



## GMO Netherlands B.V. IFR/IFD Disclosures

**Issue Date: 6 April 2022**

### **Background and Regulatory Context**

The European Union Investment Firms Regulation EU 2019/2033 ('IFR') and Investment Firms Directive EU 2019/2034 ('IFD' and collectively 'IFD / IFR') aims to ensure that investment firms are managed in an orderly way, and in the best interests of their clients and to ensure the safety and soundness of investment firms. In accordance with Articles 47 – 51 of IFD / IFR, investment firms are required to publish certain disclosures in relation to their prudential, governance, risk management and remuneration practices on the same date as the publication of their annual financial statements (the "Disclosure Requirements"). GMO Netherlands B.V. LEI 549300MRIKBODGZVX358 ("GMO NL") is an investment firm subject to IFD / IFR and has published this information in accordance with the Disclosure Requirements. All financial information in this document is for the 2021 calendar year unless otherwise noted and prepared under Dutch GAAP.

GMO NL is a wholly owned subsidiary of Grantham, Mayo, Van Otterloo & Co. LLC ("GMO"), and is licensed by the Netherlands Authority for the Financial Markets ("AFM") as an investment firm authorised to provide the following investment services:

- receipt and transmission of orders in relation to investment funds (in short: order transmission); and
- investment advice.

GMO NL provides investment services only in relation to investment products offered by GMO and/or its affiliates (the "GMO Group"). GMO NL is not authorised to provide any other investment services, including dealing on its own account or portfolio management. GMO NL does not hold client money and/or securities and is not authorised to do so.

### **Article 47 – Risk management objectives and policies**

GMO NL's risk appetite is determined by the Management Board of GMO NL (the "Board") and derived from GMO NL's objective to manage GMO NL in an effective way in order to achieve GMO NL's mission. In general, GMO NL defines its overall risk appetite as cautious and conservative. However, GMO NL recognises that, no matter what controls it has in place, there may be circumstances beyond its control which affect its ability to manage risks. Significant capital is not required for strategic purposes and the primary objective is the retention of sufficient capital to be able to operate under potential loss-making scenarios and to meet both Pillar 1 and Pillar 2 capital requirements.

The Board periodically reviews GMO NL's risk appetite as part of their review of capital planning.

#### ***Risk Management Group***

The Board has constituted a Risk Management Group (the "RMG") whose duties include: (i) identifying and assessing risks affecting GMO NL; (ii) understanding the mechanisms that are in place to control risks (both actual and potential) relating to GMO NL's activities, processes and systems; and (iii) mitigating risks where possible. Where the RMG determines that a risk is outside of GMO NL's risk tolerance, they would escalate the matter to the Board. The RMG meets at least quarterly and more frequently if required.

The RMG considers potential and actual financial and non-financial risks arising from areas including Finance, Legal and Compliance, Client Relationship Management and Business Development; Technology and Infrastructure; and Human Resources. The MDRC, together with appropriate GMO representatives, seeks to confirm that, to the extent possible, there are effective risk management processes and procedures in place.



A summary of the financial risks and the non-financial risks to which GMO NL is or may be exposed, or is or may be exposing its client to, is set out under the headings below.

### *Financial Risks*

The following summarises how GMO NL seeks to mitigate its main financial risks. However, certain risks are inherent in GMO NL's business and are considered to fall within GMO NL's risk appetite. Therefore, while steps are taken to mitigate these risks, such risks cannot be entirely eliminated.

#### *Credit and counter party risk*

Credit risk of GMO NL's counterparties is monitored on an ongoing basis via reports detailing, amongst other things, credit ratings, ratings outlook, and credit default swap spreads on the relevant counterparties. As of the date of this document, GMO NL's principal financial assets are bank balances and trade and other receivables. These represent GMO NL's maximum exposure to credit risk in relation to financial assets. This risk is closely monitored, with a focus on diversification of credit risk, including counterparty exposure, and regular reviews of the financial position of GMO NL's banking institution used. GMO NL's residual credit and counterparty party risk is therefore considered low, and no specific capital is maintained in relation to this risk.

#### *Market Risk*

GMO NL's clients are subject to market risk in relation to their investment strategies. GMO NL's clients are generally invested in a broad range of investment strategies, including those that are considered less sensitive to market variations than long-only equities. In addition, the GMO Group's value orientation generally results in investments in securities less susceptible to material falls in financial markets. GMO NL itself does not hold financial assets which are subject to market risk. GMO NL's residual market risk is therefore considered low and no specific capital is maintained in relation to this risk.

#### *Concentration Risk*

The GMO Group seeks to limit the impact of changes in the demand of clients through offering a range of strategies to GMO NL's clients and through diversification of its business by domicile, client, and consultant channels. GMO NL's financial assets are somewhat concentrated with its bank and trade and other receivables from its affiliates. GMO NL's bank is monitored as described in the "Credit and counter party risk" section above. GMO NL's residual concentration risk is therefore considered low, and no specific capital is maintained in relation to this risk.

#### *Liquidity Risk*

GMO NL seeks to ensure that it has sufficient liquid resources in order to meet its obligations as they fall due and to comply with the IFR/IFD liquid assets requirements. GMO NL's continuously reviews its liquidity position. Reports are provided on a periodic basis to the GMO NL Board regarding GMO NL's liquidity position. GMO NL's tolerance for liquidity risk is low. GMO NL continues to have adequate internally generated liquid resources without need to raise any funds from the market. As a result, the impact of market-wide stresses and the requirement for any early warning indicators on borrowings do not apply to GMO NL.

#### *Interest Rate Risk*

GMO NL closely monitors its exposure to interest rate risk. GMO NL does not enter into hedging transactions for its own account. In addition, GMO NL has no borrowings and, therefore, its exposure to interest rate risk is limited to any



investment of cash balances. GMO NL's residual interest rate risk is therefore considered low and no specific capital is maintained in relation to this risk.

#### *Remuneration Risk*

Remuneration risk includes, among other things, incentivising an environment of excessive risk taking and failing to maintain adequate capital and liquidity as a result of paying excessive compensation. GMO NL seeks to address this risk by (1) attracting and retaining qualified employees who will perform in a manner that will assist GMO NL in meeting its primary objective; (2) ensuring that remuneration practices are fiscally prudent and risk-focused in an effort to promote effective risk management; (3) ensuring that remuneration decisions are in compliance with relevant laws and regulations; and (4) ensuring that remuneration decisions are internally consistent. GMO NL has a Remuneration Policy in place.

#### *Non-Financial Risks*

GMO NL is subject to a number of non-financial risks. These risks and how they are mitigated are considered below.

#### *Strategic Risk*

GMO NL's primary objective is providing investment services in relation to products which deliver superior investment performance. In this context, its strategic risks include: (a) poor investment performance by the GMO Group leading to loss of client revenue; (b) changes in the demand of clients, which may lead them to allocate assets away from the GMO Group; (c) a material fall in financial markets, which would impact asset-based revenues; and (d) the loss of clients related to unsatisfactory service. GMO NL believes that these material risks are within GMO NL's risk appetite.

A loss of key employees is also a strategic risk for GMO NL. As the GMO Group's employees are an integral part to GMO NL's success, including achieving positive investment performance and providing good client service, the GMO Group seeks to attract, retain, and motivate its employees by providing total remuneration that is competitive in the relevant market. In addition, to ensure that the loss of one or more individuals on either a permanent or temporary basis will not materially impair performance or service, the GMO Group employs a team approach and seeks to cross train its employees in order not to be reliant upon key individuals.

#### *Operational Risk*

GMO NL faces certain operational risks, including but not limited to those relating to client operations and shareholder services, handling of cash flows, client reporting, logical and physical access, recoverability of systems and application outages, identifying and protecting against cyber security threats, data transmissions, backup, and retention. The controls relating to these risks are discussed in GMO's Type II SOC 1 report, and additional oversight is provided by the GMO Group's Risk Management Steering committees as appropriate. Furthermore, cyber security risk is also mitigated by ongoing training to all employees of the GMO Group's IT and Security awareness guidelines and a culture of IT security awareness.

GMO NL has implemented a business continuity plan, which includes procedures and preparations that would be invoked in an event impacting its office, its employees or business operations. The purpose of the plan is to coordinate communication and operations during the emergency and facilitate the resumption of normal business operations once the emergency has passed.

#### *Integrity Risk*



Integrity risk includes the risk of employee misconduct including code of ethics breaches, money laundering, sanctions violations, bribery, corruption, and other inappropriate behaviour. Conduct risk is mitigated by a rigorous employee vetting process; a culture of ethical and thoughtful behaviours in line with GMO NL's mission of putting clients' interests before our own; ongoing compliance training and appropriate regulatory registrations. The risk of fraudulent activities affecting GMO NL client assets is mitigated by the fact that GMO NL does not have permission to hold client assets (such assets are generally held by third party custodians).

At GMO NL, fraud risk is further mitigated by the segregation of duties including systematic access to its bank accounts and a requirement for dual authorisations by approved personnel. Additionally, new employees are subject to appropriate screening in accordance with GMO NL's Covered Persons Screening Policy.

To mitigate the risk that clients are not serviced effectively, client service at GMO NL is handled internally by a group of experienced and qualified client relationship managers. This structure assists to develop strong relationships beyond the provision of strong investment results.

## **Article 48 – Governance**

The Board of GMO NL consists of three members:

- Bart Noordman serves as Chairman of GMO NL's Chairman, Mr. Noordman is responsible for determining the strategic direction of GMO NL and ensuring that strategy is implemented through functional steps. Mr. Noordman does not hold any other directorships.
- Steven Beare serves as the MDRC of GMO NL's MDRC Mr. Beare is responsible for the financial matters and all the control functions within GMO NL (i.e., the risk management and compliance functions). Mr. Beare holds one other directorship and two additional directorships of a personal nature. .
- Maarten de Lint serves as the Managing Director, Operations (the "MDO") of GMO NL's MDO Mr. De Lint is responsible for certain operational matters of GMO NL, including Information Technology, Human Resources, and Business Continuity. Mr. De Lint does not hold any other directorships.

### *Diversity Policy*

Given the size and nature of the business of GMO NL, GMO NL so far has had no explicit policy on diversity regarding selection of members of the Board, its objectives, nor any specific targets. In view of IFD requirements, and GMO NL's value of promoting diversity, GMO NL is considering to set-up such a policy in writing.

### *The Risk Management Group*

As further detailed in the preceding section, the Board has constituted a RMG for the purposes of assisting the Board in ensuring that GMO NL has in place effective processes to identify, assess, manage, and where appropriate, mitigate actual and/or potential risks to GMO NL and its business. The RMG meets on a quarterly basis. During the 2021 calendar year the RMG met four times.



## Article 49 – Own funds

*Reconciliation of Common Equity Tier 1 Items at 31 December 2021 (Source based on reference numbers of the balance sheet in the audited financial statements)*

<b>Common Equity Tier One Capital</b>	
Permanent share capital	€751,312
Eligible members capital	-
Shared premium	€7,312,097
Retained earnings	€3,510,659
Accumulated other comprehensive income	-
Other reserves	-
Verified interim profits	-
Total deductions of which:	€(3,997,179)
- Goodwill	-
- Other intangible assets	3,806,837
- Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	190,342
<b>Total Common Equity Tier 1 Capital</b>	<b>€7,576,889</b>
<b>Additional Tier 1 Capital</b>	
Preferred Shares	-
Contingent convertible securities	-
Other Hybrid Security	-
<b>Total Common Equity Tier 1 Capital</b>	<b>-</b>
<b>Tier 2 Capital</b>	
Subordinated debt	-
Revaluation reserves	-
<b>Total Common Equity Tier 2 Capital</b>	<b>-</b>

Common Equity Tier 1 items issued by GMO NL comprise permanent common share capital, share premium, and retained earnings. The characteristics of GMO NL's common shares are set out in Annex 1. Deductions comprise deferred tax and intangible assets. No restrictions were applied to GMO NL's calculation of own funds in accordance with IFR.

## Article 50 – Own funds requirements

*Capital Adequacy*

### *Pillar 2*

Under Pillar 2, GMO NL must, amongst other things, regularly assess the amount of internal capital it considers adequate

# GMO

to cover the nature and level of the risks to which it is or might be exposed within the context of its overall risk management framework and whether GMO NL should hold additional capital with respect to risks not addressed under Pillar 1. For an overview of those risks we refer to our input on Article 47 above.

The GMO NL Pillar 2 capital requirement figure is derived from the capital required to cover any net cumulative losses based upon the stress testing plus the capital required for an orderly wind-down of the business.

Based upon the Pillar 2 calculations it has made internally, GMO NL would be able to withstand the stress tests associated with the scenario forecasts and has sufficient capital to cover such a potential downturn in its business. As a result of the current capital surplus, GMO NL would also have enough residual working capital to continue its operations.

## *Pillar 1*

Pillar 1 requires that GMO NL maintains sufficient capital to satisfy the IFR/IFD capital requirement. For Class 2 firms, the minimum capital ("own funds") requirement is calculated as the higher of (a) the permanent minimum capital requirement (€75k), (b) the Fixed Overhead Requirement, "FOR", (one quarter of GMO NL's fixed overheads for the preceding year) or (c) k-factor own funds requirement (a series of risk parameters or 0.02%\*average AUM).

(a) the permanent minimum capital requirement relevant for GMO NL is €75K.

(b) The FOR is equal to 25% of GMO NL's relevant total expenditure in GMO NL's most recent audited annual reports and accounts less certain expenses, for example staff bonuses, except to the extent that they are guaranteed.

<b>Pillar 1 Fixed Overhead Requirement</b>	<b>€'000</b>
Total Expenditure	6,298
Less Eligible Adjustments	-231
Equals Adjusted Annual Expenditure	6,067
<b>25% (13/52) of Adjusted Annual Expenditure</b>	1,517

## Notes:

- 1) Figures for the year ended 31 December 2021.
- 2) Eligible Adjustments include staff bonuses and expenditures from tax.

(c) The k-factor requirement is a combination of risk factors including risk to client, risk to market and risk to firm. Due to the limited activities of GMO NL the calculation is localised to 0.02% of GMO NL's average assets under management.

	<b>Factor amount (€)</b>	<b>K-factor requirement (€)</b>
<b>TOTAL K-FACTOR REQUIREMENT</b>		<b>810,358</b>
<i>Risk to client</i>		<i>810,358</i>
Assets under management	4,051,788,978	810,358
Client money held - Segregated	0	0
Client money held - non-segregated	0	0



Assets safeguarded and administered	0	0
Client orders handled - Cash trades	0	0
Client orders handled - Derivatives Trades	0	0
<b><i>Risk to market</i></b>		<b>0</b>
K-Net positions risk requirement		0
Clearing margin given	0	0
<b><i>Risk to firm</i></b>		<b>0</b>
Trading counterparty default		0
Daily trading flow - Cash trades	0	0
Daily trading flow - Derivative trades	0	0
K-Concentration risk requirement		0

GMO NL's minimum Pillar 1 capital requirement will therefore be the Fixed Overhead Requirement.

## Article 51 - Remuneration policy and practices

GMO NL's remuneration program aims to establish a strong link between each covered person's level of variable reward on the one hand and his or her performance as well as GMO NL's and the GMO Group's performance on the other hand. A covered person includes all employees of GMO NL, its Board and temporary employees of GMO NL including insourced employees of GMO NL (collectively, "Covered Persons"). It also takes into account the interests of clients of GMO NL in ensuring that the remuneration of Covered Persons does not create an incentive to treat clients unfairly or to favor the interests of GMO NL's or a Covered Person to the potential detriment of clients.

Remuneration consists of a fixed remuneration component and a variable component. The variable component is discretionary. Any variable remuneration awarded and paid by GMO NL will only consist of cash.

The Board, in consultation with the GMO Group Head of Human Resources, determines the maximum amount of total variable remuneration that can potentially be awarded in the annual compensation process (the "bonus pool"). The bonus pool is determined using a bottom-up approach that takes into account applicable individual and GMO NL-level criteria, including:

- The regulatory requirements applying to GMO NL;
- GMO NL's revenue and operating income for the current year;
- GMO NL's revenue and operating income forecasts for the next year;
- GMO Group-wide long-term and short-term financial performance;
- The scope of a Covered Person's responsibilities;
- Whether the Covered Person achieved the objectives outlined at the beginning of the review period;
- The Covered Person's performance during the year and over the long-term, including how the Covered Person demonstrated:
  - That the Covered Person acted in the best interest of GMO NL, including compliance with GMO NL policies;
  - The Covered Person's commitment to GMO NL; and
  - The Covered Person's focus on GMO NL's directions and goals.
- The relevant business unit's financial performance during the year;
- Client satisfaction levels and client relationship matters;
- Any feedback from risk management and compliance functions; and
- Relevant remuneration survey market data.

GMO NL ensures that:

- the ratio between a Covered Person's fixed and variable remuneration, if any, is appropriately balanced;
- the variable remuneration of any Covered Person shall not exceed regulatory requirements, including, in principle, that variable compensation of Covered Persons within the Netherlands shall not exceed 20% of the fixed remuneration; and

# GMO

- remuneration decisions are internally consistent.

## *Aggregated Quantitative Information on Remuneration*

	Fixed	Variable	Deferred	Number of Beneficiaries	Form
Senior management	€1,223,867	€136,800	€0	3	Cash
Members of staff whose actions have a material impact on the risk profile of GMO NL	€0	€0	€0	0	N/A

In relation to its variable remuneration to all Covered Persons, GMO NL benefits from the proportionality derogation for remuneration rules laid down in IFD. As a result, any cash/instruments ratio, deferral and vesting mechanism and remuneration committee requirements do not apply.





## ANNEX 1 – OVERVIEW CAPITAL INSTRUMENTS

Row number	Explanation
1	Issuer GMO Netherlands B.V.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement) N/A
3	Public or private placement Private
4	Governing law(s) of the instrument Dutch law
5	Instrument type (types to be specified by each jurisdiction) Ordinary shares issued by a private limited liability company (Aandelen op naam uitgegeven door een Besloten Venootschap met beperkte aansprakelijkheid)
6	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date) Fully paid up share capital: €751,312 (0.751312 million) Share premium: €7,312,097
7	Nominal amount of instrument €1, per share
8	Issue price €1, per share
9	Redemption price €1, per share
10	Accounting classification Shareholders' equity
11	Original date of issuance 13 November 2018 and 31 December 2019
12	Perpetual or dated Perpetual
13	Original maturity date No maturity
14	Issuer call subject to prior supervisory approval No
15	Optional call date, contingent call dates and redemption amount No call

# GMO

16	Subsequent call dates, if applicable No call
17	Fixed or floating dividend/coupon Floating
18	No coupon
19	Existence of a dividend stopper No
20	Fully discretionary, partially discretionary or mandatory (in terms of timing) Fully discretionary
21	Fully discretionary, partially discretionary or mandatory (in terms of amount) Fully discretionary
22	Existence of step up or other incentive to redeem No
23	Non-cumulative or cumulative Noncumulative
24	Convertible or non-convertible Nonconvertible
25	If convertible, conversion trigger(s) N/A
26	If convertible, fully or partially N/A
27	If convertible, conversion rate N/A
28	If convertible, mandatory or optional conversion N/A
29	If convertible, specify instrument type convertible into N/A
30	If convertible, specify issuer of instrument it converts into N/A
31	Write-down features No
32	If write-down, write-down trigger(s) N/A
33	If write-down, full or partial N/A

# GMO

34	If write-down, permanent or temporary N/A
35	If temporary write-down, description of write-up mechanism N/A
36	Non-compliant transitioned features N/A
37	If yes, specify non-compliant features N/A
38	Link to the full term and conditions of the instrument (signposting) N/A

---