

# Disclosures

Cardano Risk Management BV, June 2022



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This disclosure document has been prepared by Cardano Risk Management BV (CRMBV) and is disclosed on the same date as the annual financial statements. The document will be reviewed and updated on at least an annual basis.

### Background to Cardano

Founded in the Netherlands in 2000, CRMBV currently employs 90+ professionals in the Rotterdam office and services 30 institutional clients across the Netherlands, Denmark and Switzerland, representing approx. 1 million individual beneficiaries. CRMBV manages a total of EUR 73 bn in derivatives exposure and EUR 17bn in LDI assets on behalf of our clients. Annually we trade in excess of EUR 190 bn notional value on behalf of our clients, across a wide spectrum of instruments.

The services of CRMBV consist of investment solutions and advisory solutions.

CRMBV is a Dutch risk and pension specialist. Our core focus is to make pension funds robust and resilient with sustainable investment solutions that offer long term assurance. We offer stability in an uncertain world.

CRMBV is a 100% daughter of Cardano Holding Limited, a financial holding company in the UK that holds four subsidiaries: Cardano Risk Management Limited (CRML), NOW: Pensions, Cardano Advisory Limited and Cardano Risk Management B.V. Cardano Risk Management BV is a 100% subsidiary of Cardano Holding Limited. Cardano Holding Limited itself is a 100% subsidiary of Gerolamo Holding S.à.r.l. registered in Luxembourg.

As per 1 January 2022, Cardano Risk Management BV has a 100% subsidiary, ACTIAM NV.

### Regulatory Context

CRMBV undertakes regulatory reporting on a standalone basis.

Cardano Risk Management B.V. (CRMBV) has its registered office located in Rotterdam, the Netherlands and its principal place of business located at Weena 690 (21<sup>st</sup> floor), 3012 CN Rotterdam, the Netherlands.

CRMBV is an investment firm and is authorised by the Dutch Financial Markets Authority (AFM) to provide services to professional clients with respect to advising, managing and dealing in investments. These permissions relate to MIFID financial instruments. CRMBV is a financial institution under the IFR/IFD and therefore required to undertake and maintain an Internal Capital and Liquidity Adequacy Assessment Process (ILCAAP).

## Risk management objectives and policies

Cardano manages its business within a structured risk governance framework which ensures that all material risks are properly identified, analysed, assessed and managed, following a systematic process that is consistently implemented across the entire organisation.

The risk governance framework is overseen by dedicated risk managers who are independent from the business teams and functionally report directly to the Group Management Board member responsible for risk, the Group Chief Risk Officer, hierarchically to the CEO of CRMBV.

The framework is implemented at a high level by means of a:

- Risk Strategy which contains the Risk Appetite Statement; and
- Risk Policy setting out the basic principles for risk management at Cardano

The risk governance framework (“the Framework”) is owned by the Cardano Holdings Limited Management Board and is ratified annually for adoption. Responsibility for implementing the Framework rests with the Risk function in the locations.

The Cardano risk governance framework is based on a three lines of defence model. This model provides a simple and effective way to ensure good communication on risk management and control by clarifying essential roles and duties. The first line of defence rests with business managers in the local operating entities, who are responsible in the first instance for both the risks and returns of their decisions. The 2nd line is comprised of the independent functions, Risk and Compliance. These functions define the framework within which the business is allowed to work. The 3rd line is performed by internal audit, which provides the Board with assurance.

This approach ensures that there is management oversight, risks are owned, reviewed and controlled, and there is awareness created across all areas of the business and all levels of the organization.

Cardano employs a number of tools and documents to support its management of risk:

- A Risk Control Self-Assessment which is updated annually
- Regular reporting on risk landscape, status, and developments to the Board
- ISAE 3402 Type 2 Certification
- ISO27001 Certification
- All new products and services are risk-assessed (Product Approval Process) prior to implementation.

### Risk-to-clients

Risk-to-client captures the risk of harm to clients from the poor management or execution of client portfolios. Cardano does not safeguard client assets or hold client money.

Operational risk is the most significant risk for Cardano, it is imperative this is managed to be able to meet strategic targets. Cardano has adopted operational guidelines in which material processes are described, regular risk assessment that includes a review and discussion of the operational incidents registered, and

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an annual controls audit (ISAE 3402 Type II) performed by an independent auditor. The IT environment is certified ISO27001 and subject to extensive ongoing testing and audits.

## Risk-to-Market

Cardano does not have risk-to-market as this only applies to firms with a trading book that deal on its own account or on behalf of their clients (matched principal basis or market maker).

## Risk-to-Firm

Cardano does not have any risk-to-firm, as CRMBV does not deal on its own account.

## Liquidity Risk

Trade receivables are monitored on a regular basis and past due balances are chased accordingly. Liquidity is managed by the Finance function. Management monitors rolling forecasts of the liquidity reserves, cash and cash equivalents, on the basis of expected cash flows.

The liquidity requirement (at least one third of the fixed overhead requirement must be held as liquid assets) is adhered to.

## Governance

In this paragraph information regarding internal governance arrangements related to diversity, directorships and risk committees is summarized.

### Diversity

Cardano has a groupwide policy on diversity, equity and inclusion, that is applicable to all employees of Cardano Group, including CRMBV. Cardano aspires to be a truly diverse, fair and inclusive business with the right talent to deliver the best possible results for our clients and to reflect the society we serve.

The policy substantiates the Cardano commitment to strive for equality across the business. It is Cardano policy to ensure that all employees and job applicants are treated fairly and on merit regardless of their gender, race, sexuality or gender reassignment, age, physical or mental disability, religious beliefs, marital status or socio-economic background.

As part of a five-year Diversity and Inclusion strategy that was initiated in 2021, further actions and initiatives are implemented to achieve the goals defined. Targets are set for instance on the percentage of women and the percentage of BAME staff in the partner group and in each department. The goal is to achieve those by 2025. Progress is measured where possible.

### Directorships

Members of the management body can hold a directorship only after approval from the Compliance function and where required the supervisory authorities.

The CEO of CRMBV holds a directorship as CEO of ACTIAM NV (full daughter of CRMBV) and is part of the Supervisory Board of ING Bank NV. Other members of the management body do not fulfil directorships.

### Risk Committees

CRMBV has a separate risk committee both on a group and on a local level. On group level, the risk management framework is overseen. On local level the local implementation of the framework is the focus of the committee. Both meet on a quarterly basis.

## Cardano Risk Management BV Capital Resources and Adequacy 31 December 2021

### Own funds

CRMBV relies entirely on tier 1 capital resources to meet regulatory and internally set capital requirements, consisting of share premium, share capital and other reserves. The capital resources are:

	Amount (EUR '000)
Share capital	€250
Share premium	€7,049
Other reserves	€205
Result for the year	€291
<b>Total equity</b>	<b>€7,795</b>

### Own funds requirements

The total capital requirement for CRMBV is the highest of three elements, as shown below.

	Amount ('000)
Minimum own funds	€75
Fixed overhead	€3,414
K-factors	€5,179
<b>Capital requirement IFD/IFR</b>	<b>€5,179</b>

The K-factor requirement is the sum of the Risk to client (RtC, €5,179), Risk to market (Rtm, €0) and Risk to firm (Rtf, €0).

### Liquidity Requirements

Cardano is required to hold an amount of liquid assets equivalent to 1/3<sup>rd</sup> of its' fixed overhead requirement (1/3<sup>rd</sup> equals €1,1 mln). As per end 2021 the total liquid assets amount to €13,8 mln, more than sufficiently adhering to this requirement.

### Capital Adequacy

As a starting point to determine the capital adequacy of CRMBV the available own funds is compared with the regulatory own funds requirement. Furthermore, other factors are considered to determine if additional capital is required, such as the costs of an orderly wind down, stress scenario's and the internal risk assessment. Note that ACTIAM BV is a daughter of CRMBV as per 1 January 2022, therefore not included here.

Based on these, it is concluded that the own funds are sufficient. On top of the regulatory required capital

Cardano holds a buffer of 25%.

## Remuneration Policy and Practices

Cardano maintains a remuneration policy for CRML and CRMBV that takes into account EBA Sound Remuneration guidelines ("the Guidelines"), and local regulatory requirements in the Netherlands. The Guidelines are designed to ensure that the remuneration policies and practices of EU financial institutions are aligned with their risk profile, risk appetite, and business strategy, and in particular, that they do not encourage employees to take risks that run counter to their firm's long-term interests.

Cardano acknowledges the importance of a well-designed remuneration policy, fully aligned with clients' interests, and has incorporated the principles of the Guidelines into the Remuneration Policy, but tailored to Cardano's profile and proportionate to the nature of its services, size and complexity. The Remuneration Committee is responsible for approving the Remuneration Policy. The Remuneration Policy is reviewed annually and monitored by the Remuneration Committee. Local Management Boards are responsible for implementing the Remuneration Policy in their operating companies.

Conflicts of interest in relation to remuneration will be avoided insofar as possible and to the extent that such conflicts do arise, they will be managed effectively with input from the Human Resources, Risk and Compliance functions. The Risk and Compliance functions will have significant input into the setting of individual remuneration awards where any concerns arise about the behaviour of any individuals or the riskiness of the business undertaken.

Remuneration of senior officers in the Risk and Compliance functions is directly overseen by the Local Management Board and the Group Management Board. Employees engaged in control functions are independent from the business units they oversee and remunerated in line with the achievement of objectives linked to their functions, independent of the performance of the business areas they control. To ensure that the method of determining remuneration for individuals involved in the Risk and Compliance functions does not compromise the objectivity of those individuals, variable compensation for such employees is based on a proportion of the employee's salary, rather than business performance.

The Group Remuneration Committee oversees compliance with the Cardano Remuneration Policy.

An appropriately structured compensation system is one of several key elements to our success as a business, delivering best in class services to pension funds and other financial institutions.

Key criteria for sustainable success are:

- Our ability to attract and retain top quality staff on a long-term basis
- Aligning the interests of staff with our clients
- Strong internal risk control framework to minimize operational risk
- An internal capital adequacy target as a percentage of the minimum required regulated capital base at group level, acting as a cushion

The Remuneration Policy has been consciously designed to provide a market competitive long-term financial incentive to staff, as well as linking variable compensation directly to the strategic objectives of our clients.

A key aspect of the Guidelines is the principle of proportionality. This principle states that “qualifying firms may apply the provisions in different ways according to their size, internal organization, and the nature, scope and complexity of their activities”. In many cases, this allows for the “neutralization” of specific requirements. This is especially true for “non-complex financial institutions” such as the Cardano Group, which is a portfolio manager and investment advisor, acting as an agent on behalf of professional clients, operating from two locations and is unlisted and not a systemic player. Reflecting these considerations, Cardano has chosen to “neutralize” some of the requirements. Specifically, Cardano has decided to neutralize the requirement to disclose information regarding aggregated quantitative information in respect of awarded variable compensation.

The Remuneration Policy ensures alignment with the risk profile of the business, the business strategy and the interests of clients through:

- calculation of variable remuneration based on individual performance, performance of the business and profit;
- deferral of payment of variable remuneration for specified categories of staff;
- variable compensation being discretionary;
- malus adjustments for leavers;
- payment of guaranteed variable compensation during the year of joining only; and
- reduction to variable compensation in order to maintain the capital position if required.

Director remuneration is disclosed in the Cardano financial statements.

CRMBV uses a discretionary variable remuneration mechanism with a deferral whenever appropriate. Individual performance is assessed using competence criteria and defined key performance indicators. Share of the profit pool is allocated on a discretionary basis and subject to the variable compensation cap of 20% of a person’s total annual fixed remuneration. An exception applies to the 20% cap in case of exceptional performance of an employee. An employee may receive a variable remuneration exceeding 20% of the fixed remuneration for outstanding performance if: 1. the average percentage of fixed/variable remuneration of all CRMBV employees (a) who mainly work in the Netherlands does not exceed 20% of the fixed remuneration; and 2. the variable remuneration of the individual employee does not exceed 100% of the employee’s fixed remuneration.

Note that in May the Act on Remuneration Financial Enterprises (‘Wet nadere beloningen financiële ondernemingen’) was approved by the Senate, containing further restrictions in remuneration policies. An implementation date is expected shortly. Cardano will ensure timely adjusting its remuneration policy where applicable.

Further information about CRMBV’s remuneration policy can be found at our Netherlands Cardano website: [www.cardano.com](http://www.cardano.com).



## Engagement

Where CRMBV directly invests in bonds, loans, money-market funds or interacts with financial counterparties via derivative transactions, CRMBV will incorporate Environmental, Social and Governance (“ESG”) factors.

CRMBV does currently not include direct investment in company stocks or bonds in its portfolios or advise on direct investment, therefore Cardano does not engage directly with investee companies and does not have any voting rights.

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Cardano Risk Management B.V. is onderdeel van de Cardano Group en statutair gevestigd te Amsterdam -  
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