Elphinstone, Inc.
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This brochure provides information about the qualifications and business practices of Elphinstone, Inc. If you have any questions about the content of this brochure, please contact us at +1 (212) 882-1067 or e-mail us at help@elphinstone.us.

This Brochure has not been approved by the United States Securities and Exchange Commission or any state securities authority. Additional information about Elphinstone, Inc. is available on the SEC's website at www.adviserinfo.sec.gov. Any reference in this brochure to the terms "registered investment adviser", "registered investment advisor", or "registered" in no way implies a certain level of skill or training.

Brochure Date: January 9, 2023
Updates reflect addition of US investment product

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About Elphinstone

Elphinstone, Inc., a Registered Investment Advisor that is registered with the United States Securities and Exchanges Commission. It owns a wholly owned subsidiary Elphinstone Pakistan Ltd ("Elphinstone Pakistan"), a Securities Advisor licensed by the Securities and Exchanges Commission of Pakistan.

We aim to offer services primarily to customers in Pakistan who wish to invest in the Pakistani capital markets as well as US capital markets. Elphinstone offers automated investment advisory services through its websites – elphinstone.us, elphinstone.com.pk, and smartrupee.pk – as well as apps on both Android and iOS smartphones. Farooq Tirmizi is the largest shareholder, CEO, and President of Elphinstone.

Advisory Business

Elphinstone aims to become the largest, most trusted personal financial advisory firm to the rising middle classes in frontier markets. We aim to help millions of middle-class retail clients invest for their most important life decisions: retirement, buying a house, saving for their children's education and weddings.

Our current market consists mostly of individuals who live in Pakistan, though we may in the future expand to offer our services to individuals in other markets in South Asia and the Middle East.

We currently offer three investment products:

1. **US investment product:** This product allows individuals who reside in Pakistan access to investing in the capital markets in the United States by allowing them to invest in US stocks and ETFs. The product allows individuals to operate their account in two ways: advised portfolios as well as self-directed investments.

   The product offers both conventional investments and well as Islamic investing options. For advised portfolios, the customer is asked to provide demographic and financial information that is used to determine an optimal portfolio based on the user's investment objectives.

2. **Pakistan corporate retirement plans:** This product allows companies in Pakistan to operate their corporate retirement plans through Elphinstone Pakistan's advisory and administrative services. Elphinstone Pakistan offers mainly mutual fund investments to its clients, and advises both the company management as well as individual employees on how to invest those retirement assets. The automated investment advice is delivered to companies through the Elphinstone Business platform and to individual employees through the SmartRupee platform.

3. **SmartRupee:** This product is to deliver automated investment advice to the employees of our corporate clients on their retirement and non-retirement savings needs. The company also plans to offer this product to individuals who are not employees of our corporate clients.

Elphinstone is a "FinTech" start up, and currently manages just under $1.5 million in client assets.

Fees and Compensation

US investment product: Investment advisory services for clients who wish to invest in US securities are currently subject to a fee of 1% of assets under management, calculated on a prorated basis per calendar day. For instance, in a non-leap year, the fees a client would pay would be calculated as follows:

$$Day\ end\ account\ balance * \frac{1}{365} * 1\%$$

During a leap year, the following formula would apply.

$$Day\ end\ account\ balance * \frac{1}{366} * 1\%$$

The fees are all-inclusive and would cover any brokerage fees, SEC, and FINRA fees associated with trades placed in the client account.

SmartRupee: Use of Elphinstone's SmartRupee services is currently free to retail customers. As described below in the "Client Referrals and Other Compensation" section below, Elphinstone shares in the management fee of mutual funds.

Pakistan corporate retirement plans: Elphinstone will charge employee retirement plans in Pakistan a fee not exceeding 0.4% of assets under management or Rs50 per employee per month, whichever is higher. If the fee is determined as a percentage of assets under management, it will be levied on the same prorated by calendar day basis as the fees for the US investment product outlined above.

Performance-Based Fees and Side-By-Side Management

Elphinstone does not currently charge any performance-based fees.

Types of Clients

All customers are welcome at Elphinstone, although our preferred minimum account opening deposit is $100 for our US investment accounts and Rs2,000 for Pakistan investment accounts.

Methods of Analysis, Investment Strategies, and Risk of Loss

One of the biggest parts of the service we offer our clients is fund selection. We do not just help you calculate how much you need to be saving, and which asset classes you should invest in; we actually recommend specific funds for you to invest in, and then we actually help you make those investments through our website and app.

Given the differences in our US and Pakistan investment products, however, we have differing approaches to how we advise on each portfolio.

US INVESTMENT PRODUCT: Elphinstone US

The Elphinstone US investment product – delivered through the eponymous Elphinstone app – offers automated investment advice to residents of Pakistan for investments in capital markets in the United States. The company offers advised portfolios in addition to providing clients with access to the ability to make self-directed investment decisions and trades.

For the advised portfolios, the company asks its users to specify their preference for conventional or Islamic modes of investing, with the latter then being restricted purely to investments that are compliant under Shariah investing principles (explained below).

Each client is presented with a sliding scale that represents the trade-off between risks and returns, and clients are advised that the longer the duration for which they are saving, the more capacity they have to take on risk, and the shorter the duration for which they are saving, the less capacity they have to take on risk.

The portfolios consist of two components: a fixed income component and an equity component.

For conventional portfolios, the equity portfolio consists of five low-cost equity index ETFs and the fixed income portfolio consists of five low-cost ETFs that track either short-dated US Treasuries or floating rate US Treasury securities. The more a customer wants to reduce their risk, the greater their exposure will be to US Treasuries, and the more they want to increase returns, the more their exposure will be increased towards equity indices.

For Islamic portfolios, the equity portfolio consists of all components of the S&P 500 index that comply with Shariah-compliance principals, as defined by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), weighted by market capitalization. The fixed income component consists of a fixed income ETF that invests in global sukuks (Islamic bonds). Once again, the more a customer wants to reduce their risk, the greater their exposure will be to the sukuk ETF, and the more they want to increase returns, the more their exposure will be increased towards equities.

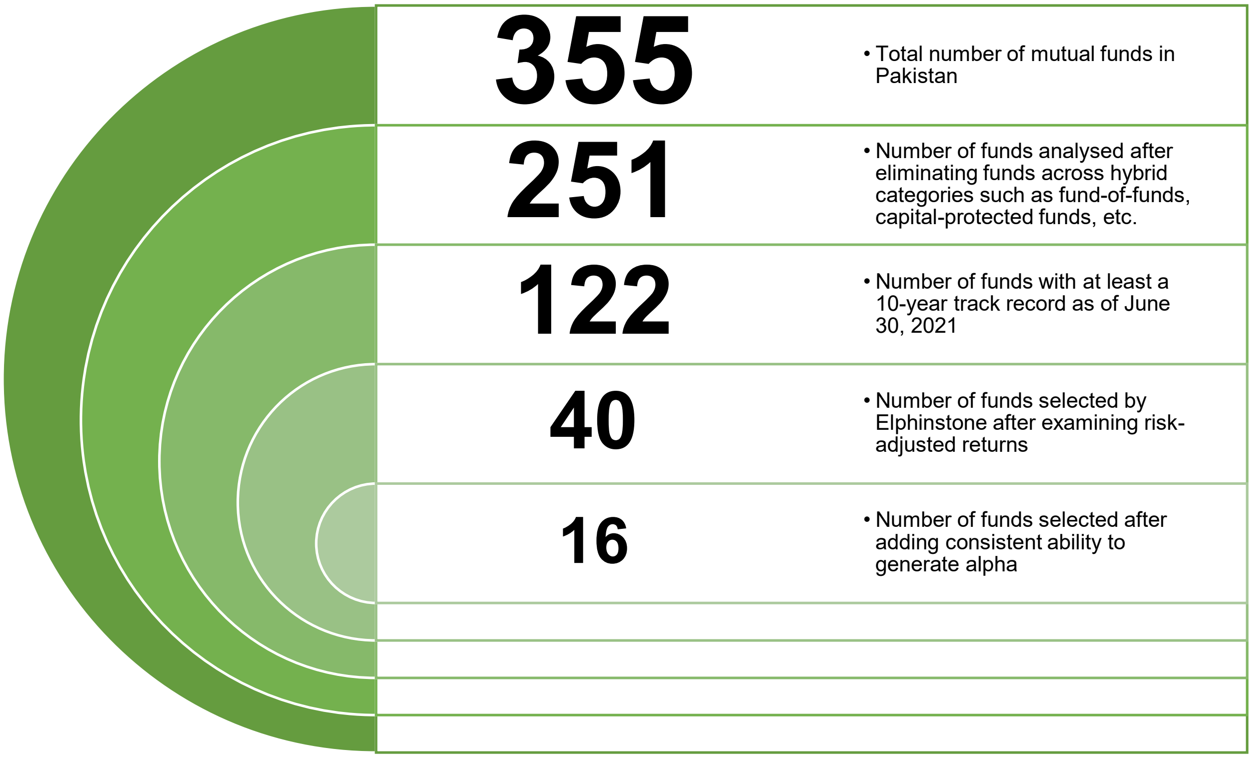
PAKISTAN INVESTMENT PRODUCT: Pakistan corporate retirement plans and SmartRupee

The core objective of Elphinstone's decision-making process is to allow each of our individual clients to maximise the returns on their portfolio while minimizing the level of risk they take on, bearing in mind that the appropriate level of risk varies from individual to individual. This document lays out a summary of the investment decision-making process that Elphinstone undertook in determining which specific investments it recommends to its clients, and then lays out the risk management policies put in place to help mitigate the levels of systemic and idiosyncratic risk involved in each investment.

Fund selection process: There are 355 mutual funds in Pakistan as of December 31, 2021, according to data from the Mutual Funds Association of Pakistan (MUFAP). Elphinstone evaluated each of these funds to varying degrees of detail, which some ruled out entirely as suitable for our clients' portfolios and others evaluated in more detail before a determination was made about their inclusion on our list.

From that list of 355 funds, we distilled out final list down to just 16 funds – eight conventional and eight Islamic – across four asset classes: equity, fixed income, balanced (hybrid between equity and fixed income) and Voluntary Pension Scheme (VPS) funds.

Exhibit 1: Winnowing of mutual funds included in Elphinstone recommended portfolio for clients



Phase 1: Selection of appropriate list of funds: The first phase consisted of weeding out funds that are not suitable for most clients' needs and that we at Elphinstone believe do not add value to a client's portfolio. Thus, we excluded things like funds-of-funds (double fees, terrible performance as an asset class), capital-protected funds (as an asset class, these have almost always underperformed historically), and commodity funds (all the volatility of stocks, with much lower returns).

We then analysed funds across the core categories of equity, fixed income, money market, balanced and asset allocation (which we consider to be materially similar enough to constitute a single type of fund) and then the VPS funds that themselves include their equity, fixed income, and money market funds.

Phase 2: Calculation of dividend-adjusted returns: The next fundamental step was determining the rates of return for all of the 251 funds that were remaining in our universe of analysis. We did so by collecting the historical unit prices of all the mutual funds as far back as possible, ideally all the way back to their inception date, or at least 10 years, whichever was longer.

Next, we needed to adjust the fund prices for dividend history, since some funds pay dividends and others do not, so to have a consistent measure of returns, having prices alone would not be enough. We would need dividend-adjusted fund prices, which we did by collecting data on the size and payment dates of the dividends, and adjusting the raw prices of the funds to reflect the returns from those dividends.

In order to ensure the accuracy of the data, we collected it both from the asset management companies themselves as well as from the Mutual Fund Association of Pakistan (MUFAP).

Once we had accurate, dividend-adjusted prices of all relevant funds, we could then compute apple-to-apples returns for all funds, which gave us a measure of their returns, both on a year-by-year basis as well as aggregated across different time periods. For our analysis, we computed the three-year, five-year, and 10-year compound annualized growth rates (CAGR) for the funds.

Phase 3: Adjusting for track record and calculating risk-adjusted returns: As we moved into the next phase of our analysis, we decided to focus entirely on funds that have a long enough track record for us to be able to accurately evaluate the sustainability of their performance. For that reason, we excluded all funds that did not have at least 10 years of track record, which reduced the total number of funds available in our analysis from 251 to 122 funds.

Why only select funds that have at least a 10-year track record? Because it is important to look at funds that have performance data across a full business cycle, so that we can see how they acted in the early stages of growth, through a boom, and especially how they fared during a market downturn.

For this select group of 122 funds, we then undertook a detailed examination of their risk-adjusted returns, using three key metrics:

1. **Sharpe ratios:** This measures a fund's returns after adjusting for the amount of volatility in the fund's prices on a day-to-day, or week-to-week basis.
2. **Sortino ratios:** This is a measure very similar to the Sharpe ratio, except that it ignores volatility on the positive side and only focuses on volatility that creates negative returns over any given period.
3. **Outperformance index:** This is an Elphinstone-created custom measure that simply examines how often over the past 10 years a fund has been able to beat its relevant benchmarks. Why use this? Because the ability to consistently beat a benchmark – and not accrue outsize returns in one or two years – is the way to earn a better outcome for investors like our clients who will be investing a small amount consistently every month.

For the benchmarks for each of the categories of funds, here is what we used:

- Equity funds (conventional): KSE 100 index
- Equity funds (Islamic): KMI 30 index
- Fixed income funds (both conventional and Islamic): an Elphinstone-created custom bond index based on yields on the 10-year Pakistan Investment Bonds (PIBs)
- Balanced funds: A 50-50 blend of the relevant equity index and the Elphinstone-created bond index.

These benchmarks were used in computing the values for the three metrics we highlighted above (Sharpe ratio, Sortino ratio, and the Outperformance Index) for each of the 122 funds with at least a 10-year track record.

Phase 4: Calculation of alpha: The final phase was the calculation of funds to generate alpha, which is a key investing concept that refers to the amount of excess returns that a fund generates, given the level of risk they have taken on. The higher the alpha, the better, because it means that the fund is not taking excess risk to generate excess returns.

We used the alpha to rank each of the funds across each of the asset class categories to determine the hierarchy and ranking of which funds we considered the best, and then further applied the metrics we discussed in Phase 3 of the calculation to add additional dimensions to our understanding of the funds' analysis. Based on that analysis, we came up with a list of 40 funds that we consider to be investible, which is to say that they meet the following criteria:

- **Generating alpha:** They offer superior risk-adjusted returns, meaning that their returns are not simply the product of taking on more risk, but of finding high quality investments that offer the best return for a given level of risk
- **Consistent performance:** They are able to consistently beat their respective benchmarks, defined as at least 5 times in the last 10 years for equity funds (and slightly modified requirements for other categories of funds).
- **Accessibility:** We generally favoured funds that offer lower minimum investment amounts so as allow the maximum number of investors, regardless of the level of income, to participate in our investing products.

Here is one other thing we want to make very clear about what was **never** used in our decision-making process: any consideration of how much more Elphinstone could earn in fees from one fund relative to another fund. This is in compliance with the fiduciary standard to which Elphinstone is bound both by regulations in Pakistan as well as the United States.

We then ranked the 40 funds that met our exhaustive criteria to come up with a list of 16 funds – eight conventional and eight Islamic – that we consider to be the best of the best across every asset class.

Risk management

This is perhaps one of the most important tasks for an investment advisor and one that Elphinstone takes very seriously. We understand that employers feel a sense of responsibility towards their employees with respect to their retirement funds and want to be able to understand that all reasonable steps have been take in order to minimize the risk they are exposed to. Elphinstone shares that concern and will seek to deliver performance that has careful risk management at its core.

We have categorized every type of risk that is manageable and then undertaken steps to ensure that our clients are protected against them as much as possible. The following table lays out in detail what Elphinstone does in order to manage the risk of individual clients.

Exhibit 2: Elphinstone's risk management framework

	Type of risk	Mitigating actions
Systematic risks	**Equity market risk:** The risk of stock prices being volatile over a client's investment time horizon	▪ **Rupee-cost averaging:** Elphinstone recommends regular, recurring monthly investments to protect individual investors against the prospect of losing the value of their investments. If an investor is buying regularly, a market downturn becomes an opportunity to buy good investments at low prices, rather than an occasion for a loss. ▪ **Appropriate horizons:** No investor is put in a concentrated equity portfolio unless the

		time horizon for their investment is at least 10 years. If it is less than 10 years, at least some portion of the investment will always be fixed income, and if the horizon is less than 5 years, it will be 100% fixed income.
	Interest rate risk: The risk that a fixed income portfolio will decline in value given fluctuations in bond prices due to changes in interest rates	▪ **Duration management:** Elphinstone invests the fixed income component of its clients' portfolios is generally longer-duration bonds, so as to ensure stability of the rates received by investors. This might seem like a strategy that may result in lower returns during a period of declining interest rates, but we have found it to outperform a strategy that relies on investing in shorter-dated securities even during a period of declining rates.
	Inflation risk: The risk that the value of our clients' assets will erode over time due to high inflation	▪ **Elimination of inflation-underperformers:** No fund that systematically underperforms inflation has been included in the Elphinstone portfolio.
Idiosyncratic risks	**Concentration risk:** The risk that a portfolio will be too exposed to losses from a single security	▪ **Diversified portfolios:** Elphinstone takes great care to ensure that the funds its clients are invested in are not overly concentrated in a single security or sector beyond prudent levels, as defined in SECP regulations
	Liquidity risk: The risk that clients will not be able to sell their investments when they need cash	▪ **AMC credit lines:** The asset management companies Elphinstone works with for its clients' funds all have access to credit lines that they can utilise to ensure that they can honour redemption requests within the maximum 6 business day period specified in their offering documents ▪ **Elphinstone-Abhi credit line:** In addition to the above line of credit that the asset management companies offer, Elphinstone has partnered with Abhi Finance to offer each individual client the ability to borrow against the value of their investments in case they need cash during an inopportune time in the markets
	Management quality risk: The risk that there fund managers in charge at one of the asset management companies whose funds our clients are invested in perform poorly	▪ **Diversification across AMCs:** No individual client is ever put in equity or equity-linked funds managed by a single asset management company at any given moment in time. They will be served by at least two fund managers at two separate

		asset management companies to ensure that in case the quality of the fund managers at one company declines, the investor is protected through exposure to a second asset management company. ▪ **Performance attribution analysis:** Elphinstone also periodically conducts a performance attribution analysis of the funds it recommends to determine *why* they are performing the way they are. This ensures that we are proactively monitoring the quality of the fund management decisions at each asset management company and ensuring that they are making prudent decisions.
	Elphinstone solvency risk: The risk that Elphinstone goes bankrupt or is otherwise no longer in business	▪ **Custodial accounts:** Client funds are always placed in custodial accounts managed by the Central Depository Company of Pakistan and not with Elphinstone.

Disciplinary Information

None

Financial Industry Activities and Affiliations

None

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Elphinstone adheres to an Adviser's Code of Ethics, a copy of which can be received upon request. The Code of Ethics is designed for the following purposes: To put the interests of clients before the interests of the firm or the personal interests of any of the firm's supervised persons; to prevent improper personal trading; to identify conflicts of interest; and to provide a means to resolve any actual or potential conflicts in favor of clients of the firm. A copy of the firm's Code of Ethics is available upon request.

Participation or Interest in Client Transactions: We do not recommend to clients any securities in which Elphinstone or any related person has a material financial interest. We do not act as principal in any securities transactions with our clients.

Personal Trading by Associated Persons: A related person of Elphinstone may purchase the same securities that are recommended to clients. We generally recommend open-end mutual funds or exchange traded funds (ETFs) for our clients' portfolios.

Brokerage Practices

Elphinstone has no Brokerage Practice. Client assets must be maintained in an account at a "qualified custodian," generally a broker-dealer or a bank. The Firm makes custodial recommendations that are based on our perception of the breadth of services offered and quality of execution. Our firm does not maintain custody of the assets we manage. We may, however, be deemed to have custody of your assets if you give us authority to move assets in and out of your account or between accounts (See Item 15, "Custody", below).

We seek to recommend custodians that will hold your assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. We consider a wide range of factors, including but not limited to the quality of transaction execution services, the quality of asset custody services, the capability to execute and settle trades, the capability to facilitate transfers and payments to and from client accounts, the breadth and choice of no-load and load-waived mutual funds and the availability of, the lowest cost (class) shares within a particular mutual fund family, the availability of investment research and tools that assist our firm in making investment decisions and which therefore benefit the end client, the overall quality of service and communication, the pricing competitiveness in providing services, including trading costs, the willingness to negotiate prices for services, prior service to us and to our clients, the availability of free (no transaction fee) exchange-traded funds which saves the client money, and the availability of other services and investment products that benefit us and our clients.

Review of Accounts

Accounts are reviewed by Farooq Tirmizi on a regular basis but no less than once per year.

Client Referrals and Other Compensation

Elphinstone is able to offer its service for free to its clients because it makes a commission from the asset management companies whose mutual funds we recommend to our clients. Those asset management companies pay us those commissions as a percentage of the management fees they charge our clients. In that sense, our clients are paying for the investment management services that Elphinstone is offering: we are just not charging anything extra, but instead sharing in fees that any investor would have to pay anyway to invest in a mutual fund.

Under the fiduciary standard and our Code of Ethics, we cannot recommend a fund purely because it will result in a higher commission for us. Our recommendations have to be driven solely by what is in the best interests of the client. Why would we uphold this much higher standard? It is not just because we want to be an ethically, legally, and morally upright company. It is also because it is in our long-term interest to do so.

Our business will thrive if people feel that they can trust us for advice, and that their money is safe when it is invested through our company. That will not happen if we sacrifice our long-term credibility for a few extra pennies in the short-term. A poorly performing fund in the short term might give us a little more in commission this year, but if our client then leaves us, we lose out on potentially decades worth of revenue from that client. If we recommend the right fund, even at a lower commission, we will likely retain their trust and their business for a lifetime.

Custody

We generally do not maintain actual custody of client assets, but instead maintain custody client assets with a qualified custodian.

Custody of client assets invested in US-listed securities is maintained by Alpaca Securities, LLC. Their head office is located at 20 N San Mateo Drive, Suite 10, San Mateo, CA 94401. To the extent that Elphinstone takes custody of client funds, those are maintained at JPMorgan Chase Bank, N.A. These funds are passed through within one business day to an Alpaca Securities custodial account, unless there is a technical error, for which clients would be notified as soon as Elphinstone becomes aware of the delay.

For securities in Pakistan, the Central Depository Company of Pakistan physically holds a client's investments. The CDC Head Office is located at CDC House, 99-B, Block B, S.M.C.H.S. Main Shahra-e-Faisal, Karachi – 74400. To the extent Elphinstone takes custody of client funds, those are kept at Habib Bank, with the main office located at Habib Bank Plaza, I.I. Chundrigar Road, Karachi-75650, Pakistan.

Clients should carefully review account statements from these institutions. Customers should also compare the statements received from these custodians with those received from Elphinstone.

Investment Discretion

Elphinstone recommends to clients where their money should be invested to maximize long-term returns. Ultimately, Elphinstone will follow the client's direction on how to invest a client's money.

Voting Client Securities

We do not have the authority to vote proxies solicited by or with respect to the issuers of securities held in client accounts. Please contact us with questions pertaining to proxy solicitations. Proxies are to be sent to the client by the custodian and not to us.

Financial Information

We do not require or solicit prepayment of fees more than six months in advance. Neither Farooq Tirmizi nor Elphinstone has been the subject of a bankruptcy petition at any time during the past ten years or at any time.