MetLife Investment Management

# MetLife Investment Management Pillar 3 Disclosure

# Background

The purpose of this document is to set out the Pillar 3 disclosures of MetLife Investment Management Europe Limited ("MIM Europe" or the "Company") as at 11 April 2022..

MIM Europe is authorised and regulated by the Central Bank of Ireland ("Central Bank") since 11 April 2022 as:

(a) a management company (a "**UCITS ManCo**") pursuant to the UCITS Regulations[1], to carry on the business of managing UCITS in the form of unit trusts, common contractual funds, ICAVs or investment companies (or any combination thereof); and

(b) an AIFM pursuant to the AIFM Regulations[2], to carry on the activities of acting as AIFM to alternative investment funds and those additional activities compromising:

  (i) the management of portfolios of investments, including those owned by pension funds and institutions for occupational retirement provision in accordance with Article 19(1) of Directive 2003/41/EC, in accordance with mandates given by investors on a discretionary, client-by-client basis ("**IPM**");

  (ii) investment advice; and

  (iii) receipt and transmission of orders pursuant to Regulation 7(4)(a), (b)(i) and (b)(iii) of the AIFM Regulations,

(authorisation as a UCITS ManCo and AIFM together referred to herein as a "**Super ManCo**", and the activities outlined in (b), above, collectively being "**MiFID Services**").

In providing the MiFID Services, the Company must comply with:

(a) Regulations 4(2), 9(10), 23(1)(a) to (l), (4) and (13), 31(1), 32(3) to (12) and 33(3) and (5) to (13) of European Union (Markets in Financial Instruments) Regulations 2017 (as amended) (the "MiFID Regulations");

(b) Commission Delegated Directive (EU) 2017/593 (the "MiFID Delegated Regulation"); and

(c) Chapter II, and Sections 1 to 4, Articles 59(4) and 60 and Sections 6 and 8 of Chapter III and, to the extent they relate to those provisions, Chapter I and Section 9 of Chapter III and Chapter IV of the MiFID Delegated Regulation.

The Central Bank of Ireland, as a condition of authorisation for the provision of the MiFID Services, requires the Company to comply with certain provisions of the capital requirements directives (Directive 2006/49/EC or "**CRD III**") relating to capital. Pursuant to the CRD III requirements, the Company must:

(a) comply with Regulation 18(2) of the European Communities (Capital Adequacy of Investment Firms) Regulations 2006

(b) complete and document its Internal Capital Adequacy Assessment Process ("ICAAP")

(c) hold as own funds any additional capital required under its ICAAP; and

(d) update its ICAAP annually.

The minimum capital required for the Company is required to be calculated under both the CRD III rules and the AIFM and UCITS Regulations and guidance, with the higher amount to be applied by the Company. See the disclosure in the "Capital Resources" section of this document.

1 "UCITS Regulations" means the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011, as may be amended from time to time.
2 "AIFM Regulations" means the European Union (Alternative Investment Fund Managers) Regulations 2013, as may be amended from time to time.

The CRD III established the regulatory capital framework across Europe governing the amount and nature of capital that credit institutions and investment firms must maintain. The capital framework consists of three Pillars:

- Pillar 1 sets out the minimum capital amount that meets MIM Europe's credit, market and operational risk;
- Pillar 2 requires MIM Europe to assess whether its Pillar 1 capital is adequate to meet its risks and is subject to annual review and submission to the Central Bank(the ICAAP, as set out below); and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls, capital position and remuneration.

The Company's ICAAP sets out the following:

- Internal governance and organisation structure;
- Risk management framework in which risks and controls are identified;
- Assesses the identified risks for capital requirements, taking into account mitigating controls;
- Identifies the basis for calculating the ICAAP capital requirements; and
- Reports 2022 plan CRD and UCITS/AIFM capital requirements

The Company will comply with the minimum capital requirement as determined by the Central Bank at all times in accordance with the AIFM Regulations, the UCITS Regulations and the applicable elements of the CRD III regime, as may be amended from time to time.

## Frequency and Scope of Review and Publication

Proprietary information is regarded as any information which, if it were shared, would undermine MIM Europe's competitive position. Information is considered to be confidential where obligations bind MIM Europe to confidentiality with customers, suppliers and counterparties. Such information will not be disclosed where this is in accordance with applicable requirements and where the Company believes that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information.

Disclosures are reviewed at least annually and, if appropriate, more frequently. Disclosures will be published as soon as practicable after the publication of the Annual Reports and the finalisation of MIM Europe's ICAAP.

The information contained in this disclosure has not and is not required to be externally audited and does not constitute any form of financial statement.

## ICAAP Framework and Governance

The Board of the Company is responsible for the ICAAP. In discharging this responsibility, the Board approves the ICAAP framework, whereas senior management has responsibility for the design of the ICAAP itself.

Under the ICAAP review process the Board is required to:

- Ensure the ICAAP process is undertaken;
- Approve the annual ICAAP report;
- Approve amendments to the ICAAP framework.

In relation to ICAAP, the Risk Department, in conjunction with executive management, is required to:

- Ensure that all material risks have been evaluated;
- Assess the robustness of the ICAAP report and its content;
- In conjunction with Finance, challenge and agree the ICAAP report recommendations prior to formal Board review;
- Review and provide input to the ICAAP framework and proposed amendments.

The Finance function's role in relation to the ICAAP is to:

- Determine the appropriate internal capital methodologies in conjunction with the Risk Department;
- Ensure capital adequacy is part of financial planning and performance

## Capital Resources

The Company held €541,000 in own funds as at 11 April 2022.

As at 11 April 2022 and at all times throughout the year, the Company complied with the capital requirements of the Central Bank.

The minimum capital requirement will be monitored on an on-going basis by the DP for Capital and Financial Management and the Board. In the event that the capital falls below, or is deemed as likely to fall below, the minimum capital requirement for MIM Europe, the Central Bank will be notified immediately, and steps will be taken by the Board to rectify the deficiency.

## Risk Management Framework and Applicable Regulations

At all times, the Company will act in the best interest of clients and treat all clients fairly. The Company will not manage business, or be associated with the management of business, which is in deliberate breach of regulatory rules or expectations, client mandates and investment management agreements, or poses a foreseeable threat to its reputation.

MIM Europe will assess and manage risk within the risk management framework utilised by MIM as well as MetLife's three lines of defence model, which includes Global Risk Management's second line of defence oversight of compliance and operating risk, and third line of defence oversight by Internal Audit.

Further, the AIFM Regulations and the UCITS Regulations require management companies to have in place adequate and effective risk management systems to identify, measure, manage, monitor, and report on a continuous basis the risks, at an individual and at an aggregated level, to which they, the AIF or the UCITS are or could be exposed, and their interdependencies.

The CBI has issued guidance to fund management companies including, inter alia, their expectations of how a fund management company should approach risk management. The Company's framework, as set out in this document, meets these requirements.

## Assessment and Review of the Framework

The Company must assess, monitor and periodically (at least once a year, and where there are any material changes to the risk management framework or events that indicate it is required) review:

- the adequacy and effectiveness of the risk management framework including the functional and hierarchical separation of the risk management function;
- the degree of compliance by the Company with the risk management framework;
- the adequacy and effectiveness of measures taken to address any deficiencies in the performance of the process;
- the performance of the risk management function;

The Company shall update the risk management framework based on the outcome of the review.

The Company shall notify the CBI of any material changes to the risk management framework and of the arrangements, processes, and techniques it uses to monitor risk.

## Risk Appetite Summary

The Company accepts the following risk:

- Financial Risk - The Company's revenue is a function of its AUM which varies based on market levels and which can be denominated in foreign currencies, and therefore exposes the Company to market risk.

The Company controls the following risk:

- Operational Risk - The Company seeks to manage operational risk by implementing a sound control framework via established governance.
- The Company seeks to avoid the following risks:
- Regulatory Risk - The Company will not operate in deliberate breach of regulatory requirements.
- Reputational Risk - The Company will not knowingly operate in a manner that poses a material threat to its reputation.

## Remuneration Disclosures

Since its authorisation on 11 April 202, MIM Europe is required under the AIFM Regulations and UCITS Regulations to operate sound and prudent remuneration policies, practices and organisational structures that are consistent with sound and effective risk management in order to align the interests of fund managers and investors.

MIM Europe has in place a Remuneration Policy that follows prescribed principles in a way and to the extent that is appropriate to the size and internal organisation of MIM Europe and to the nature, scope and complexity of MIM Europe's activities.

The Policy complies with Schedule 2 of the European Union (Alternative Investment Fund Managers) Regulations 2013, as may be amended from time to time (the "AIFM Regulations"), the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011 as may be amended from time to time (the "UCITS Regulations"), the Commission Delegated Regulation (EU) 565/2017 (the "Level 2 Regulation"), the Capital Requirements Directive IV ("CRD IV"), where applicable, and the ESMA Guidelines on sound remuneration policies under the AIFMD, the ESMA Guidelines on sound remuneration policies under the UCITS Directive and the ESMA Guidelines on remuneration policies and practices (MiFID) (ESMA/2013/606) (together the "ESMA Guidelines").

The Remuneration Policy reflects MIM Europe's objective for good corporate governance and:

(a) is consistent with and promotes sound and effective risk management and does not encourage risk-taking that is inconsistent with the risk profile, rules or instruments of incorporation of MIM Europe and each Fund and/or Individual Portfolio; and

(b) is consistent with the business strategies, objectives, values and interests of each Fund and/or Individual Portfolio and includes measures to avoid conflicts of interest or where conflicts cannot be avoided that they can be appropriately managed at all times.

The Remuneration Policy is consistent with and promotes sound and effective risk management by:

(a) having a business model which by its nature does not promote excessive risk taking;

(b) having a stringent governance structure for setting goals incorporating measures to avoid conflicts of interest, including both financial and non-financial goals in performance and making non-performance related remuneration the main remuneration component;

(c) defining performance goals and objectives for staff that are aligned with the business; and

(d) ensuring that the fixed salary element of those involved in relevant functions reflects the market rate.

MIM Europe's compensation falls within the global arrangements set by MIM. The compensation program is designed to:

- provide competitive total compensation opportunities that will attract, retain and motivate high-performing employees;
- align the Company's compensation plans with its short-term and long-term business strategies; and
- reinforce the Company's pay for performance culture by making a meaningful portion of total compensation variable and differentiating awards based on Company (or MIM) and individual performance.

The Company uses a competitive total compensation structure that consists of base salary, annual incentive awards and in certain cases, stock-based long-term incentive award opportunities (as appropriate).

The Company's Remuneration Policy complies with the requirements of AIFM Regulations and UCITS Regulations in a way and to the extent that it is appropriate given the Company's, Fund's and Individual Portfolio's size, internal organisation and the nature, scope and complexity of their activities. The Company applies a proportionality principle in accordance with the ESMA Guidelines.

Taking into account the size, nature and scope of its activities, the Board ensures that its Remuneration Policy complies with the ESMA Guidelines however it has decided to dis-apply the following requirements of the ESMA Guidelines:

(a) variable remuneration instruments;

(b) retention;

(c) deferral;

(d) ex post incorporation of risk for variable remuneration; and

(e) having a remuneration committee.

The disapplication of the above requirements is reconcilable with the risk profile, risk appetite and the strategies of the Company, Funds and Individual Portfolios.

The Directors are responsible for our remuneration policy including:

- Determining the framework and policy for remuneration and ensuring it does not encourage undue risk-taking.
- Agreeing to any major changes in remuneration structures.

## "Identified" Staff

Employees of the Company who have been designated as "material risk takers" (also referred to as "**Identified Staff**") are governed by more prescriptive rules in respect of their compensation, including the structure of their variable compensation. Individuals are categorised as Identified Staff based on the criteria set out by the European Banking Authority and the ESMA Guidelines, including any applicable local regulations. The Identified Staff list is reviewed on an ongoing basis, and they are notified of their status and the impact on their remuneration structure annually.

Individuals are designated as Identified Staff based on the qualitative and quantitative criteria set out in the Regulatory Technical Standards (EU) 604/2014 and the ESMA Guidelines as well as the Company's own risk assessment of their role. Regard is had to the ability of the staff member, either on an individual or collective basis, to cause: a material financial gain or loss to the Company or the funds/portfolios under management the Funds; a disruption to the proper functioning of the business; a breach of legal or regulatory requirements or, substantial reputational damage to the Company. The Company also considers whether the individual's total remuneration package brings him/her into the remuneration bracket of senior managers.

The Company has concluded that the controlled functions that exercise significant influence should be Identified Staff, i.e., the holders of all pre-approval control functions ("PCF") roles in addition to all sales staff.

MIM Europe had 8 Identified Staff at the date of its authorisation. The remuneration provided to employees that are categorised as Identified Staff as at 31 December 2022 will be disclosed after the completion and approval of the 2022 audited financial statements of the Company.

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