

## Report of the Managing Directors for 2016 (excerpt)

### Introduction

2016 was a year in which both of Transtrend's trading programs generated modest positive returns. Transtrend's revenues and profits increased slightly compared to 2015.

### Diversified Trend Program (DTP)

In 2016, DTP performed positively. The Enhanced Risk (USD) subset of DTP, which is the program's largest subset, generated a composite net result of 7.65%, compared to an average annual return of 12.47% since the subset's inception on 1 January 1995. DTP strongly outperformed the BTOP50 CTA index, a commonly referred to index representing the CTA sector, which ended the year at -4.88%.

The table below shows the returns and other statistics of the various subsets of DTP as per 31 December 2016 in more detail.

Subset of DTP	Composite return 2016 (%)	Annualized, since inception (%)	Standard deviation (%)	Deepest drawdown (% , monthly data)	Size (including notional funds)	Inception Date
Enhanced Risk (USD)	7.65	12.47	13.86	15.15 (Jan 2010)	USD 4,301M	January 1995
Standard Risk (EUR)	4.95	5.40	7.64	10.59 (Jan 2010)	EUR 679M	February 1999
Enhanced Risk (EUR)	7.59	9.08	11.71	14.97 (Jan 2010)	EUR 342M	August 1999
Enhanced Risk (JPY)	6.66	6.88	11.84	15.30 (Jan 2010)	JPY 923M	August 2004

*Return summary of DTP (in %) as per 31 December 2016. Numbers between brackets are negative numbers. The returns in this table represent composite performance figures (in %) for the various subsets of DTP. These data should be viewed in conjunction with the explanatory notes, which can be found in Transtrend's CTA Disclosure Document. This document can be requested from Transtrend or can be downloaded from [www.transtrend.com](http://www.transtrend.com).*

The performance of DTP in 2016 gives rise to mixed feelings. A large, global market sell-off during the first six weeks of the year, followed by volatility induced by the Brexit referendum in June and the U.S. presidential elections in November, define an environment in which trend following programs like DTP used to perform very well. From this point of view, DTP's performance seems to be disappointing. At the same time, we have noticed that trend following CTAs in general have had a difficult year, many even producing a negative return. In this light, DTP's performance was remarkably good. What at least satisfies us is that DTP performed well in the three periods in which trend following programs are expected to perform well. And even more that this positive performance is the aimed-for result of a series of changes we made to our program over the past few years. This motivates us to continue to develop DTP along the chosen path.

### Equity Trend Program (ETP)

ETP achieved a modest positive result in 2016 with a EUR-composite return of 0.98% while the Credit Suisse Long/Short Equity Hedge Fund Index showed a return of -3.43%. Since the program's inception in January 2007, ETP's composite generated 3.11% per annum against the index returning 3.97% per annum. During that period, the program's drawdown was less than half of the index's.

Subset of ETP	Composite return 2016 (%)	Annualized, since inception (%)	Standard deviation (%)	Deepest drawdown (% , monthly data)	Size	Inception date
ETP (EUR)	0.98	3.11	6.44	9.58 (Jan 2012)	EUR 73M	January 2007

*Return summary of ETP (in %) as per 31 December 2016. The returns in this table represent composite performance figures for the EUR subset of ETP. These data should be viewed in conjunction with the explanatory notes, which can be requested from Transtrend.*

The program withstood the various storms of the year, with the day after the Brexit becoming the best day of the year and the day after the US presidential election one of the worst. Overall the large profits on long positions were almost fully offset by large losses on short positions. The program performed best in the Financials sector, with profits on long and short positions, and worst in the Consumer Discretionary and IT sectors.

### Assets under management

Due to lagging investor interest and redemptions, DTP suffered from a net outflow of 808 million US dollar, while ETP saw a net inflow of 19 million US dollar. DTP's assets under management declined during the year from 5.7 billion to 5.4 billion US dollar, while ETP's assets under management increased from 58 million to 77 million US dollar. The composition of our book of business remained relatively stable, although we witnessed a slight decrease in the percentage of assets from US investors against an increase in Asian investor assets; and a decrease in the percentage of assets from fund-of-funds against an increase in sovereign wealth and pension fund assets.

### Research & development

Research & development has always been, and continues to be, crucial to Transtrend's business and we continue to dedicate considerable resources on the further improvement of DTP and ETP. We have the objective to improve the trading programs to the best possible levels within the existing frameworks of the programs' styles. Or, in other words, we wish to enhance the programs as much as possible without drifting in style.

Transtrend's research agenda for DTP and ETP continues to focus on the following topics:

1. Improving the interaction of the trend-identification systems with the markets, especially making these systems less vulnerable to (large) uninformed price moves;
2. Improving the access to markets to create a more efficient and substantial access to different trends;
3. The portfolio construction layer;
4. Development and maintenance of order execution strategies.

We are convinced that the implementation of these points will further enhance the risk-return profiles of the programs. And that this ultimately will be rewarded by investor interest.

### Team

Transtrend's team grew slightly during 2016. The year showed 2 departures and 6 additions to the team, bringing the total size to 66, as per the end of the year. We expect some further growth of the team in 2017.

### Governance

Since 2007, when Transtrend became wholly owned by Robeco, Transtrend has been supervised by a non-executive supervisory board (SB). The SB oversees the policy pursued by Transtrend's Managing Directors and the company's general course of affairs. Transtrend's Managing Directors meet with the SB on a quarterly basis (or more, if deemed necessary) to discuss and review Transtrend's state of business and performance. During 2016, the composition of the SB has changed. On 1 January 2016, the SB was composed of Ms. Leni Boeren (chair) and Messrs. Philippe Teilhard de Chardin and Hans Rademaker. During the year, Mr. Hans Rademaker left the SB,

while Messrs. Masaaki Kawano and Mark Spanbroek joined. We envisage that the current four-headed SB (consisting of Ms. Boeren (chair), Messrs. Teilhard de Chardin, Kawano and Spanbroek) will be extended to five members in the coming period.

During the SB meetings, the following subjects are typically discussed: performance of the trading programs, developments of assets under management, operations, IT, control, financials, budget, risk management, audit reports, compliance, remuneration and other relevant topics. During recent SB meetings, specific attention was paid to Transtrend's commercial environment, including the advent of low cost providers and price developments in the sector, and to the set-up of the internal audit function within Transtrend, remuneration and the budget.

### **KenTyde**

As per 1 January 2016, Transtrend held a stake of 81.22% in KenTyde B.V., which had been an asset manager using a systematic trend following investment strategy and which had stopped its operation in the fourth quarter of 2015. The firm was dissolved on 29 January 2016. The financial impact of this dissolution on Transtrend has been fully accounted for in its 2015 financial statements. Until this dissolution, KenTyde's supervisory board continued to consist of Messrs. Harold de Boer and Joep van den Broek, Managing Directors of Transtrend.

### **Regulation**

New regulation has continued to demand substantial resources from our team. Most notably, the revised EU Markets in Financial Instruments Directive (MiFID II) and the Market Abuse Regulation and Directive have required our attention.

For the foreseeable future, we expect a continued flow of new, additional or changes in regulations applicable to Transtrend's business. We believe that Transtrend is ready to accommodate these changes in order to be and remain in compliance with applicable laws and regulation.

### **Risks**

As part of the risk management framework, Transtrend's Risk Management department monitors various sorts of risk on a continuous basis and periodically reports to the Managing Directors, the SB, and to the Board of Directors of the funds for which Transtrend acts as the AIFM.

Annually, Transtrend's Finance & HR department carries out a risk analysis under supervision of the Risk Management department. The objective of the analysis is to identify the risks to which Transtrend is exposed, their potential impact and measures to mitigate these risks. The analysis is performed on the basis of a series of interviews with a broad group of Transtrend employees.

The results of this year's analysis were in line with the outcomes from previous years. We found the following risks as most significant:

- Long-term underperformance of Transtrend's trading programs;
- Key-man risk;
- The long-term alignment of direct and indirect shareholders to Transtrend's autonomy and boutique-style operation;
- Potential changes in Transtrend's environment, including society, political landscape, laws and regulations. Some of these changes (for example introduction of a financial transaction tax) may significantly impact or even undermine our business;
- Cybercrime.

## Remuneration

### *General remuneration principles*

The compensation of Transtrend employees is commensurate with the requirements placed upon them. Compensation generally is comprised of (i) fixed remuneration, i.e. a monthly salary and related pension contribution and vacation allowance, and (ii) variable remuneration, i.e. a discretionary annual bonus. Variable remuneration may constitute a significant part of the total remuneration package at Transtrend. Not just because of an alleged motivating effect. Transtrend does not wish that employees just do something because they can obtain variable remuneration as a result. (Just as it also does not wish them to refrain from doing something simply because they will not receive a variable remuneration for it.) The commitment of our employees is not driven primarily by financial considerations. We do not offer any sales-driven variable remuneration, nor do we link variable remuneration to narrowly defined personal targets or other seemingly measurable individual performance. Such variable remuneration method may result in manipulation, escape behavior or local rather than overall optimization. The financial interests of the employee must never conflict with the interests of the clients. However, Transtrend considers it fair that if the joint efforts of our employees result in good returns for the clients and hence generate good returns for Transtrend, employees share in these results ('alignment of interest'). Loyalty in particular is rewarded because loyal employees are not only there when things go well, but also in more difficult periods. Above-average individual performance may be rewarded with higher remuneration. The greater an employee's contribution to the whole, in whatever area, the greater the variable remuneration may be. In short, if it goes well with Transtrend and its clients, then it may go well with its staff. However, if Transtrend's financial situation requires so, variable remuneration may be limited or nil.

Historically, Transtrend has paid relatively low fixed salaries and, in view of the salary level, relatively high variable remuneration. This is in line with the type of business (absolute return investment strategy) and how clients pay for Transtrend's services, i.e. via management fee and performance fee. The systematic nature of the investment programs, the design of the processes and controls, and the nature of the client base, mitigate the risks associated with variable remuneration at Transtrend and justify, within the limits of the remuneration regulations and principles, a relatively high ratio between variable and fixed remuneration. Specific risk mitigating measures on the award and payment of variable remuneration are described in the following paragraphs. Transtrend considers its remuneration method to be prudent, partly because total remuneration thus puts less pressure on Transtrend's financial solidity in less successful years.

### *Remuneration policy*

Transtrend's remuneration policy is aligned with Transtrend's business philosophy and culture, and meets the requirements under applicable regulation on sound remuneration policies. The remuneration policy is applicable to all Transtrend employees, with certain stricter provisions for Identified Staff as explained below.

The remuneration policy is prepared by Transtrend's Finance & HR department in accordance with guidelines of the Managing Directors. After adoption by the Managing Directors, the remuneration policy is submitted to Transtrend's internal supervisor, the SB, for approval. The SB moreover supervises compliance with the remuneration policy and periodically reviews its principles. Deviations from the policy require approval from the SB.

Transtrend's Compliance department is involved in the analysis of laws and regulations relating to sound remuneration policies. Transtrend's Risk Management department periodically conducts an analysis of the risks associated with the remuneration policy. Where necessary, the remuneration policy will be adjusted accordingly. Internal Audit regularly reviews the remuneration policy and the results thereof.

### Identified Staff

Employees who, based on their duties, exercise a material influence over the risk profile of Transtrend and/or the assets under management for its clients, including senior management, risk takers and employees who hold management positions in control functions, are designated as "Identified Staff", in line with the criteria in ESMA's 'Guidelines on sound remuneration policies under the AIMFD'. Transtrend has designated six employees as Identified Staff: the two Managing Directors and the two Executive Directors because they may exercise a material influence on the risk profile, and the head of the Risk Management department and the head of the Compliance department because they hold management positions in control functions.

### Award process

The size and allocation of variable remuneration is determined on both quantitative and qualitative performance criteria. Transtrend applies a top-down method. First, a total variable remuneration pool is determined based on Transtrend's financial performance, which depends to a large extent on the investment results achieved for its clients. Subsequently the pool is allocated to employees on the basis of qualitative performance criteria, assessing the personal performance of the employee concerned in the widest sense, taking account of the employee's contribution to the department where he/she works and his/her contribution to Transtrend's performance as a whole. Important aspects considered in the assessment are commitment, expression of Transtrend's culture, the quality of work delivered, taking responsibility, the degree of collaboration with colleagues, the level of knowledge, and growth in seniority. The assessment is not limited to the performance over the previous year. This set-up of the award process safeguards that no direct link exists between the individual award of variable remuneration and Transtrend's performance.

In principle annually, Transtrend's Managing Directors determine the individual fixed and variable remuneration of the employees, while the SB determines the remuneration of the Managing Directors. The total variable compensation pool, the remuneration of Identified Staff and, if certain remuneration thresholds are exceeded, the remuneration of other individual employees, are submitted to the SB for approval.

### Pay-out process

Awarded variable remuneration above a certain threshold is paid with deferral, with the excess paid in three equal installments over a three-year period. For Identified Staff stricter deferral provisions apply and the award will be for 50% in instruments (participations in one or more funds managed by Transtrend pursuant to its trading programs), with a one-year retention period following payment. For other employees the payment is in principle in cash. For further details, please refer to the table below.

<b>Identified Staff</b>					
Award		Upfront	Year 2	Year 3	Year 4
≤ 75,000	Instruments	30%	6.7%	6.7%	6.7%
	Cash	30%	6.7%	6.7%	6.7%
> 75,000	Instruments	20%	10%	10%	10%
	Cash	20%	10%	10%	10%
<b>Other employees</b>					
Award		Upfront	Year 2	Year 3	Year 4
≤ 75,000	Cash	100%			
> 75,000 and ≤ 150,000	Cash	75,000	Remainder/3	Remainder/3	Remainder/3
> 150,000	Cash	50%	16.7%	16.7%	16.7%

### **Risk adjustment**

All payments are subject to clawback provisions and, where deferred payment applies, malus provisions. In subsequent years, it is assessed whether the previously allocated variable remuneration is with hindsight appropriate. Matters may emerge in the period after allocation that put the allocation in a different perspective or mean that a payment would be unacceptable in terms of reasonableness and fairness. This may be the case in situations like, amongst others, non-compliance with standards relating to competence and/or conduct that an employee of a financial services company may reasonably be expected to observe, a lack of fair treatment of clients, insufficiently acting in the clients' best interests, decisions and/or behavior leading to a material deterioration of Transtrend's position, and/or a significant deterioration in Transtrend's financial performance. If such situations arise, malus on deferred variable remuneration may be applied and in certain cases previously paid variable remuneration can be reclaimed (a clawback of variable remuneration already paid). Given the nature of their duties, Identified Staff are exposed to a higher likelihood that a malus and/or clawback will be applied. Transtrend's Risk Management department is involved in the decision-making regarding risk adjustment to variable remuneration.

### **Pay-out**

In 2016, four Transtrend employees received a total remuneration of more than one million euro. During the year, 65 employees received variable remuneration. The total gross amount of variable remuneration paid to Transtrend employees amounted to EUR 14,579,613. Deferred variable remuneration, awarded during the period 2009-2015, represents a significant portion of this amount.

### **Code of Conduct**

Transtrend has a Code of Conduct ('Gedragcode') which its employees must adhere to. The Code of Conduct references a number of other Transtrend's policies including Transtrend's General Business Principles ('Algemeen Beleid') and Transtrend's Social Responsibility Policy ('Verantwoord Transtrend').

### **Contribution to Society**

Transtrend supports initiatives, which promote education. Firstly, because inspiring education has enabled us to do the work that we are doing. Secondly, Transtrend would not be able to sustain without well educated professionals. As Transtrend's roots are quant-oriented, we focus our efforts on quantitative education, with a special focus on stimulating such education for girls. Transtrend supports mathematics education for secondary school students in The Netherlands. Employees from Transtrend with a math or science background give guest lectures in schools or at Transtrend's office, including the Libanon Lyceum and the Calvijncollege, which are secondary schools in Rotterdam.

Transtrend acted as the main sponsor for the Dutch Interuniversity Mathematics Olympiad (LIMO) in 2016 and will also do so in 2017. Further, we are one of the partners of the Dutch Mathematics Olympiad, which is a mathematics competition for students of secondary schools, and Jet-Net (Jongeren en Technologie Netwerk Nederland).

In 2016, Transtrend made a donation to the Zadkine Fund, which supports students of the Zadkine vocational school in Rotterdam who are otherwise not able to purchase learning materials. Transtrend also financially supports a primary and lower secondary school in Pakistan. In addition, and in connection to Transtrend employees participating in the Spin for Life spinning marathon, Transtrend has sponsored the Villa Joep charity to support neuroblastoma children cancer research.

Managing Directors, 10 May 2017