



BREDERODE

CORPORATE GOVERNANCE STATEMENT  
FOR THE FINANCIAL YEAR 2019



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## 1. Reference corporate governance charger

Brederode complies with the «X Principles of corporate governance of the Luxembourg Stock Exchange, 4th revised edition». On 30 May 2014, Brederode adopted a Corporate governance charter, last revised on 13 March

2018. The revised version is available for consultation on the website [www.brederode.eu](http://www.brederode.eu). It indicates the points where Brederode diverges from the recommendations of the X Principles, and the reason for the divergence.

## 2. Shareholders

### 2.1. Law governing transparency obligations

On 30 December 2019, Brederode received a notification from the Stichting Administratiekantoor (STAK) Holdicam, in accordance with of the Grand-ducal Law and Regulation of 11 January 2008 on transparency requirements for issuers of securities.

As at the date of this notification, the ultimate beneficial owner of Brederode S.A. continued to be STAK Holdicam, which held 100% of Empedocle S.A., which held 100% of Holdicam S.A. The latter in turn held a 58.18% share in Brederode S.A.

As at 31 December 2019, Geysler S.A., an indirect subsidiary of Brederode S.A., held 4.11% of Brederode S.A.

### 2.2. General Meeting and shareholder rights

The General Meeting operates and exercises its power in accordance with the amended Law of 10 August 1915 governing commercial companies and with the Articles of Association. The amended Law of 24 May 2011, governing the exercise of certain shareholder rights at the general meetings of limited companies, provides for the main shareholder rights as well as the procedure for exercising these rights, which are recorded in the minutes of the General Meeting.

The Brederode shares are ordinary shares and all enjoy the same rights. Each share gives equal rights to dividends and a share of the reserves in the event of liquidation or capital reduction. Each share gives equal voting rights during the Brederode General Meeting. The company has not issued any securities with special voting rights. Except where contrary legal provisions are applied, voting rights are not restricted in any way, such as by voting limits for holders of a certain percentage or certain number of votes, deadlines for exercising voting rights, or systems whereby, with the company's cooperation, the financial rights attached to the securities are separated from the holding of securities.

The company's Articles of Association may be modified by the Extraordinary General Meeting. The latter may only deliberate this point if at least half of the shareholders are present or represented at the meeting

and the agenda indicates the proposed modifications to the Articles of Association as well as, where necessary, the text of any proposed modifications that affect the purpose or form of the company. If the first of these conditions is not fulfilled, a second general meeting may be called as stipulated by the Articles of Association and the law. The convening notice for this general meeting will reproduce the agenda, indicating the date and results of the previous general meeting.

The second general meeting may deliberate validly, whatever the proportion of capital represented. In both General Meeting, in order for the resolutions to be valid they must be adopted by a two-thirds majority of the shareholders present or their representatives. The nationality of the company may only be changed and an increase or reduction in shareholder equity may only be decided with the shareholders' unanimous agreement and subject to compliance with all other legal provisions.

## 3. Composition and functioning of the administrative bodies and their committees

### 3.1. Composition of the Board of Directors and its Committee

#### Board of Directors

- Pierre van der Mersch, Chairman (2020)
- Luigi Santambrogio, Managing Director (2020)
- Axel van der Mersch, Managing Director (2020)
- René Beltjens<sup>(1) (2)</sup> (2022)
- Bruno Colmant<sup>(1)</sup> (2020)
- Michel Delloye<sup>(1) (3)</sup>

<sup>(1)</sup> Independent Director

<sup>(2)</sup> Since 8 May 2019

<sup>(3)</sup> Until 8 May 2019

Mr Beltjens is a member of the Supervisory Board of alterDomus, with which Brederode maintains contractual relations. However, he no longer fulfils any operational functions at that company. alterDomus serves as depositary and administrative agent for Brederode International, but this does not make alterDomus a significant service provider to the company in terms, notably, of the amounts paid in respect of those services, and of the possibility of replacing alterDomus with another provider. Thus, alterDomus does not engage in any significant business relations with Brederode within the meaning of the Corporate Governance Charter, and

the position of Mr René Beltjens at alterDomus does not prevent him being considered an independent director of Brederode. Mr René Beltjens also meets the other independence criteria laid down in the Governance Charter. These considerations were adopted by the Board of Directors at its meeting of 11 March 2019 and confirmed by the General Meeting of 8 May 2019.

Mr Colmant is director of the Degroof Petercam bank, with which Brederode maintains contractual relations. Degroof Petercam is not, however, part of the main bankers who are custodians of the assets and manage the group's operations. Moreover, Mr Colmant is not involved in any way in the management of client portfolios, and in particular not of Brederode clients. Thus, the Degroof Petercam bank does not engage in any significant business relations with Brederode within the meaning of the Corporate Governance Charter, and the directorial mandate of Mr Colmant at that bank does not prevent him being considered an independent director of Brederode. These considerations were adopted by the Board of Directors at its meeting of 15 March 2017 and confirmed by the General Meeting of 10 May 2017.

At the time of the last renewal of his director's mandate, Mr Delloye had not sat on the Brederode Board of Directors for more than twelve years. However, if one were to consider that the mandates previously held

within the Belgian Brederode company (now dissolved) and Brederode (Luxembourg) should be combined, following the principle whereby the assessment of independence is based on the spirit rather than the letter, Mr Delloye has exceeded the twelve-year limit. However, the presence of Mr Delloye on the Board of Directors for so many years does not in this instance constitute an obstacle to his independence. Mr Delloye has never stopped fulfilling his duties in complete independence of the executive directors and of the controlling shareholder, and so there is no reason to believe that the duration of his duties would imperil this independence. Moreover, it is highly valuable to be able to benefit from the presence a director who is so well informed regarding the history of the group and of its evolution. These considerations were adopted by the Board of Directors at its meeting of 15 March 2017 and confirmed by the General Meeting of 10 May 2017.

As regards the choice of directors, Brederode takes into account the criteria of competence (in particular in financial, accounting and audit areas) and of diversity (notably with a view to ensuring complementarity in profiles and types of experience).

#### **Executive management**

- Luigi Santambrogio
- Axel van der Mersch
- Pierre van der Mersch

#### **Governance and Risk Committee**

- Michel Delloye, Chairman (member and chairman until 8 May 2019)
- Bruno Colmant (member during the full financial year, chairman since 4 September 2019)
- René Beltjens (member since 4 September 2019)

All members of the Audit, Governance and Risk Committee have held senior positions in various economic sectors for numerous years. They are unquestionably experienced in terms of accounting and auditing.

Given the size of Brederode and the specificity of its activities, it has not been considered appropriate to create a nomination, remuneration or ESG committees, The responsibilities that the X Principles entrust to the latter

committees are taken on directly by the Board of Directors as a whole. On 11 March 2019, the Board of Directors reviewed this decision and confirmed that the creation of a committee tasked with nominations, remuneration or CSR is not opportune.

#### **Pierre van der Mersch, 85 years**

Positions within the group: director and chairman of the Brederode Board of Directors; member of the management body of several subsidiaries

Degree in business and finance (UCL); Special degree in private company management and organisation (UCL); Graduate of the Harvard Business School (ISMP). Former Managing Director of the First National City Bank and Barclays Bank International in Brussels; former Managing Director of NCB Eurosecurities in Brussels and First National City Bank Luxembourg; former director of several companies listed on the Brussels and London stock exchanges. President of the Brederode group since 1976 and CEO from 1981 to 2006.

Mandates outside the group in listed companies: none

#### **Luigi Santambrogio, 59 years**

Positions within the group: managing director responsible for the day-to-day management of Brederode; member of the management body of several subsidiaries

B.A. in Business Administration (Bocconi University). Subsequently Financial Analyst at the Continental Bank, London; Assistant Manager at Kleinwort Benson Ltd, London; Assistant Vice-President at Merrill Lynch International, London; Vice-President of Prime S.P.A. (Fiat Group), Milan; Vice-President Portfolio Manager for Prime Lipper Asset Management, New York. Luigi Santambrogio joined the Brederode group in 1995 and is currently a Co-Managing Director.

Mandates outside the group in listed companies: member of the pre-IC committee of Inter Fund Management

#### **Axel van der Mersch, 49 years**

Positions within the group: managing director responsible for the day-to-day management of Brederode; member of the management body of several subsidiaries

Chartered Financial Analyst; Bachelor in Business Administration, European University. Axel van der Mersch

joined the Brederode group in 1996 and is currently a Co-Managing Director.

Mandates outside the group in listed companies: none

### **Bruno Colmant, 58 years**

Positions within the group: non-executive and independent director

Principal activity outside the Brederode group: CEO of the Degroof Petercam bank

Bruno Colmant is a Management Engineer (Solvay Business School). He holds a Master in Tax Law (ESSF) and Business Administration (Purdue University) and a PhD in Applied Economic Sciences (Solvay Business School), CFA, FRM, etc. In the past Bruno Colmant has held several senior positions in the financial services sector: CEO of ING Luxembourg, CFO of ING Belgium, principal private secretary to the Belgian Minister for Finance, CEO of Euronext Brussels, member of the executive committee of the New York Stock Exchange, and co-CEO of Ageas. In 2011 he joined the Roland Berger consulting firm as a partner and held this position until September 2015, whilst remaining academic advisor of the Ageas group. He is also a member of the Royal Academy of Belgium, gives lectures at several Belgian and Luxembourg universities, and has written many books on economic and tax matters.

Mandates outside the group in listed companies: none

### **Michel Delloye, 63 years (until 8 May 2019)**

Positions within the group: non-executive and independent director

Main activity outside the Brederode group: Equity investor – Entrepreneur, corporate director

Degree in law (UCL). After working for more than two years at Deloitte Haskins & Sells in Brussels, Michel Delloye was later Chief Financial Officer for the GroupeBruxelles Lambert, President of The Lambert Brussels Capital Corporation in New York, General Manager of the GroupeBruxelles Lambert in Brussels, Managing Director of RTL Group in Luxembourg, and President and CEO of Central European Media Enterprises in London.

Mandates outside the group in listed companies: none

### **René Beltjens, 58 years (since 8 May 2019)**

Functions within the group: independent non-executive director of Brederode

Principal activity outside the Brederode group: Member of the Supervisory Board of the alterDomus S.à r.l. (limited liability company)

Degree (BA/MA) in Law (Catholic University of Leuven), MBA in Finance (Catholic University of Leuven), Master in Tax Law (ICHEC-ESSF) and Chartered Accountant (Luxembourg). Between 1989 and 2008, he was worked at Coopers & Lybrand Luxembourg (which later became PricewaterhouseCoopers Luxembourg) as Tax Director, Tax Partner and later Tax Leader, and was a member of the Executive Committee. From 2008 to date, he was a member first of the Executive Committee and then of the Supervisory Board of alterDomus, a world leader in services to corporations and alternative investment funds.

Mandates outside the group in listed companies: none

## **3.2. Functioning of the Board of Directors and its Committee**

The company has a Board of Directors and an Audit, Governance and Risk Committee.

The Board of Directors and its Committee meet and operate in accordance with the Corporate Governance Charter.

During the financial year, the Board of Directors met fourth times. The attendance rate for directors at these meetings was 100%. The Audit, Governance and Risk Committee has met twice. The attendance rate for directors at these meetings was 100%. During the financial year, the directors did not enter into any transactions with the company or affiliated companies.

On 11 March 2019, the Audit, Governance and Risk Committee assessed the governance mechanisms as well as their functioning, efficiency and internal rules of procedure as contained in the Corporate Governance Charter. It declared itself satisfied on all these points.

### 3.3. Powers of the Board of Directors

The powers of the Board of Directors are determined by law and the Articles of Association.

Article 9 of the Articles of Association authorises it to purchase shares in the company in accordance with the legal provisions.

According to Articles 5 and 6 of the Articles of Association, the (unissued) authorised capital is set at €250 million. For a period of five years from when the act of the Extraordinary General Assembly of 14 May 2014 is published in the Mémorial C, Recueil des Sociétés et Associations, the Board of Directors was authorised to increase the subscribed capital one or more times (up to a maximum amount of EUR 432,713,909.08) by issuing shares up to the amount of the (unissued) authorised capital. Capital increases decided by the Board of Directors may be carried out on the dates and according to the conditions, including the issue price, set by the Board of Directors or its representatives at its (their) discretion, in the form of contributions either in cash or in kind within the legal limits (where necessary, via the incorporation of available or unavailable reserves or share premiums, with or without the creation of new shares). In the case of cash subscriptions, the new shares would be offered on a preferential basis to shareholders on a pro-rate basis according to the number of securities that they hold. These capital increases could be subscribed and issued as shares with or without share premiums, as determined by the Board of Directors. The authorisation granted to the Board of Directors to increase the capital expired in 2019 and was not renewed.

### 3.4. Remuneration report

#### 1. Internal decision-making procedure regarding remuneration

All of Brederode's executive managers are directors of Brederode. The directors' remuneration policy is drawn up by the Board of Directors. The directors'

total remuneration payable by the company is fixed by the General Assembly at the proposal of the Board of Directors. Each director's level of remuneration is fixed by the Board of Directors, subject to approval by the competent body of the company(ies) of the group paying the remuneration.

#### 2. Directors' remuneration policy during the financial year

##### a. Basic remuneration principles

The executive directors receive basic remuneration from the group, with no bonus or long-term profit-sharing plan. The remuneration of non-executive directors is not performance-linked; they do not receive any benefits in kind.

##### b. Relative weighting of the different remuneration components

This relative weighting can be seen in the table below. In all cases, basic remuneration represents more than 90% of total remuneration.

##### c. Characteristics of performance-based bonuses paid in shares, options or other rights to acquire shares

The company does not grant its directors any variable remuneration and does not award them shares, options, or any other rights to acquire shares.

##### d. Information regarding the remuneration policy for the next two financial years

The Board of Directors does not intend to modify its remuneration policy during the 2020 and 2021 financial years.

#### 3. Amount of remuneration and other benefits granted to the Brederode directors by the company and its subsidiaries

The gross directors' remuneration paid by Brederode S.A. and its subsidiaries amounted to (€ 000) 967 in 2019 (as compared to (€000) 966 in 2018), broken down as follows:

(in € 000)	Remuneration basic	Pension	Other components	Total
Executive Directors	886.23	6.24	50.02	942.50
Non-Executive Directors	24.50			24.50
<b>Total</b>	<b>910.73</b>	<b>6.24</b>	<b>50.02</b>	<b>967.00</b>

Gross remuneration or total cost, excluding social security contributions covered by the company or the group's companies (employer contributions). The pension plan is of the «defined contribution» type. The other components comprise medical insurance, hospitality expenses and car allowance.

#### 4. Performance evaluation criteria as regards the objectives and evaluation period, and description of the methods applied to verify whether or not the performance criteria have been met.

In the absence of variable remuneration, such evaluations are not necessary.

#### 5. Recovery of variable remuneration

In the absence of variable remuneration, there is no reason to provide for the right for the company to recover variable remuneration in the event of erroneous financial data.

#### 6. Severance pay

Any of the directors, including the executive directors, can be dismissed ad nutum and without severance pay, unless legal provisions to the contrary apply.

## 4. Environmental, Social and Corporate responsibility

Brederode does not engage in any industrial or commercial activity and thus does not generate sales revenues. It has opted to invest as a minority shareholder without being involved in the management of the companies it invests in. Brederode's investment policy does, however, take into account the ESG policy of those companies.

In regards to the listed companies, Brederode ensures that they develop an ESG policy that is appropriate to their sector of activity, and that they publish these in compliance with the applicable legislation, the rules of good governance or the habitual practices in this area.

In regards to investments in the Private Equity portfolio, Brederode's ESG policy is based on that implemented by the General partners. All those with whom Brederode works have an explicit, published policy in this area and in turn encourage the companies they control to adopt

a dynamic ESG policy. Most of the time these are based on the standards developed at a global level, such as the *Principles for Responsible Investment* ([www.unpri.org](http://www.unpri.org)). The ESG dimension is examined specifically in the course of the due diligence process that Brederode carries out before taking any private equity investment decision.

For the 2019 financial year, Brederode confirms that all fund managers of the Private Equity and the Listed Securities portfolios in which the group invested have developed a pro-active CSR policy.

## 5. Key features of the internal control and risk management systems

### PRELIMINARY REMARKS

There is no steering committee or specific internal auditor position. Given the size of the Brederode group and the targeted nature of its activities, risk management falls within the remit of the executive directors themselves. There is no reason to have an internal auditor given that the executive directors personally monitor all transactions carried out on behalf of the company.

Internal control functions are carried out by the executive directors on the one hand, and by the Audit, Governance and Risk Committee on the other hand, no members of which hold executive positions. The overall philosophy rests on each contributor adhering to the values of integrity, ethics and competence which form the basis of the group and its business approach.

### 5.1. Control environnement

The control environment is principally determined by the laws and regulations of the three countries in which the group's subsidiaries are based (Luxembourg, UK and Belgium) as well as by the articles of association of each of the concerned companies.

A single person handles the accounts for the different companies. One of the managing directors is responsible for the company's financial affairs.

### 5.2. Risk management process

The objectives regarding strategy, operations, and the reliability of both internal and external financial data are established by the executive directors and approved by the Board of Directors. The implementation of these objectives is periodically monitored by the Audit, Governance and Risk Committee.

### MARKET RISKS

#### a) Foreign exchange risk

Foreign exchange risk is the risk that a financial instrument will fluctuate in value due to changes in foreign exchange rates.

Exposure to foreign exchange risk is directly linked to the amounts invested in financial instruments held in currencies other than the euro and is influenced by the forex hedging strategy that the Brederode and its subsidiaries apply.

The hedging strategy is guided by a medium-term forecast of changes in foreign currencies relative to the euro.

Outstanding forward exchange transactions carried out to reduce foreign exchange risk are valued at the fair market value of these hedging instruments, and are recorded in the balance sheet under the heading "derivative instruments" of current financial assets (liabilities).

The effect of changes in the fair value of hedging instruments is found in the variation of the fair value of Brederode's direct subsidiary.

#### b) Interest rate risk

For financial assets, the risk of the fair value changing as a direct result of interest rate fluctuations is not significant given that almost all of the assets are equity instruments.

With regard to financial liabilities, the fair value risk is limited by the short duration of financial debt.

#### c) Other price risks

Price risk is the risk that a financial instrument will fluctuate in value due to changes in market prices.

#### i. Listed securities portfolio

For the listed securities portfolio, the risk of price fluctuations linked to market price variations is determined by the volatility of prices on the stock exchanges in which the group operates (Amsterdam, Brussels, Copenhagen, Frankfurt, London, Madrid, Milan, New York, Oslo, Paris, Toronto and Zurich).

The group's policy is to maintain a diverse portfolio in these markets, which have high liquidity and are generally less volatile than the so-called emerging markets. The price risk for listed assets is also reduced by maintaining both geographical and industry diversification. The breakdown by currency of the listed securities portfolio is included in the annual report.

#### ii. Private Equity portfolio

For the Private Equity portfolio, statistical and theoretical studies reach different conclusions as to whether or not the volatility of such holdings is greater than that of listed markets. Purchase and sale prices are clearly influenced by multiples such as EV/EBITDA that are found on the market for listed securities. To a large extent these similarities in the basis of valuations explain the significant correlation between price fluctuations on these two markets. Recent experience from the financial crisis that started in 2008 has confirmed the greater degree of stability in valuations in the Private Equity portfolio compared to that of the listed portfolio. The price risk related to unlisted securities is also reduced by the very high level of diversification maintained in the portfolio. A first level of diversification results from the large number of General Partners Brederode invest with. A second level of diversification is present within each Partnership which typically spreads its investments over fifteen to twenty separate projects. The geographical breakdown of the Private Equity portfolio is included in the annual financial report.

#### iii. Options on listed securities

The price risk is directly reflected in the price levels prevailing on the options markets. Increased volatility on the stock exchanges leads to increased option premiums. The price risk for this type of transaction is monitored on a daily basis and limited by the group's policy of only issuing call options (an agreement to sell for a certain price at a certain time) for stock that it holds in its portfolio.

#### iv. Sensitivity analysis of other price risks

##### a. Listed securities portfolio

The portfolio's value depends on stock price changes which, by definition, are difficult to forecast.

##### b. Private Equity portfolio

The value of this portfolio may also be influenced by changes in valuations on the listed markets. This influence is however moderated by the following factors:

- the value creation objective is more long term,
- the manager is able to make faster and more effective decisions to mitigate a deteriorating situation,
- the interest of the managers is, in our opinion, better aligned than that of the investors.

### CREDIT RISK

This is defined as the risk that a counterparty to a financial instrument will default on their obligations, leading to the other party incurring a financial loss.

As an investor in listed shares, the main credit risk lies in the ability of our intermediaries to ensure the success of our purchase and sales transactions. In principle this risk is eliminated by the delivery versus payment settlement system.

For stock options, it rests with the Brederode group to demonstrate its creditworthiness, allowing it to operate as an issuer in an over-the-counter market reserved for institutional investors whose competence and solvency

is recognised. As a writer of stock options, the credit risk for this type of transaction lies with our counterparties.

Bank deposits constitute the main credit risk run by our group. We constantly endeavour to verify the quality of our bankers

Securities deposits also run a credit risk although these securities are on principle always segregated from the assets of the financial institutions that are entrusted with guarding the listed securities portfolio. In the context of the management of its Listed Securities portfolio, Brederode lends a sizeable part of its listed securities to leading banks via its subsidiaries, in return for remuneration. The loan agreements further allow Brederode to access credit facilities on favourable terms

The credit risk associated with the securities lending activity is covered by a pledge, in favour of Brederode, of a portfolio of financial assets guaranteeing coverage of more than 100% of the amount lent. As at 31 December 2019, the market value of securities lent by Brederode amounted to € 226 million (compared to € 197 million a year earlier), and that of the portfolio of financial assets pledged to Brederode came to € 176 million, to which were added € 70 million in liquidity (as compared to € 43 million a year earlier) made available to Brederode. The securities lent continue to be recognised at fair value on the balance sheet of the subsidiaries.

### LIQUIDITY RISK

The liquidity risk is the risk that an entity encounters difficulties in raising the necessary funds to honour its commitments concerning financial instruments. One of the characteristics of private equity investment is that the investor does not have control over the liquidity of their investments. It is the manager alone who decides when to invest in or dispose of holdings. There is a secondary market for stakes in private equity funds but it is a narrow market and the selling process can prove relatively lengthy and costly. Changes in the group's uncalled capital commitments in private equity funds are permanently monitored in order to effectively manage cash flow.

As the listed securities portfolio is composed of highly liquid minority positions, it is able to absorb, where necessary, significant cash movements generated by the unlisted portfolio.

Management of the liquidity risk also takes account of the credit lines that the group has at its disposal, if needed, with its banks. Through its subsidiaries, Brederode is able to draw on a confirmed line of credit for an amount of € 124 million (as compared to € 88 million at the end of 2018). The group is ensuring that its level of financial debt is kept to the confirmed lines of credit.

### CASH FLOW INTEREST RATE RISK

This relates to the risk of future cash flows being compromised further to variations in the market interest rate. This risk does not affect Brederode.

## 5.3. Control activities

Ongoing control, virtually on a daily basis, is exercised by the executive directors who also sit on the management bodies of the main subsidiaries. The executive directors also meet at least once a month to carry out a detailed examination of the financial position, of the portfolio, valuation of the assets, general monitoring of activities, financing requirements, risk assessment, new commitments, etc. The fact that financial assets are always held through third-party banks, trustees, etc. means that the risks of internal negligence, error or fraud are greatly reduced.

## 5.4. Information, communication and oversight

The reliability, availability and relevance of accounting and financial information is directly overseen first of all by the executive directors and later by the Audit, Governance and Risk Committee. Particular attention is paid to remarks or requests made not only by the supervisory authorities but also by shareholders and

financial analysts, with a view to constantly improving the quality and relevance of information. The computer systems are maintained and upgraded by contracted external service providers. The executive directors oversee the quality of these services and make sure that these service providers can be depended on to an acceptable degree. The security of computer systems is maximised by using the available technical processes: access rights, backups, antivirus software, etc. The executive directors prepare, check and distribute the information after having submitted it to the Board of Directors, the external legal adviser and, if necessary, the company auditor.

## 5.5. External audit

Brederode has appointed an authorised company auditor, Mazars Luxembourg, a certified auditing firm with its registered office established at 1882 Luxembourg, 5, rue Guillaume J.Kroll, and listed in the Trade and Companies Register under number B 159.962. The firm is appointed for a term of three years, which comes to an end on May 13th, 2020. Mazars Luxembourg and Mr Amir CHAKROUN, who represents it, are members of the Institute of Company Auditors and are approved by the Committee for Supervision of the Financial Sector.

For the Board of Directors  
Luigi Santambrogio & Axel van der Mersch



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