year performance in May 2023.

Dundas signed a distribution agreement with LGBR Capital Partners to market the Heriot Global Fund in the UK in March 2019 and Heriot Global Smaller Companies Fund in October 2021. Distribution channels in the US and Australian markets are well supported.

Financial position

Dundas intends to grow from its year end 2023 overall (MiFID and non-MIFID business) assets under management of £1.906bn. Over the next five years the firm aims to win new client mandates for its capital and dividend growth strategy and its ADR strategies. With only one office location and a team of fifteen members, Dundas' growth should provide sufficient capital for re-investment and to provide cash liquidity.

Risk management and material harms framework

The firm's overall risk appetite is low, and its business strategy has focused on sustainable growth over the longer term while seeking operational efficiencies to control costs. The firm maintains capital cover over in excess of its IFPR regulatory requirements.

Risk appetite is the degree of risk the Partners are willing to accept without applying further resources and capital to mitigate the risk. Risks are assessed in terms of the probability of the risk occurring and likely impact. Reasonable steps are taken by Dundas to reduce the risk of any risk crystallising and any impact arising.

Material harms are harms arising from the ongoing operation of the firm's business to its clients, the market in which the firm operates, and the firm itself; as well as harms that might result from winding down the firm's business. In identifying those harms as outlined in MiFID 7 Annex 1, the Partners have

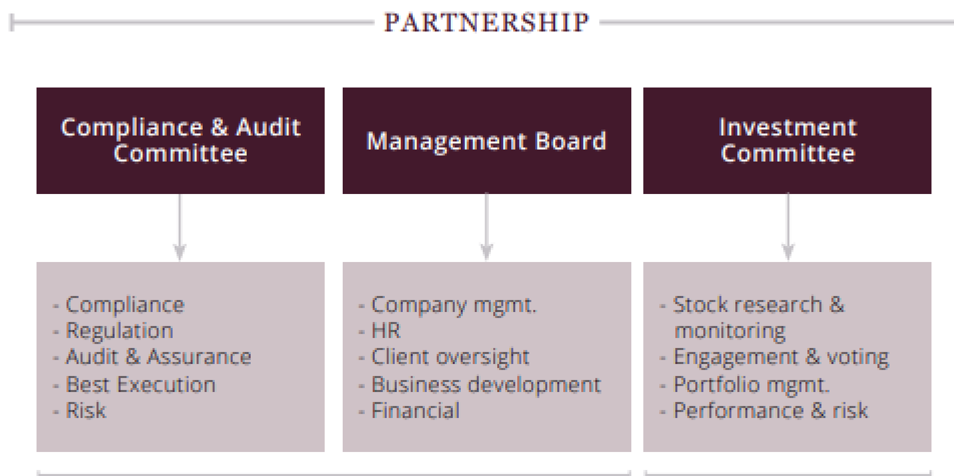
taken reasonable steps to understand the risks in their activities so that they can detect, identify, and rectify problems themselves by ensuring that Dundas' systems and controls, governance and culture enable them to take effective steps to prevent harm from occurring using the FG20/1 on Adequate Financial Resources as guidance.

Dundas is a non-SNI firm, and its business is not viewed as complex. It carries little to no material Market or Credit risk and does not trade on its own account. As a non-SNI firm, Dundas' minimum capital requirement is the greater of:

- the base capital requirement of £75,000
- the Expenditure Based Requirements based on fixed operating costs
- the K-factor requirement based on K-AUM
- It is Dundas' experience that, as Market and Credit Risks are not considered material, the Fixed Overhead Requirement (FOR) is the greatest.

When considering the liquidity of these fund, Dundas can confirm these are held in short term deposit accounts in cash (Tier 1 capital).

Dundas undertake an annual budgeting process which starts in January ahead of the 31 March year end. Projected revenues from existing clients are augmented by predicted new business wins/losses for the coming year. Resource needs are considered, and a draft budget prepared for the Partners to consider. Between January and April, the budget is refined and finally approved before becoming the basis for our management accounting monthly packs for the new financial year. Our stated strategic objectives are regularly discussed at our Partners Board meeting to ensure risks and potential harms are being monitored.



Risk management and material harms assessment is embedded into the firm's governance structure. Individual risks and harms are considered at each of the committee meetings and as a whole at the Partnership meeting.

Capital Adequacy Assessment

Statement of Risk Appetite

The Partners of Dundas have assessed the impact of the risks taken in pursuit of its strategic objectives. Those strategic objectives are:

- Grow assets under management
- Safeguard reputation
- Grow profitability in a sustainable way
- Achieve appropriate investor returns
- Maintain regulatory standing
- Safeguard capital adequacy
- Financial crime

Each of these areas is subject to risk and the table below indicates the level of risk Dundas is prepared to accept in each area:

	Willingness to accept risk				
	LOW		MED		HIGH
	1	2	3	4	5
Grow FUM					
Reputation					
Earnings					
Returns					
Regulatory					
Capital					
Financial Crime					

Grow assets under management

This encompasses the activities required to grow the firm's client base or investment from existing clients. Dundas continues to work with established distributors to develop assets under management.

Reputation

This encompasses activities required to provide effective communication to stakeholders, provide strong, robust governance and demonstrate strong ethical standards.

Grow profitably in a sustainable way

Ensure Dundas continues to manage its cost base to expand less than assets under management through use of technology and maintaining one mainstream investment strategy.

Investor returns

The amount of risk the investment team can take with investor monies to achieve appropriate returns on investment.

Regulatory standing

The indicator of how sensitive or how exposed Dundas products and services may be to changes or tightening of regulation. Dundas' product offerings are and will remain simple and unlikely to present regulatory risk in the short and medium term. Dundas has appointed three outsourced compliance advisors to advise on regulatory compliance: these are GEM Compliance in the UK, ACA Global in the United States and Norton Rose Fulbright in Australia.

Capital adequacy

The indicator of how prudent we need to be in provision of excess capital. The current model builds in large excess capital over and above the regulatory requirement. There are currently no plans to change this approach.

Financial crime

The indicator of how exposed Dundas may be to financial crime. The current business model means the prevailing exposure to external crime is low.

Adoption and review

This statement was adopted by the Partnership. It will be reviewed annually in conjunction with development of annual capital management, strategic and operational plans.

Material Risks

The Partners of Dundas are responsible for determining and overseeing the firm's risk and harms strategy. Dundas' risk appetite is reviewed regularly, the Partners consider various stress tests that set out the amount and type of risk that are considered appropriate for the firm to accept in order to execute its business strategy. Material harms are reviewed periodically through the Partners meeting and mitigants discussed.

Dundas has developed a risk matrix that is broken down by business function and each underlying process within the business function, this is reviewed periodically. Each risk is then assessed to determine the type of risk exposure, its materiality, whether it is covered by insurance and what mitigating procedures can be put in place to control that risk. Individual Senior Managers are accountable for risks and harms in their business area and will put in place mitigants to manage those. Dundas' culture aims to ensure that each Partner is focused on improving procedures and minimising risk while establishing a robust risk, capital, and performance management structure.

Dundas invests client assets in publicly traded global equity securities, it is mainly exposed to operational and reputational risk and most material harms identified are as a result of that exposure. However, there is some small additional exposure to both business and credit risk. These exposures are regarded as typical for a business engaged in the activity of long only asset management. In assessing the risk appetite of the business, consideration has been given to identifying the material risks and harms facing Dundas' operations. These include risks and harms at both the client and firm level and take the form of loss of revenue, loss of assets or higher costs.

Credit: Dundas receives investment management fees on a monthly basis from the UK and Australian Funds and on a quarterly basis from the US contracts. These fees are computed based on the value of overall assets managed whether in a commingled fund or separate account. For global mandates, fees are paid within 30 business days of each month end. For international strategies the payment window is longer and so can take up to three months to settle. There is little credit harm or risk associated with these fees.

Market: Dundas' portfolios are subject to market risk and harm. The fees are asset based: revenues will increase as assets under management increase and vice versa. Dundas has structured its business so that many costs are variable and can be reduced should assets under management fall. Dundas seeks to keep base costs low, and the partnership model avoids high committed salaries and bonuses.

Liquidity: liquidity risk consists of two primary items – funding liquidity risk and market liquidity risk. Dundas has no borrowing and is not dependent on external financing for any aspect of its business. As a result, Dundas is not exposed to funding liquidity risk. Dundas has some exposure to market liquidity risk in that one of our banking counterparties could suffer severe financial distress and elect not to return some of Dundas' cash deposits - for this reason Dundas have a limit on deposits which is regularly reviewed.

Operational: operational risk and harm refers to the direct or indirect loss resulting from inadequate or failed internal processes, people, and systems or from external events. This would include administration and/or dealing errors or breaches or investment mandate breaches. The Funds offered in the UK and Australia are priced and administered by third parties regulated for this activity.

Dundas seeks to mitigate those harms by (i) maintaining substantial financial resources, (ii) aligning the interests of staff and working members with supervision of the operations of the business (iii) maintaining a risk and harms matrix and key operating procedures for all material business areas (iv) reviewing the operations of all material business areas periodically and (v) keeping the business, structure, and operational requirements relatively simple.

Concentration: this is the risk that exposures to specific sectors or assets could result in losses to Dundas or its clients and cause harm. Dundas invests client assets in publicly traded global equity securities and earns its revenue from an Australian, US and UK client base. The major risk is that the business could suffer from a decline in its investment performance relative to benchmark indices. Dundas seeks to minimise this risk through focusing on its own investment research, keeping its business simple and aligned with its clients while minimising overheads.

Business: business risk arises when changes in the business prevent Dundas from carrying out its business plan and desired strategy therefore potentially causing harm to its clients. As a Limited Liability Partnership all material structural changes to the firm are subject to discussion at Partnership meetings. Dundas seeks to mitigate the risk of losing key team members through making them Partners in the firm – participating in Dundas' growth.

Regulatory: the change and increase in regulation has an impact on the firm from a resource and financial perspective. The introduction of the Consumer Duty is an example of this, requiring firms to act to deliver good outcomes for retail customers. Those outcomes relate to products and services, price and value, consumer understanding and consumer support. Dundas has permission to deal with institutional and professional clients only, however this new regulation requires oversight of every stage of the customer journey.

Interest rate: Dundas does not engage in any principal trades or run any trading book exposures that could be subject to interest rate risk.

Insurance: Dundas maintains professional indemnity, crime, and cyber cover. All are set at a limit which Dundas consider appropriate for the business and subject to an excess which Dundas can reasonably afford to meet if called upon. Through working with its insurance broker Dundas obtains insurance from well capitalised companies to minimise the risk of loss arising from insurance risk. The level of professional indemnity cover is reviewed on a regular basis and at least annually.

Reputational: Dundas are at risk from poor investment performance affecting its ability to generate profits; from the loss of one or more key staff; the loss of a large customer or through poor client service. Dundas has sought to keep mandates simple as a mitigant of these risks. The firm understands that there could be a claim or legal action from a client.

Business continuity: Dundas reviews its business continuity and disaster recovery procedures annually or as necessary through the year. A full off-site disaster recovery and business continuity test was successfully completed on 8 November 2022.

Capital Planning and Stress and Scenario Tests

The effective date of this ICARA is 01 July 2023. All audited numbers for this ICARA are as of fiscal year end 2022/23.

Over the coming year core overhead costs will be tightly managed but will increase to support continued growth of the firm and to ensure the firm's capabilities as an institutional global equity manager. Success with new mandates will see overheads rise while maintaining profit margins.

As part of the budgeting and capital planning process the firm believes the most relevant stress test is to look at the fall in AUM which would link to revenues meeting core overhead costs. Dundas considers a range of scenarios as part of its budgeting for the year: the impact of asset gathering, considering market declines and the impact of changes in foreign exchange rates on profitability, given that more than 85% of its revenue base is generated outside the UK.

Dundas has no tier 2 capital deductions.

Dundas therefore maintains an adequate level of total capital resources to satisfy the regulatory capital requirements.

Regulatory capital is monitored and reviewed by the Partners regularly.

Wind-down Analysis

Dundas has assessed the firm's ability to wind-down using a combination of its EBR and its liquid cash resources. The firm maintains a separate detailed Wind-down planning document. The firm maintains cash balances across its sterling-denominated current and deposit accounts as well as in its AUD and USD current accounts to ensure sufficient cash reserves to settle bills in a timely fashion while at the same time building cash liquidity and reserves. Current liabilities are settled promptly, clients are regularly engaged with over any outstanding accounts receivable, and partner's distributions are made only when there is sufficient cash liquidity to do so.

Should the necessity for an orderly wind-down be required the Partners, in particular the Senior Partner would be the key decision maker, while relying on the whole team for execution. It is estimated that the wind-down of Dundas could take up to 6 months but likely much sooner. We have taken into account notice periods for client mandates, distribution partners, suppliers and staff. FCA guidelines for the Investment Firms Prudential Regime and Operational Resilience guidance issued in 2021 have been considered and would be the basis of our wind-down planning. The Senior Partner would also take responsibility for stakeholder communications.

Over the year Dundas' active involvement in growing its business in the US and UK markets has resulted in growth and diversification, helping to mitigate the firm's biggest risk: the loss of a significant client.

Challenge and Adoption of the ICARA

The ICARA was prepared as part of the firm's implementation of the IFPR and the final document will be ratified by the Partner on 25 July 2023. We will continue to review this document in line with our year end, 31 March. It is built upon the work completed in the last five fiscal years. The main business assumptions driving the budget process have been subject to review at a Partners meeting in May 2023. Those assumptions are the main drivers of the budgeting and resource planning which in turn impacted the EBR modelling for the coming year.

The fixed operating costs and EBR have been driven directly from the challenge and testing of those key business assumptions. The calculations themselves have been subject to scrutiny by all the Partners in the firm.

Remuneration

Dundas is subject to the IFPR Remuneration Code (the Code) requirements of a non-SNI firm. As such Dundas is required to ensure this Remuneration Policy Statement is in place and identify those members of staff who are covered by the remuneration requirements. The proportionality principle in SYSC 19G.2.4 R requires that a firm's remuneration policies and practices must be appropriate and proportionate to the nature, scale and complexity of the risks inherent in the business model and the activities of the firm. Dundas is required to assess its own characteristics and to develop and implement policies and practices that appropriately align Dundas with the risks faced by its business. Dundas has produced a Remuneration Policy Statement in line with the FCA template for remuneration for 2022.

The remuneration policy is designed to be consistent with and promote sound and effective risk management and should not encourage excessive risk-taking that exceeds Dundas' risk tolerance. It is designed to be in line with Dundas', its risk profile and risk management practices, our values and the long-term interests of the firm and its clients. The policy has been designed to avoid conflicts of interest and is subject to independent internal review by the Compliance and Audit Committee. In order to achieve this, the remuneration of staff is reviewed annually, taking into account individual performance and market practice for the role being undertaken. In addition, bonus arrangements are reviewed periodically in order to ensure their effectiveness. Bonus calculations and targets are also reviewed annually to ensure that they are appropriate, fair and consistent.

The Remuneration Code requires Dundas to identify individuals whose professional activities have a material impact on its risk profile (known as 'Material Risk Takers') and the remuneration rules and disclosures (subject to proportionality) apply to those individuals. The following partners and staff within Dundas were identified as individuals who should be defined as Material Risk Takers (MRTs):

- All Partners (SMF27 Function holders)
- Head of UK Distribution

The Partnership have established the Management Board (comprising one of the Senior Partner and 4 other Partners) which is responsible for the operational management of the firm. The Management Board is responsible for the approval of all policies relating to staff remuneration within the firm. In addition, the Management Board is the final level of approval for the recommendations on levels of salary increases and bonus awards made during the firm's annual review process. The Management Board will consider the general risks and parameters affecting the firm's business and the measures taken across the business to ensure that the remuneration awards and parameters do not conflict with the firm's long term aims and the best interests of its clients. The Management Board is responsible for the operational oversight and administration of the firm's remuneration policies and practices. controls deemed necessary. Partners' remuneration and ownership stakes are decided by the Senior Partner.

The salary review process, the level of salary awarded is influenced by individual performance, the profitability and performance of the firm and the movement in salary levels for the relevant job match. Salaries are reviewed through an external benchmarking exercise every two years and internally as required. By focusing on a single investment strategy, keeping costs under control, and providing the opportunity for partnership, Dundas seeks to avoid high and complex cost structures. Dundas awards an annual performance bonus which is discretionary depending on individual performance and firm profitability but balanced to achieve an appropriate ration between fixed and variable pay for all roles.

Partners receive monthly drawing during the year, which are set by the Senior Partner, as total payment for doing their jobs. They are fixed in all but extreme circumstances when they can be reduced. The remainder of the distribution of profits (with the exception of transitional arrangements for new partners) is Return on Capital Employed and is therefore not classified as remuneration.

Signed:

Alan McFarlane
Senior Partner

Appendix 1

Rational for Assets Under Management Calculation for IFPR

Assets included in the AUM calculation:

- US (and other) segregated mandates
- Assets in the Apostle Dundas Global Equity Fund.
    - Australia does not have an equivalence regime in calculating and reporting AUM therefore these assets must be included in our calculations.
- Model portfolio.
    - This is considered MiFID business and is therefore included.

Assets NOT included in AUM calculation:

- Assets in the Heriot Global Funds.
    - T. Bailey Fund Services, as an FCA regulated Financial Institution, count the assets in these funds within their capital requirement calculations, therefore we have not included as it would be considered ‘double counting’.