Risk management, corporate governance, remuneration policy in Brock Milton Capital AB regarding financial year 2023

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Content

Background

Investment firms must according to article 46 of Regulation (EU) No. 2019/2033, publish information about their risk management objectives and risk management policy, corporate governance and remuneration policy as well as remuneration practices on the same day as they publish their annual report. This document aims to fulfill these information requirements for Brock Milton Capital AB (hereinafter BMC AB or the company). Information on capital base, own funds requirements and compensation practices according to articles 49, 50 and 51 of the same regulation are provided in the company's annual report which can be found on the company's website, www.bmcapital.se under Legal information. In the annual report and on the website, there is also information about the company's authorizations and operations.

Risk management objectives and risk management policy

Various types of risks can arise in the company. These are divided into the main categories Risk to Customer (RtC), Risk to Market (RtM), Risk to Firm (RtF), liquidity risks and other risks. The company's board of directors has determined a risk strategy and risk limits for each main category. The goal of the company's risk management is to continuously ensure that the company's risk exposure and risk levels are in line with the risk strategies and limits that the board has established. The company's board, as ultimately responsible for risk management in the company, has also established guidelines for the business's risk management.

Overall risk strategy

The company's risk strategy for controlling and managing the risks the business is or may be exposed to is through active risk management. The company must work with clear and documented internal routines and processes, have a clear organizational structure with clearly defined areas of responsibility and mandate as well as sufficient resources to ensure quality in the operation of the business and its controls. The company's risks are monitored and measured in various ways, which enables continuous monitoring and reporting of the risk situation and, if necessary, allow for action if the risk increases so that the company's risk profile remains within its risk appetite. The company works with the process for approval of new or significant changes to the company's products, services and markets, as well as major operational changes and organizational changes. The process aims to ensure regulatory compliance, effective risk management, appropriate risk level and capital situation. The company has adopted guidelines for incident reporting. The purpose of a formalized incident management process is to have an effective tool for identifying operational risks. The incident reporting helps to ensure that the company's risk identification is comprehensive and exhaustive.

Overall about the company’s risk management and control environment

To ensure good internal governance and control, the company works according to the principle of three lines of defense where the first line of defense (operations) owns and manages all risks and the second line of defense (the functions for independent risk management and regulatory compliance) reviews and checks that the first line of defense has appropriate and effective routines and processes for managing the risks. The third line of defense consists of internal audit, which reviews both the first and second lines of defense. The independent risk management and regulatory compliance functions report to the CEO but also report to the board. Internal audit reports to the board.

At least once a year, an analysis of the company's risks is made by key people in the business. The risk analysis results in a number of identified risks where each risk, individually, is analyzed, valued and assessed. This is documented and the risks are quantified based on the company's established process. An internal capital and liquidity evaluation process (ICAAP) is also established at least annually to assess the total capital requirement both in the long and short term and to ensure the size of the capital base. In the internal capital and liquidity evaluation, the capital and liquidity needs are identified and quantified in relation to the risks the company is exposed to. The company's policies are reviewed at least annually to check that they are correct and reflect current legislation. Policies are determined by the board.

Risk to Customer (RtC)

RtC covers risks that the company's operations entail for customers. RtC is divided into the subcategory’s asset under management (K-AUM), assets safeguarded and administered (K-ASA), client money held (K-CMH) and client orders handled (K-COH). Due to the business that the company conducts, the company is exposed to risks within the subcategory K-COH which refers to the provision of portfolio management services, which constitutes the company's main business.

The company's risk strategy for the RtC category means that the development of services and products must be preceded by an evaluation to ensure which risks and needs are connected to them. The principle is that all new products and services must undergo the company's approval process. The company must also only develop products with a clear investment philosophy that are easy to understand for both customers and counterparties.

Risk to Firm (RtF)

RtF includes risks that the company's operations entail for the company. RtF is divided into the subcategories trading counterparty default (K-TCD), daily trading flow (K-DTF), concentration risk (K-CON), interest rate risk, pension risk, credit risk, material changes in the book value of assets and concentration risk in other operations.

The company's risk strategy for interest rate risk and credit risk is that such a risk should only arise for reasons that are normal for ongoing business operations. The risk strategy for pension risk is that the company should only have premium-based pensions and benefit-based pensions should not be offered, which means that the risk should not occur. As regards the risk strategy for positions in financial instruments, currencies and commodities, the company must avoid such positions.

Risk to Market (RtM)

The company does not trade on its own account and is not therefore not exposed to this risk category.

Liquidity risk

Liquidity risk is defined as the risk of not being able to meet one's payment obligations at the due date without the cost of obtaining means of payment increasing significantly. There are no subcategories for liquidity risk.

The company's risk strategy for liquidity risk is that the liquidity buffer is to be financed by internally generated capital (e.g. retained earnings). The company must have a sufficient liquidity buffer in its bank account which means that the company's ability to pay cannot jeopardize the company's survival both in the short and long term.

Other risks

Other risks refer to risks that are not covered by the risk categories RtC, RtM, RtF and liquidity risk. Other risks are related to work environment, damage to physical assets, internal fraud, external fraud, ICT risks, regulatory, legal and tax risks, insufficient personnel and technical resources, reputational risk, ESG risks, third party risks, as well as money laundering and terrorist financing risks. The company is exposed to risks linked to external fraud, ICT risks, regulatory, legal and tax risks, reputational risks and insufficient personnel and technical resources.

The development of the company's business operations shall mainly involve the development of existing operations. The principle is that all new products and services must undergo and be approved in the company's approval process. The company must maintain good regulatory compliance and appropriate business processes. The company must not enter into new management agreements without ensuring that necessary and relevant work processes are in place to comply with the agreement's commitments. The company should make appropriate adjustments to automate and/or standardize the process to minimize the other risks that arise. The company must ensure that their counterparties invest enough to be compliant with the requirements placed on them.

The board of director’s risk statement

The company's board has approved the following risk statement, which provides a brief description of the company's overall risk profile in connection with the business strategy:

Brock Milton Capital AB's business strategy is to offer active fund management with the goal of outperforming the funds' benchmark index. The company's risk strategy for controlling and managing the risks the business is or may be exposed to is through active risk management. The company works with clear and documented internal routines and processes, has a clear organizational structure with clearly defined areas of responsibility and authority as well as sufficient resources to ensure quality in the operation of the business and in its controls. The company's risks are monitored and measured in various ways, which enables continuous monitoring and reporting of the risk situation and, if necessary, early measures if the risk increases so that the company's risk profile remains within its risk appetite.

Corporate governance

The composition of the board and the members’ other assignments

Below is the composition of the board and how many board assignments the members have, including the assignment in the company.

- Michael Edquist, Chairman of the Board, 8 board assignments.
- Andreas Brock, Board member, 2 board assignments.
- Lukas Lindkvist, Board member, 13 board assignments.
- Ulrika Hasselgren, Board member, 4 board assignments.
- Magnus Oscarsson, Board member, 72 board assignments, where 64 are related to MB Gladsheim Fastigheter with subsidiaries.

Diversity policy

The company has established a diversity policy, *policy for diversity and training within the board*. In short, the policy means that the company shall promote diversity on the board by considering a broad set of characteristics and skills when appointing board members. The purpose of this is to counteract unhealthy herd behavior and contribute to better risk management and high integrity among the individual board members. The company has not established any targets or benchmarks for diversity on the board.

Risk committee

The company has not established a risk committee.

Remuneration policy and practices

In chapter 3a section 3 of the Finansinspektionen's regulations (FFFS 2017:2) states that an investment firm must have a remuneration policy that covers all employees. The company has established a remuneration policy. The company believes that the remuneration policy is compatible with and promotes sound and efficient risk management, is gender neutral and discourages excessive risk-taking.

The remuneration system's most important characteristics

Fixed and variable remuneration

The company compensates its employees through fixed and, where applicable, variable compensation. Fixed compensation refers to a fixed basic salary or hourly rate. The salary or hourly rate is set individually taking into account relevant professional experience and organizational responsibility as stated in the employee's job description as part of the employment contract. When determining the salary or hourly rate, education, seniority, level of expertise and skill and market salary for the relevant position must also be taken into account. All employees over a certain age are covered by the Company's current pension policy and all employees are covered by health insurance and healthcare insurance.

Variable compensation must be based on relevant and pre-determined criteria that are measurable. The criteria must reflect sustainable and risk-adjusted performance as well as performance beyond what is required to meet the requirements of the employee's job description as part of the employment contract. Variable compensation should not encourage excessive risk-taking, including risks attributed to sustainability and ESG risks.

The ratio between fixed and variable remuneration

The compensation must have an appropriate balance between fixed and movable parts. The fixed components must account for a sufficiently large part of the employee's total compensation so that it is possible to set the variable components to zero. For employees who receive variable remuneration, the variable remuneration shall in no case be greater than the fixed remuneration.

Personnel with impact on the company's risk profile

The company must annually conduct an analysis with the aim of identifying employees whose duties have a significant impact on the company's risk profile. In the analysis, the company must take into account all risks to which the company is or may be exposed, including the risks associated with the company's remuneration policy and compensation system.

Performance assessment and risk adjustment

The company must always ensure at company level that its total variable compensation does not limit the company's ability to maintain a sufficient capital base or to strengthen the capital base if necessary. This means that the company must take into account, among other things:

- the size and cost of the additional capital required to cover the risks that affected the period's results;
- the size and cost of the liquidity risk; and
- the likelihood that expectations of future income will not be realized.

The variable compensation for risk-affecting personnel must be based on both the employee's performance and the performance of the relevant performance unit. When assessing the employee's results, both financial and non-financial criteria must be taken into account. The financial and non-financial criteria that the company uses as a basis for decisions on compensation must be specified and documented. For all employees there must be criteria that must be such that they encourage employees to contribute to the company's goals, comply with applicable internal and external rules, behave professionally towards customers and colleagues and avoid unjustified risk-taking. The criteria should not encourage the sale of a particular product. The criteria must essentially be measurable.

Each employee is evaluated annually based on their performance in relation to the criteria. During the evaluation, any existing and future risks must also be taken into account. The evaluation is led and carried out by the employee's manager. If deemed relevant and appropriate, the employee's manager must obtain information from management and other relevant executives in the company about the employee's performance and risk-taking.

Postponement

The company's average on- and off-balance sheet assets in the previous four years before the financial year are below EUR 100 million. The company is therefore covered by the exception according to article 32.4 a of Directive (EU) 2019/2034, which means that the company does not need to pay out variable compensation in instruments or postpone parts of the variable compensation. The company applies the exceptions to all its employees. However, the company has chosen to voluntarily postpone parts of the variable remuneration for certain senior executives according to its own method.

Remuneration to the executive management and control functions

The board decides on remuneration to the executive management and the remuneration to those responsible for the functions of regulatory compliance, risk control and internal audit. If any of these functions are outsourced, it is the CEO's responsibility to ensure that remuneration is paid without elements of variable remuneration.

Remuneration practices applicable in 2023

For the business year 2023, the Company granted variable compensation to employees corresponding to an amount of SEK 1 936 255 including social security contributions and granted payment of deferred variable compensation corresponding to SEK 254 079 including social security contributions.

The company's compliance function has carried out a review of compensation for 2023 and has not identified any unjustified gender pay gap or other objectionable aspects of gender neutrality.

Quantitative information regarding compensation granted during or for 2023 can be found in the company's annual report.