

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS  
**Boussard & Gavaudan Holding Limited**

For the year ended 31 December 2020

# **Boussard & Gavaudan Holding Limited**

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**For the year ended 31 December 2020**

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**Boussard & Gavaudan Holding Limited**  
**Management and Service Providers**  
**For the year ended 31 December 2020**

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**Directors**

Andrew Henton (Chairman)  
Andrew Howat  
Sylvie Sauton

Bruce James (Appointed on 4 March 2021)

*(Directors are non-executive and independent for the purpose of LR15.2.12-A)*

**Investment Manager**

Boussard & Gavaudan Investment Management LLP  
One Vine Street  
London, W1J 0AH  
United Kingdom

**Boussard & Gavaudan Holding Limited website**

<https://www.bgholdingltd.com/index.php>

for the latest information

**Legal Advisors**

**(English and United States law)**

Herbert Smith Freehills LLP  
Exchange House, Primrose Hill  
London EC2A 2HS

**Legal Advisors**

**(Dutch law)**

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1077 ZZ Amsterdam  
The Netherlands

**Legal Advisors**

**(Guernsey law)**

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Carey House  
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Guernsey GY1 4BZ

**Independent Auditor**

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St Julian's Avenue  
St. Peter Port  
Guernsey GY1 4AF

**Administrator, Corporate Secretary and  
registered address**

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St Peter Port  
Guernsey GY1 2HT

**Sub-Administrator**

SS&C Financial Services LLC  
One South Road, Harrison  
NY 10528  
USA

**Registrar and CREST Service Provider**

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**Euroclear Nederland  
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**Listing Agent**

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**Corporate Advisor**

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**Custodian**

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PO Box 158  
Liberte House  
19-23 La Motte Street, St Helier  
Jersey JE4 5RL

# **Boussard & Gavaudan Holding Limited**

## **Glossary of Terms**

**For the year ended 31 December 2020**

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Described below are the legal entities underlying funds, management companies, as well as some other commonly used terms and their acronyms or defined terms used within this report.

### **Management companies**

BGIM / Investment Manager      Boussard & Gavaudan Investment Management LLP

### **Funds**

BGHL / the Company      Boussard & Gavaudan Holding Limited  
Umbrella Fund      BG Umbrella Fund PLC  
BGF      BG Fund (a sub-fund of the Umbrella Fund)  
Master Fund      BG Master Fund ICAV  
The Dublin Fund      BG Eire Fund ICAV

### **Commonly used terms**

AIFMD      The Alternative Investment Fund Managers Directive, Directive 2011/61/EU  
AIFM      Alternative Investment Fund Manager for the purposes of the AIFMD  
AIF      Alternative Investment Fund for the purposes of the AIFMD  
AIFMD Regulations      The Alternative Investment Fund Managers Regulations 2013 made by H.M. Treasury in the United Kingdom  
Board      The Board of Directors  
Code      The UK Corporate Governance Code published by the UK's Financial Reporting Council in July, 2018  
Companies Law      The Companies (Guernsey) Law, 2008, as amended  
Concert Party      The Investment Manager, together with persons considered to be acting in concert with the Investment Manager  
EONIA      Euro Overnight Index Average (Euro benchmark based on interbank lending)  
€STR      The Euro Short Term Rate which is the risk-free rate of the Euro area  
Exane      Exane BNP Paribas  
NAV      Net asset value  
Year      The year ended 31 December 2020  
IFRS      International Financial Reporting Standards (as adopted by the European Union)  
AFM      Authority for the Financial Markets  
AUM      Assets Under Management  
Financial Statements      Financial Statements for the year ended 31 December 2020

# **Boussard & Gavaudan Holding Limited**

## **Chairman's Statement**

### **For the year ended 31 December 2020**

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Dear Shareholders,

I am pleased to present to you the Annual Report and Audited Financial Statements of BGHL for the Year.

#### Performance during 2020

From 1 January to 31 December 2020, BGHL's NAV for the Euro and Sterling shares increased respectively by 13.26% and 10.33%, and the associated market prices increased by 12.22% and 15.38% for each currency class. As at 15 April 2021 (the last practicable date prior to publication of this report) the share price discount to NAV for the Euro shares stood at circa 18.78%.

As measured by the appreciation in NAV, the Company has delivered strong performance during a period in which economies and corporate earnings globally have been impacted by the ongoing COVID-19 pandemic. Share buy back activity was a significant contributor to NAV appreciation. Underlying investment performance was driven in the main by a combination of market volatility creating arbitrage opportunities, and from high conviction positions creating value as they catalysed. It is also of note that the fall in NAV during the first quarter of 2020 was in line with stress test modelling, and that liquidity in the underlying Master Fund portfolio has been prudently managed. Both evidence the defensive qualities of the Investment Manager's disciplined approach to risk management.

When contextualising performance, it is important to note that BGHL is an "absolute return" fund whose investment objective is to generate NAV appreciation of 400bps – 600bps above the "risk free" rate over the course of an economic cycle. Over five years the Company has generated annualised Euro share NAV appreciation (net of all fees) of 4.66% over capitalised EONIA (the benchmark used to measure the risk free rate). Correlation with equity indices is very low, and the Board remains of the view that the Company presents a valuable and increasingly rare opportunity by which investors can obtain the benefits of genuine diversification within a portfolio.

#### Share price discount to NAV

The Euro share class traded at a discount within the range of 38.6% to 21.3% during the Year. Whilst the discount has narrowed, and dealing volumes increased during the fourth quarter, the direction of travel has not been smooth. The main intervention used to address the level of discount has been the share buy-back programme. A total of 1,715,966 shares have been bought back since the corporate action which took place at the end of 2019, representing 8.46% of the Company's then issued share capital. The Board anticipated shares totalling nearer to 15% of those issued to have been repurchased during the Year, but the Manager has been constrained in its buy back efforts by the availability of sellers in the market at prevailing prices. This notwithstanding, the Board will seek both to renew its authority to conduct such share buy backs, and to utilise the limit as fully as possible for so long as the discount exceeds 15%.

The Board has explored additional measures by which to tackle the level of discount and allow shareholders to participate more fully in the value the Company generates. To this end the Investment Manager has sought to identify new investors, and the Company's reporting collateral (including the website) was refreshed during the Year. In addition, the Board (in conjunction with its advisers) has given consideration to the potential use of tender offers to provide ongoing liquidity to shareholders as announced in late 2020. However, without the support of the Investment Manager, together with such other persons considered to be acting in concert with the Investment Manager ("the Concert Party"), it is not possible to implement tender offer proposals that would achieve the dual goals of creating liquidity and increasing the wider appeal of the Company. At the time of the Board giving consideration to these proposals, the Concert Party controlled over 23% of the voting rights of the Company, and indicated that it was not in favour of any tender offer being made. The size of the Concert Party's holding increased during the Year and currently stands at 26.1%.

The Board has continued to give consideration to the potential options available to the Company and, in conjunction with its advisers, to consult with shareholders. The Board has concluded that, at this stage, it is not possible to progress either the tender offer proposals, or alternatives, as such proposals would not obtain the necessary shareholder support. The focus for the Company in the immediate term will be to continue delivering strong performance, and seeking to narrow the discount through a combination of the Investment Manager's efforts to identify new investors and the Company's share repurchase programme.

The Board recognises its duty to engage with all shareholders in a balanced manner, and will continue to do so.

#### Commitment to sustainability

BGHL does not purport to have an investment policy that is driven primarily or exclusively by sustainability considerations. However, when assessing the intrinsic value of assets, the Investment Manager has long taken into consideration factors that it believes are not fully reflected in market prices. Specifically, the increasing awareness of Environmental, Social, and Governance ("ESG") factors is regarded as a source of both positive and negative value catalysation depending on the strength of a company's ESG credentials. The Investment Manager regards

**Boussard & Gavaudan Holding Limited**  
**Chairman's Statement**  
**For the year ended 31 December 2020**

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the trend from qualitative to quantitative measures of ESG (driven by a combination of regulation and public interest) to be an ongoing source of idea generation in this regard. I would draw your attention to the Investment Manager Report where the ways in which ESG factors are embedded into the investment decision making process are described. The Board believes that BGHL, and the wider institutional investor community, are a force for good when influencing corporate behaviour in relation to sustainability because capital will increasingly flow towards those businesses which contribute towards sustainability, and away from those which do not.

Governance and risk management

Bruce James was appointed as a director on 4 March 2021 and I am pleased to welcome him to the Board. As a UK qualified solicitor who has worked in the finance sector for many years, he broadens the professional skill set of the Board. We continue to plan for and anticipate succession amongst directors in order to ensure orderly succession and the necessary maintenance of demonstrable independence. In this regard I have now served as a director for nine years and will retire from the Board before the Annual General Meeting in 2022 once a successor has been identified and appointed to assume the role of Chairman. For more details about director remuneration and the succession planning process I refer you to the Directors' Report on page 16.

With regard to the review of the business, performance, allocation and risk analysis, I refer you to the Investment Manager's Report and Financial Highlights. In addition, I refer you to the Directors' Report, which describes BGHL's corporate governance systems. The Investment Manager and the Company's other service providers continued throughout the Year to operate safely and effectively whilst complying with the restrictions associated with social distancing and working from home. The Board is highly appreciative of the commitment and dedication shown by the staff of all service providers during what has been another challenging period from an operational perspective.

For your continuing information, BGHL publishes on its website ([www.bgholdingltd.com](http://www.bgholdingltd.com)) daily and monthly NAVs and monthly newsletters based on data provided to it by the Sub-Administrator and the Investment Manager.

On behalf of the Board, I would like to thank you for your ongoing support.



Andrew Henton  
Chairman

21 April 2021

# Boussard & Gavaudan Holding Limited

## Investment Manager's Report and Financial Highlights

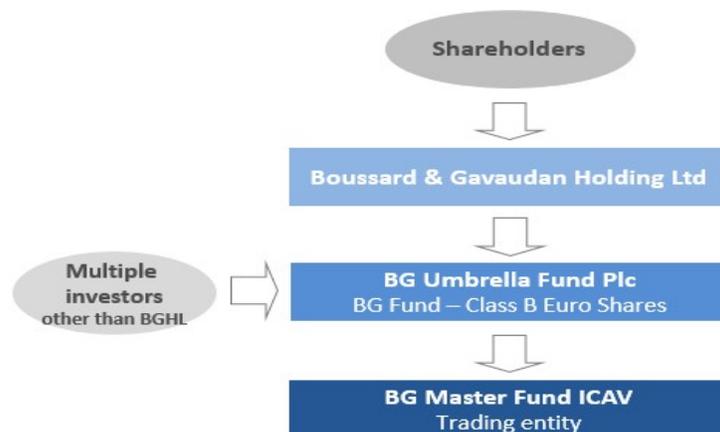
### For the year ended 31 December 2020

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## 1. Background and Structure

Boussard & Gavaudan Investment Management LLP is the Investment Manager of BGHL, the Umbrella Fund and of the Master Fund.

### *The Umbrella Fund, BGF and the Master Fund structure.*



BGHL invests in Class B Euro shares which are a separate Euro-denominated share class of BGF. BGF is a sub fund of the Umbrella Fund, predominantly owned by investors other than BGHL. BGHL is not subject to management fees and performance fees at BGF level in order to avoid multiple layering of fees. The Investment Manager receives management fees and performance fees in respect of its role as Investment Manager of BGHL.

The Umbrella Fund was incorporated under the laws of Ireland as a public company with limited liability on 16 November 2011 under the Companies Act 1990 with registration number 506116. The Umbrella Fund is authorised by the Central Bank of Ireland (the “Central Bank”) as a designated investment company pursuant to Part XIII of the Companies Act, 1990 and also as a qualifying investor alternative investment fund (QIAIF). The Umbrella Fund is structured as an umbrella fund with segregated liability between sub-funds. Each sub-fund of the Umbrella Fund maintains a single pool of assets subject to any allocations made to a class in accordance with the requirements of the Central Bank. The assets of each sub-fund are segregated from one another and are invested in accordance with the investment objectives and investment policies applicable to each such sub-fund and as set out in the relevant supplement to the Umbrella Fund’s prospectus.

BGF is a sub-fund of the Umbrella Fund, launched on 3 January 2012, which invests substantially all of its assets into the Master Fund. BGHL is therefore exposed to the strategies offered by the Master Fund.

The Master Fund is an open-ended Irish collective asset-management vehicle (ICAV) with variable capital incorporated under the laws of Ireland under the Irish Collective Asset-management Vehicles Act 2015 with registration number C154515. The Master Fund is also authorised by the Central Bank of Ireland as a QIAIF. The Master Fund, which is the trading entity, maintains a single pool of assets subject to any allocations made to a share class in accordance with the requirements of the Central Bank.

## 2 Investment policies

### 2.1 BGHL’s investment policy

BGHL invests its assets in order to deliver an exposure to multiple alternative investment strategies. The Investment Manager is responsible for the day-to-day management of BGHL’s investments. BGHL seeks to achieve its investment objective by investing the proceeds of fund raising, net of any amounts retained to be used for working capital requirements, into BGF. BGF in turn invests in the Master Fund and, by utilising its borrowing powers, makes leveraged investments. BGHL invests through a share class which will not be subject to management or performance fees at the level of the underlying hedge fund.

BGHL investments may include the acquisition of minority or majority interests in unlisted companies or listed companies. The Investment Manager may also make private equity investments through investing in funds that have a private equity investment focus.

When taken with the returns achieved from BGF, investments other than the investment in BGF as described above are intended to allow BGHL to achieve an attractive return. BGHL’s investments in assets other than BGF are expected to consist of investment opportunities that are identified by the Investment Manager but which are not pursued by BGF due to risk profiles or liquidity profiles inconsistent with those of BGF.

The full investment policy, which includes gearing and allocation is available on BGHL’s website.

# **Boussard & Gavaudan Holding Limited**

## **Investment Manager's Report and Financial Highlights**

### **For the year ended 31 December 2020**

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#### **2.2 The Master Fund's investment policy**

The investment objective of the Master Fund, in which BGF is mainly invested, is to seek to achieve an attractive return on capital consistent with principles designed to manage risk of capital loss. The Master Fund arbitrages linear and non-linear instruments that can be exchange traded or traded over the counter. The Investment Manager may use derivative financial instruments for investment purposes or to hedge against fluctuations in the relative values of the Master Fund's portfolio positions. The investments are subject to normal market fluctuations and to the risks inherent to investment in securities. There can be no assurances that appreciation will occur. The value of financial instruments can increase as well as decrease and the Master Fund may not realise its initial investment on the disposal of its investments.

The Master Fund carries the following strategies and sub-strategies:

Volatility strategies:

- mandatory convertible bond arbitrage
- convertible bond arbitrage
- volatility trading

Equity strategies:

- merger arbitrage & special situations
- long / short trading with short-term catalyst & value

Credit strategies:

- credit long / short
- capital structure arbitrage
- restructuring / distressed securities strategies

Trading strategies:

- Quantitative strategies involving the use of models and data analysis based on factors. Factors may include economic indicators, market data, fundamental, and valuation factors.

#### **3. Highlights and review of the development of the business**

The Investment Manager's role is to allocate BGHL's capital in accordance with its investment objective which is to produce long term appreciation of BGHL's assets. Except for its working capital, BGHL has fully invested its net assets.

The increase in net assets was driven by the positive performance of the investment portfolio, which more than compensated for the significant reduction in net assets associated with the share buyback programme.

<b>BGHL (in Euro)</b>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>	<b>Variation %</b>
Net assets	357,447,454	348,724,824	2.50%

The ongoing COVID-19 pandemic remains the most significant event affecting the Year. The business continuity plan remains enacted within the Investment Manager's London and Paris offices. During pandemic peaks, substantially all staff have been working from home. The dual location of systems and teams in Paris and London means that there is an embedded level of resilience and IT redundancy that provides a degree of additional risk mitigation. Systems are such that trade execution and position management have continued with no substantive procedural changes. Measures remain in place by which to monitor and oversee performance delivered by service providers notwithstanding requirements for remote working and social distancing.

The impact of COVID-19 on global economies has impacted the financial markets in which the Investment Manager invests. The extensive range of stress tests performed at Master Fund level has proven effective in allowing the Investment Manager to model position taking and contain downside risk through effective hedging. Leverage is monitored prudently as described in section 6.2 below.

The Investment Manager is committed to maintaining an investment approach that incorporates ESG factors as well as responsible investment considerations to best serve its clients' interests. The Investment Manager is committed to playing its role in the transition to a lower carbon global economy, as it considers climate change a key issue for the future as well as a source of risks and opportunities.

# **Boussard & Gavaudan Holding Limited**

## **Investment Manager's Report and Financial Highlights**

### **For the year ended 31 December 2020**

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The Investment Manager's ESG strategy is built on three key pillars:

- (1) Integration: The Investment Manager considers ESG factors as part of its investment decision making process, particularly where they are relevant to the specific investment thesis.
- (2) Engagement: The Investment Manager seeks to obtain appropriate disclosure of ESG issues from investee companies. The Investment Manager engages with investee companies for which it has identified specific issues or concerns, including ESG, to obtain additional information and insight.
- (3) Transparency: At portfolio level, the Investment Manager calculates exposure to a variety of ESG metrics to ensure that its funds are not overly exposed to ESG related risks.

The last year has seen a significant acceleration in the adoption of ESG principles across the investment community, driven by a combination of increased awareness, regulation, and new investment mandates from asset owners along with growing requirements for increased transparency. Consequently, asset prices are increasingly affected by ESG considerations and the associated data and analysis is becoming more important on many levels.

In this context, the Investment Manager has made progress to further integrate ESG considerations into its investment processes, to improve reporting and to position the firm and its funds to best serve investors. Below are highlights of progress made during 2020 in each of the three pillars of the ESG strategy:

1. Constitution of a formal ESG Committee, further developing BGIM's commitment to ESG principles.  
The ESG Committee is tasked to put the Investment Manager at or ahead of industry best practice through the implementation and ongoing review of policies and procedures regarding ESG. The committee meets to review progress on various initiatives, develop strategy and provide oversight of specific ESG factors and regulation relevant to the funds managed and wider business.
2. The Investment Manager's ESG policy has been updated and expanded to reflect recent progress.  
The full text including updated policies on coal and Diversity & Inclusion can be found on BGIM's website: <https://www.boussard-gavaudan.com/en/p/24/esg-policy>
3. ESG training for all BGIM employees.  
Incorporating ESG principles requires effort at every level of the firm. BGIM has scheduled regular training sessions to ensure all employees understand the principles of ESG, and their individual opportunities to contribute both specifically and generally to the broader effort.
4. Integration of ESG principles within the investment process (1st pillar)  
ESG is considered throughout the investment process, starting with initial consideration and screening of new products or companies, to idea generation, investment decision making and ongoing risk management. BGIM has contracted specialised third-party ESG data providers, primarily Sustainalytics, to help produce research that complements the work of BGIM's analysts. As part of its investment and risk management process the Investment Committee spends time scrutinising companies perceived to have high ESG risk. The increasing importance of ESG considerations in financial markets creates new opportunities for catalyst-driven investment, creating opportunities that fit within BGIM's investment strategy. For example, whilst a company may be penalised by the market for perceived ESG risks within its business, a pathway to addressing those issues and improving its ESG profile will likely lead to a re-rating of its stock price.
5. Engagement with companies (2nd pillar)  
Engagement is an important part of the investment process and, as well as using third party data sources, the Investment Manager seeks to engage directly with, and obtain appropriate disclosure of ESG issues from investee companies. The Investment Manager engages with investee companies for which it has identified specific issues or concerns, including ESG, in order to obtain additional information and insight and to influence change. BGIM had approximately 356 management meetings or interactions with management during 2020 and proactively votes in relation to material positions and issues within its portfolios.
6. Transparency (3rd pillar)  
At a portfolio level, BGIM calculates exposure to a variety of ESG metrics to ensure that its funds are not overly exposed to ESG-related risks. These metrics are monitored by the Risk Committee and ESG Committee so that both viewpoints are considered. These metrics are also used for client and regulatory reporting. The quality of reporting will improve as data from more investee companies becomes available. The plan for 2021 is to extend the scope of these metrics to cover energy, biodiversity, waste, water, social impact, human rights and corruption.

# Boussard & Gavaudan Holding Limited

## Investment Manager's Report and Financial Highlights

### For the year ended 31 December 2020

#### 4. Performance

BGHL's Euro and Sterling Share prices and NAV per Share performed as follows:

BGHL	Ticker Bloomberg	Price*		Performance	
		31 Dec 20	31 Dec 19	2020	5 years annualised
Euro share – Price	BGHL NA Equity	€ 20.20	€18.00	12.22%	4.65%
Euro share – NAV	-	€ 25.94	€22.90	13.26%	4.66%
Sterling share – Price	BGHS LN Equity	£18.00	£15.60	15.38%	5.76%
Sterling share – NAV	-	£22.77	£20.64	10.33%	4.70%

EONIA Capitalized	EONCAPL7 Index	138.32	138.97	(0.47)%	(0.38)%
€STR Capitalized	ESTRON Index	(0.583)	(0.531)	(0.55)%	-

Euro Index					
HFRX Equal Weighted Strategies Index	HFRXEWE Index	1,112.71	1,068.85	4.10%	0.47%

US Dollar Index					
HFRX Equal Weighted Strategies Index	HFRXEWE Index	1,344.47	1,271.68	5.72%	2.77%

\*Price for all indexes excepted €ster where it is a yield.

BGHL's NAV is calculated by BGHL's Sub-Administrator, SS&C Financial Services LLC. BGHL's Euro and Sterling Share prices are provided by Euronext Amsterdam and the London Stock Exchange, respectively. Past performances are not indicative of future results.

The NAV appreciation of the Euro Share was 13.26% over the Year and 4.66% annualised over the past five years. The capitalized EONIA returned (0.38)% over the past five years, leading to an outperformance by the fund of 5.04%, in line with its long term objective. BGHL's investment objective is to deliver an annual return, net of fees, of 400 to 600 basis points above the "risk free rate" over the business cycle, irrespective of market performance. The risk free rate for these purposes is "capitalized EONIA". The €STR capitalized index, published since October 2019, will progressively replace the EONIA Index which is expected to cease being published on 3 January 2022.

BGHL has outperformed the Euro HFRX Equal Weighted Strategies Index over the past five years. As BGHL is invested in a Euro share class, the comparator disclosed above is a Euro based hedge fund index. The difference compared to its US Dollar based equivalent is due to hedging costs reflecting the interest rate differential between the two currencies.

The Investment Manager's actions affect BGHL's performance and NAV per Share. Although the NAV per Share influences BGHL's Share price on the Amsterdam and London stock exchanges, the Investment Manager has little direct influence on the Share price and on the discount between the Share price and the NAV per Share. The performance of BGHL's Sterling NAV per share tracks the performance of BGHL's Euro NAV per share, plus/minus the impact of the EUR/GBP hedge compared to a perfect hedge.

#### 5. Risk Management

Through a rigorous investment process, the Investment Manager identifies and assesses risks before investing.

##### 5.1 Risk Management Organisation and Policy

The Investment Manager has established a Risk Management unit, segregated from the Portfolio Management unit, which reports to its Chief Executive Officer. Risks and responsibilities are split between the Quantitative Risk Management team which is in charge of market risk and the Qualitative Risk Management team which is in charge of counterparty and operational risk. A Risk Management Committee oversees the Risk Management unit. Exposures are calculated using a risk management system which is a third party proprietary software package provided by a leading risk and portfolio management solution provider. The system provides extensive real time information on the Master Fund's exposures and limits, generates sensitivity analyses and calculates stress-test scenarios. The open architecture of the system allows the Investment Manager to create specific in-house reports for risk management purposes.

##### 5.2 Capital allocation process and Equity-at-Risk methodology.

The Investment Manager uses the "Equity-at-Risk" methodology as a key indicator to monitor the leverage and solvency of the Master Fund and to allocate capital across strategies. Within each strategy, the Equity-at-Risk allocated to each trade is used to calculate the return on equity which is the ratio used to assess the profitability of a trade. The Investment Manager secures the "Excess Margin" of the funds it manages by signing agreements which allow "Haircut" levels to be fixed over a pre-agreed period of time.

# Boussard & Gavaudan Holding Limited

## Investment Manager's Report and Financial Highlights

### For the year ended 31 December 2020

#### *Equity-at-Risk and Excess Margin methodology*

Prime brokers, when providing financing to hedge funds, take a risk that they assess using their own methodology. Even though each prime broker has its own methodology and risk measure, approaches tend to be similar. Risk measures are achieved by the use of "Haircuts". Haircuts reflect the level of risk attributed by a prime broker to a position. The higher the level of haircut, the higher the risk is. These methodologies take into account, to a large extent, the benefits of hedging by applying specific haircut and netting effects to hedged positions. Under these methodologies, an amount of equity, considered at risk, is allocated through the use of haircuts to each position. Each prime broker calculates its risk exposure to the sole portion of the fund's portfolio it holds. Given that prime brokers are the main financing and leverage providers, their view of the risk is central to the Investment Manager and so is the consequence of any restriction they may impose. Their measure constitutes an independent risk measurement.

The Investment Manager replicates the methodology applied by prime brokers through a model, named "Equity-at-Risk". The model, applied to the entire portfolio, is a proxy for the calculations of the prime brokers. The difference between the assets under management and the Equity-at-Risk is the "Excess-Margin". The level of Excess-Margin is the level of spare risk to increase positions or enter into additional ones without having to raise additional cash. An Excess-Margin of 25%, which corresponds to a 75% level of Equity-at-Risk, means that the Master Fund can theoretically increase all of the positions in its portfolio by approximately 33% without having to raise further cash. The model provides an estimation of the fund's potential for additional leverage across its prime brokers. Equity-at-Risk calculations are run every night and compared to the prime broker's calculations.

## 6. Capital allocation, risk and risk adjusted returns:

### 6.1 BGHL exposure

BGHL's investments are diversified thanks to its exposure, through BGF, to the investment strategies of the Master Fund which is its main investment.

BGHL's assets were allocated as shown in the table below.

	Holding in % AUM		
	31-Dec-20 Exposure	Minimum Period Exposure	Maximum Period Exposure
BGHL	102.33%	98.71%	102.33%
BGF Euro B Class – NAV	100.00%	100.00%	100.00%
BGF Euro B Class – Under exposure	2.00%	(2.68)%	2.00%
Other Investments	0.33%	1.39%	0.33%

*Source: Boussard & Gavaudan Investment Management LLP*

*BGF Euro Class B's NAV is calculated by the Administrator, SS&C Financial Services LLC*

During the reporting Year, BGHL complied with its Investment Policy and has maintained its gross and commitment exposure, as required under AIFMD, within the limits established by the Investment Manager.

BGHL % AUM	AIFMD Commitment method		AIFMD Gross method	
	Exposure	Limit	Exposure	Limit
31 December 2020	99.0%	200.0%	100.0%	200.0%
31 December 2019	99.5%	200.0%	100.9%	200.0%

### 6.2 The Master Fund exposure

The Master Fund's investments are diversified thanks to its exposure to its multiple investment strategies. The Investment Manager allocates the capital of the Master Fund according to the Equity-at-Risk methodology.

The Master Fund's usage of Equity-at-Risk by strategy were as follows:

Master Fund (% AUM)	Equity-at-Risk	
	31 December 2020	31 December 2019
Volatility strategies	8.51%	3.30%
Equity strategies	44.05%	35.50%
Credit strategies	13.04%	10.50%
Trading	5.31%	10.60%
Others	-	1.60%
<b>BGF Euro B Class – NAV</b>	<b>70.91%</b>	<b>61.50%</b>
<b>Excess Margin</b>	<b>29.09%</b>	<b>38.50%</b>
<b>Total Risk</b>	<b>100.00%</b>	<b>100.0%</b>

*Source: Boussard & Gavaudan Investment Management LLP*

# Boussard & Gavaudan Holding Limited

## Investment Manager's Report and Financial Highlights

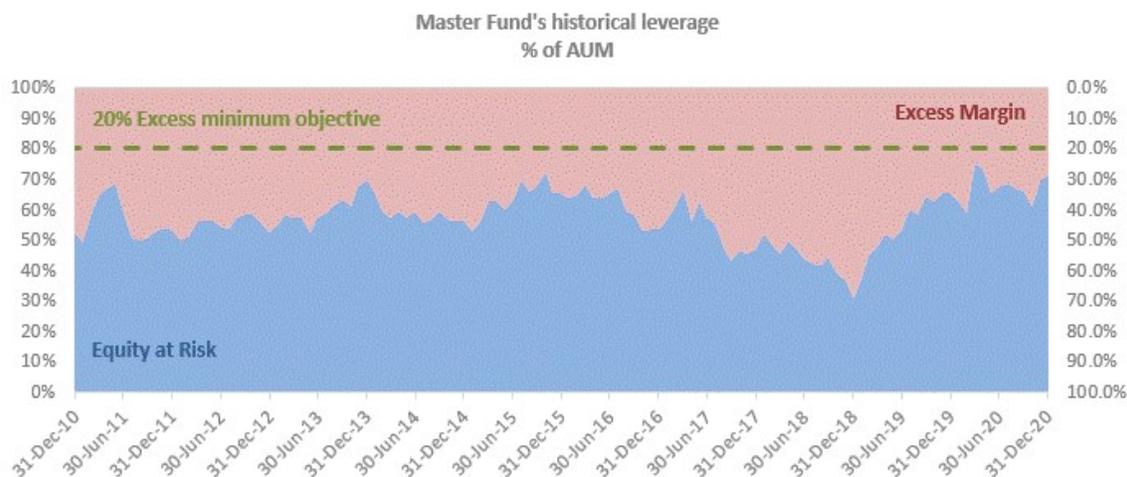
### For the year ended 31 December 2020

The Investment Manager is very selective when deploying Equity-at-Risk and seeks to maintain, at the Master Fund level, a prudent Excess-Margin level at any time.

The Year has been marked by the Covid-19 outbreak. The Eurostoxx 50 TR dropped dramatically and was down as much as (36)% by mid-March before gradually rallying back to finish down (3)% at the end of year. The VStoxx started the Period at 14%, peaked at 85% by mid-March and finished up at 23%.

The significant market dislocation in March, during which the Master Fund maintained robust levels of excess margin, created a wide array of opportunities some of which have been largely absent for the last 5 to 10 years. The Investment Manager used the excess capital and the market stress to add to highest conviction positions and in addition has been building positions in new opportunity areas.

The graph below illustrates the evolution of the Master Fund's leverage.



Source: Boussard & Gavaudan Investment Management LLP

During the Year, the Master Fund complied with its Investment Policy and has maintained the gross and commitment exposures, as required under AIFMD, within the limits established by the Investment Manager.

Master Fund %AUM	AIFMD Commitment method		AIFMD Gross method	
	Exposure	Limit	Exposure	Limit
31 December 2020	563.6%	700.0%	723.6%	2,000.0%
31 December 2019	412.8%	700.0%	593.5%	2,000.0%

Source: Boussard & Gavaudan Investment Management LLP

The Investment Manager monitors carefully the risk of the asset classes to which the Master Fund is sensitive. The main asset classes are the equity, credit and volatility asset classes whose sensitivities are shown and explained below.

Asset Class	Index	Ticker Bloomberg	31 December 2020		31 December 2019	
			Master Fund's beta vs Index (5 years)	Index volatility (5 years)	Master Fund's beta vs Index (5 years)	Index volatility (5 years)
Equity	Stoxx 600	SXXP index	0.13	16.74%	0.03	13.80%
Credit	Bbg Barclays Euro Aggregate Corporate TR	LECPTRU index	1.17	3.09%	0.40	2.17%
Interest rate	Bloomberg / EFFAS	BCEE1T Index	0.41	3.64%	0.13	3.90%

Source: Boussard & Gavaudan Investment Management LLP

**Equity.** A beta sensitivity of 0.10 versus an index means that if the index increases or decreases by 1%, the Master Fund is likely to increase or decrease by 0.1%. The "Stoxx 600" index is an equity market index which represents large, mid and small capitalisation companies across the main countries of the European region.

**Credit.** The "Bbg Barclays Euro Aggregate Corporate TR" index is a credit market index which includes Euro issues from corporate entities. The Investment Manager believes that these indices are the most relevant equity and credit indices to compare the Master Fund with.

# Boussard & Gavaudan Holding Limited

## Investment Manager's Report and Financial Highlights

### For the year ended 31 December 2020

Interest Rate. Given that interest rate risks are essentially hedged, the Master Fund has low beta sensitivity versus the "Bloomberg/EFFAS" index which is a government bond market index.

Asset Class	Master Fund's Vega
Volatility	17 basis point by volatility point

Source: Boussard & Gavaudan Investment Management LLP

Volatility. A vega sensitivity of 1 basis point means that an increase in volatility by 1 percentage point leads to a performance of 0.01% for the Master Fund. The Vega measures the sensitivity to volatility for a given instrument. For a given instrument, it is the derivative of its price with respect to the volatility of its underlying. The Investment Manager considers the Vega to be the best proxy of the Master Fund's sensitivity to volatility and believes there are no relevant indices to compare its volatility sensitivity against.

## 7. Performance analysis

### 7.1. Detailed allocation and performance analysis of BGHL

The Master Fund contributed 15.19% (15.66% NAV and (0.47)% Leveraged) to BGHL's performance during the Year.

BGHL's assets performed as shown in the table below.

	Euro Share	Sterling Share
<b>BGHL - Performance 2020</b>	<b>13.26%</b>	<b>10.33%</b>
BGF Euro B Class - NAV	15.66%	15.66%
BGF Euro B Class – Under exposure	(0.47)%	(0.47)%
Other Investments	(0.26)%	(0.26)%
Foreign Exchange	-	(0.01)%
Share buyback	2.77%	-
Fees, miscellaneous	(4.44)%	(4.59)%

### 7.2. Detailed allocation and performance analysis of the Master Fund

Master Fund (% AUM)	Performance 2020
Volatility strategies	5.07%
Equity strategies	4.65%
Credit strategies	0.55%
Trading	5.39%
Others	0.00%
<b>BGF Euro B Class – NAV</b>	<b>15.66%</b>

The Master Fund's excess returns were primarily attributed to volatility strategies (notably mandatory & convertible bond arbitrage), equity strategies (especially event driven, equity risk arbitrage & special situations), and trading strategies.

We remain extremely positive on the event driven, arbitrage and volatility environment in Europe. Corporate activity has started to accelerate and M&A is expected to remain strong into and beyond 2021. Strategic and industrial buyers are becoming increasingly active in Europe and combined with readily available financing and significant private equity dry powder, the event driven opportunity set will remain extremely exciting. Likewise, with increasing levels of corporate activity and potential for a COVID vaccine recovery really driving certain sectors, the issuance of hybrid paper - notably mandatory convertibles and convertible bonds - will continue to provide an interesting environment for relative value arbitrage and volatility strategies.

With Brexit now largely in the rear view mirror, the increasing roll out of COVID-19 vaccines and the likelihood of a more positive international trade policy by the incoming US administration, we expect a relative and absolute tail wind for European opportunities.

#### Volatility strategies

##### *Mandatory Convertible Bond Arbitrage*

Mandatory convertible bonds contributed positively during the period. The largest contribution came from a number of transactions with multiple counterparties on existing private mandatory type positions on which we were very active. We view these privately syndicated deals as a continuing source of deep opportunity.

Apart from these deals, flows in traditional mandatory convertibles were relatively limited and nothing new has come to the primary markets.

# **Boussard & Gavaudan Holding Limited**

## **Investment Manager's Report and Financial Highlights**

### **For the year ended 31 December 2020**

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#### *Convertible Bond Arbitrage*

Convertible bonds contributed positively to the performance of the Master Fund for the Year. The inventory prior to March was intentionally light and we have been able to identify many opportunities in April even though liquidity remained limited. We selectively added to our conviction trades and benefitted from new attractive convertible which generated performance.

#### *Volatility Trading*

Volatility trading contributed positively to the performance of the Master Fund. During the month of March, both implied and realised volatility jumped significantly higher across all asset classes. Our various volatility positions (mainly single stock and index gamma exposures, volatility swap dispersion, FX volatility, VIX strategies and some light exotic exposures) benefitted significantly from this change of regime and positions behaved well during the market turmoil.

We took a cautious approach when volatility started to move up and increased our positive convexity, buying additional gamma and avoiding holding any kind of positive carry positions.

Despite some deterioration in liquidity we also managed to monetize and exit a number of positions where implied levels became very elevated during the extreme stress and market panic.

After March, we continued to carefully monitor the whole volatility space and traded new opportunities as they arose. Bid/offer costs were then higher than pre-crisis and we remained vigilant in assessing the risk reward profile of any new positions.

#### *Warrant arbitrage*

Warrant arbitrage contributed positively.

#### Equity Strategies

Equity strategies were a positive contributor to the Master Fund's performance. The risk arbitrage and special situations strategies performed extremely well as the environment became very favorable to corporate activity after the March drawdown. We remain extremely positive on the event driven, arbitrage and volatility environment in Europe for 2021. For the rest of the portfolio, we were able to recover part of the March loss via selectively investing in high conviction trades that dropped significantly during the market turmoil.

#### Credit Strategies

##### *Capital Structure Arbitrage*

Capital Structure Arbitrage was flat during the Year.

##### *Credit Long / Short*

Credit long / short made a positive contribution. We managed to gradually recover from the loss suffered in March benefiting from an overall improvement of all credit sectors which had been lagging so far but finally came back to pre-COVID-19 levels at the end of the Year.

##### *Credit Special Situations*

Credit special situations contributed positively as we benefitted from the restructuring of some of our positions.

##### *Direct Lending*

The Master Fund invests in loans originated by Fiduciam Nominees Limited (<https://fiduciam.co.uk>). Fiduciam makes loans to small and medium sized enterprises in several Western European jurisdictions. The loans are secured on real property. The size of the portfolio at the end of the Period was circa €66 million and the contribution to the Master Fund's performance was positive.

#### Trading

Trading contributed very positively before, during and after the March 20 crisis. The Equity Quantitative strategy performed extremely well thanks to a defensive positioning while the market collapsed. The portfolio also benefitted from the systematic trend following strategy and the accurate positioning of the macro strategy, especially on gold.

# **Boussard & Gavaudan Holding Limited**

## **Investment Manager's Report and Financial Highlights**

### **For the year ended 31 December 2020**

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#### **7.3. Detailed performance analysis of assets other than the Master Fund**

In addition to its investment in the Master Fund, BGHL has an investment in Rasaland Investors plc (“RLI”) which net asset value, at the end of the Year, represented 0.28% of the net asset value of BGHL. The contribution of RLI was negative for the Year: RLI paid an extraordinary distribution and made a significant share buyback transaction at a discount. The fair value of RLI was revised according to the share buyback transaction, reducing the valuation of the RLI investment.

RLI is a Malta-based holding company structured as a private equity fund in terms of fees and organisation and is managed by BK Partners. RLI invests in land, hotels and high-end resort developments in Mexico. RLI's main asset is a majority interest in ACTUR another private company. ACTUR's other shareholders are Mexican public institutions. ACTUR owns land development assets.

On 4 March 2020, ACTUR successfully completed the sale of its stake in the publicly traded company RLH Properties. RLI decided to return circa 80% of the sale proceeds to shareholders, i.e. a US\$0.2773 per share distribution.

In June 2020, the RLI shareholders approved a further extension of RLI's life term from January 2022 to January 2027. As the land development is projected to take at least another 10 years, the Investment Manager anticipates RLI's investment in ACTUR to be further extended in the future. The life extension is the driver of the Investment Manager's application of a significant discount to carrying value, and motivator for looking to the secondary market for an exit.

On 6 July 2020, RLI made a share buyback tender offer for a fixed price per share (post-distribution) of US\$0.12270. The purpose was to offer smaller shareholders an opportunity to exit. Exiting shareholders were entitled to receive the US\$0.2773 per share distribution. Hence, exiting shareholders received a total of US\$0.40 cash per share.

The total consideration of US\$0.40 per share received by exiting shareholders (i.e. tender price + distribution) is a 55% discount to the latest published pre-distribution NAV per share of US\$0.88631 as at December 2020. The tender price is an 80% discount to the latest published post-distribution NAV per share of US\$0.60901 as at December 2020.

RLI simultaneously made an offer to issue new shares in order to finance the share buyback. The same number of shares will be issued and bought back at the same discounted price per share of US\$0.12270.

The offer expired on 6 August 2020. Shareholders representing approximately 11.71% of the share capital elected to participate in the share buyback. BGIM elected not to participate in the share buyback tender and not to participate in the share issue.

Following the result of the share buyback offer, the Investment Manager's valuation committee uses the tender price to fair value its RLI position. This valuation applies a circa 80% illiquidity discount to the post-distribution Net Asset Value released by RLI's administrator.

#### **8. Review of important events since the end of the Year**

There have been no important events except for those disclosed in note 16 of the Financial Statements.

#### **9. Principal and Emerging Risks and Uncertainties**

The principal risks and uncertainties are listed and described in the Directors' report. The Investment Manager views key risks to be as follows:

- the level of return generated relative to market returns, and the relative variability in those returns;
- the impact on NAV if sudden materially adverse movements occur in financial markets; and
- valuation or liquidation of assets (including assets held within the Master Fund on a look-through basis) which cannot be priced by reference to observable prices in a liquid market.

BGHL's main investment exposures, including the main risks to which the Master Fund is exposed, have been described in this report. The key market risks are equity price risk, interest rate risk, foreign currency risk, credit risk, volatility risk and liquidity risk. In addition, the Master Fund has exposure to a diversified range of idiosyncratic risks relating to individual corporate entities. The diversified nature of the investments within the Master Fund mitigates the apparent concentration risk within BGHL.

The Investment Manager aims to continue to perform in accordance with its long-term objective of delivering consistent NAV appreciation. The Equity-at-Risk of the Master Fund is deployed into attractive investment

# **Boussard & Gavaudan Holding Limited**

## **Investment Manager's Report and Financial Highlights**

### **For the year ended 31 December 2020**

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opportunities that are identified. These investments are generally made with the benefit of leverage at the Master Fund level.

In terms of headline risks to the Master Fund in 2020 and into 2021, the rapid spread of the COVID-19 virus and its material effect on global economic activity has superseded all others. Its potential impact is likely to persist throughout 2021 and possibly thereafter. The pandemic is expected to have a continued material adverse impact on global GDP by virtue of the disruption caused to supply chains, combined with sharply reduced demand in certain industry sectors. While there are good signs of recovery for the global economy into 2021 the journey is likely to be an uncertain one with risk of viral mutations and further economic lockdowns. The Investment Manager seeks actively to protect positions against systematic risks such as a macro or exogenous sell-off such as from COVID-19, however the scale of the viral outbreak, and the measures that continue to be implemented by national governments to contain it are unprecedented and the outcome remains uncertain.

In addition to the COVID-19 pandemic, unprecedented fiscal and monetary stimulus may generate significant consequential macro-economic risks such as excessive inflation. Other risks remain following the formal exit of the UK from the European Union and tensions in the geo-political environment have been exacerbated by the pandemic, threatening global growth with shifting alliances and the restructuring of trade deals. The risks of climate change and from damage to the environment are also starting to become more apparent both for the corporate world and on society at large.

Brexit and its impact on Sterling versus the Euro had no material impact on BGHL's hedging programme. The Euro base currency, which is also the functional currency of BGHL, creates potential FX exposure for Sterling share investors and, to protect the starting capital in Sterling terms against Euro/Sterling FX moves during the month, the starting capital is hedged with a Euro /Sterling FX forward rolled on a monthly basis. Hedges are rolled only on the starting capital each month and Sterling share investors remain exposed to intra-month currency risk on the profit or loss made in Euro terms over the course of each month.

The Investment Manager is comfortable that BGHL currently has enough liquidity to meet all expenses over the coming 12 months. A long-term liquidity gating at the Master Fund level would still allow BGHL to receive at least 10% of any redemption request. The low fixed cost base of BGHL, with operating expenses (excluding performance fees) representing less than 2% of its NAV, means that enough liquidity can be maintained to meet those predictable expenses.

As regards RLI, the illiquid nature of the investment and the political environment in Mexico are factors which could potentially push down its carrying value further. The valuation of RLI is already marked at a significant discount to its net asset value however, and the Investment Manager believes further downside risk on this investment is limited.

Boussard & Gavaudan Investment Management LLP  
Acting by its managing member,  
Boussard & Gavaudan Partners Limited

21 April 2021

# **Boussard & Gavaudan Holding Limited**

## **Directors' Report**

### **For the year ended 31 December 2020**

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The Directors present their annual report and audited financial statements for the Year.

#### **Principal Activities**

BGHL's investment objective is to deliver an annual return, net of fees, of 400 to 600 basis points above the "risk free rate" over the business cycle, irrespective of market performance. The risk free rate for these purposes is "capitalized EONIA".

During the Year, BGHL continued to invest substantially all of its net assets in BGF, a feeder fund fully invested in the Master Fund. The Master Fund implements diversified investment strategies, including volatility, equity and credit strategies. The overall investment objective of the Master Fund is to provide investors with consistent absolute returns primarily through investing and trading in the financial instruments of companies incorporated in, or whose principal operations are in Europe.

In addition to its investment in BGF and as described in BGHL's offering memorandum and investment policy, BGHL enters into other investments, including private equity investments.

#### **Performance of Investment Manager and Continued Appointment**

From 1 January to 31 December 2020, BGHL's NAVs for the Euro and Sterling shares increased by 13.26% and 10.33% respectively, whilst BGHL's market price increased by 12.22% and 15.38% respectively.

NAV appreciation in 2020 significantly outperformed the target, but the more important 5 years annualised performance of 504bps above capitalised EONIA for the Euro share class was firmly within the target range. Beta correlation remains very low, and in its review of the Investment Manager's performance the Board has been pleased to note the absence of "style drift". Whilst performance in 2020 reflects a number of conviction positions being catalysed, the Investment Manager continues to generate new ideas which augur well for the future.

As a consequence of the restructuring of the Company in 2019, the number of shares in issue fell by approximately 47.25%. With the cost base of the Company largely fixed, the Total Expense Ratio in 2020 was 169bps compared to 158bps during the year ended 31 December 2019. 95% of total expenses (excluding any performance related fees) comprise management fees payable to the Investment Manager determined as a fixed percentage of NAV.

BGIM was appointed as Investment Manager and AIFM by BGHL, BGF and the Master Fund on 21 July 2014. The Investment Manager was registered on 5 November 2013 as a limited liability partnership or "LLP" in England and Wales for the purpose of complying with AIFMD Regulations, and the Investment Manager was authorised by the FCA on 11 July 2014 to perform the regulated activity of managing an AIF and remains so authorised.

The Board has reviewed the performance of the Investment Manager since the date of its appointment and is satisfied that the continued appointment of the Investment Manager on the terms agreed is in the interests of the shareholders. Please refer to the Investment Manager's Report for a review of the performance of BGHL over the Year. Please also refer to note 8 to the financial statements for further details on the terms of the investment management agreement.

#### **Results for the Year and State of Affairs at 31 December 2020**

The Statement of Financial Position and the Statement of Comprehensive Income for the Year are set out in the audited financial statements.

#### **Directors**

The Directors as at 31 December 2020 were:

- Andrew Henton, Chairman;
- Andrew Howat, Senior Independent Director; and
- Sylvie Sauton

Bruce James was appointed a Director of the Company on 4 March 2021. The Company engaged OSA Recruitment Limited ("OSA"), to manage the process of identifying an additional Director, and that firm actively sought out candidates who would bring additional diversity to the Board. Interviews were conducted with six short listed candidates prior to the selection and appointment of Mr James. OSA had no prior connection with the Company.

Biographies for each director are published on the Company website.

BGHL's articles of incorporation require that all Directors who held office at the two preceding annual general meetings shall retire and, if willing, offer themselves for re-election. Each of the directors was re-elected by the Company's shareholders at the annual general meeting held on 29 July 2020. It is the Company's policy for all directors to offer themselves for re-election annually in order to comply with the Code.

# Boussard & Gavaudan Holding Limited

## Directors' Report

### For the year ended 31 December 2020

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#### Directors' interests in shares

As of 31 December 2020, Directors are invested in shares of BGHL as below:

Name	Number of shares
Andrew Henton	6,000
Sylvie Sauton	6,177
Andrew Howat	-

#### Significant shareholders

As at 31 March 2021, to the best of the knowledge of the Directors, the following shareholders owned more than 3% of the Company:

Emmanuel Gavaudan	13.86%
Kempen	9.01%
M&G Plc	4.84%
Smith & Williamson	5%
Boussard & Gavaudan Gestion	5.67%

The Concert Party owned 26.1% of the issued share capital as at 31 March 2021.

The information disclosed has been collected from the AFM Website as of 31 March 2021. The figures are those disclosed at the time of disclosure and may have varied with the cancellation or conversion of shares.

#### Share buy-back programme and Liquidity Enhancement Agreement

BGHL's shares are dual listed on the London Stock Exchange and Euronext Amsterdam.

Since its listing, BGHL has operated a share buyback programme approved at each annual general meeting by its shareholders. Historically, this programme has been the key methodology by which the Board has sought to reduce the discount to the prevailing NAV at which BGHL's shares are trading, and to improve liquidity in the shares. However, although the Board seeks to minimise its level, such discount is largely driven by market forces beyond BGHL's control. BGHL's share buy-back programme is financed by redemptions of BGF shares. BGF has monthly liquidity, which means that redemptions are payable once in every calendar month. On 29 July 2020, the shareholders renewed BGHL's authority to make market purchases of its shares.

Any repurchases under the Share buy-back programme will be made at a discount to the prevailing NAV and will therefore be accretive to the NAV. They will therefore contribute to the different performance of BGHL's NAV relative to that of BGF.

BGHL is only allowed to acquire its own shares with the prior approval of its members in general meeting and that authority is limited to a maximum of 14.99% of its issued share capital.

During the Year, BGHL bought back the following number of Euro shares representing 6.99% of its issued share capital. No Sterling shares were repurchased.

Repurchase of own shares for the Year ended:	31 December 2020	31 December 2019
Treasury Shares	1,415,966	300,000
Average Gross Price	€17.64	€17.55
Net Amount Euro	€24,985,417	€5,266,580

The discounts of the shares with respect to their NAVs were as follows:

Discount to NAV	31 Dec 2020	31 Dec 2019
Euro Shares	(22.1)%	(21.4)%
Sterling Shares	(20.9)%	(24.4)%

# Boussard & Gavaudan Holding Limited

## Directors' Report

### For the year ended 31 December 2020

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Below is a graph showing the discount to their NAV at which BGHL's Euro shares have traded and the Euro share buy-back activity since BGHL's inception.



The Board has committed to put forward a continuation vote at the end of 2022 if the level of prevailing share price discount to NAV over the immediately preceding twelve months exceeds 15%.

#### Governance

As a closed-ended investment company incorporated in Guernsey with a premium listing on the Official List of the UK Listing Authority, BGHL is required to include a statement in its Annual Report as to whether BGHL has complied throughout the accounting period with all relevant provisions set out in the Code or, if not, setting out those provisions with which it has not complied and the reasons for non-compliance. The Company is also subject to the Guernsey Financial Services Commission ("GFSC") Finance Sector Code of Corporate Governance (the "GFSC Code"), which came into effect on 1 January 2012. Companies which report in accordance with the Code are deemed to meet the requirements of the GFSC Code.

The Board places a high degree of importance on ensuring that high standards of corporate governance are maintained and has adopted the Code, which sets out principles of good governance and a code of best practice for UK listed companies. The Code is available for download from the Financial Reporting Council's web-site [www.frc.org.uk](http://www.frc.org.uk).

BGHL became a member of the Association of Investment Companies (AIC) during 2020. Henceforth (commencing with the year ending 31 December 2021) the Company will report against the AIC Code of Corporate Governance published in February 2019. Whilst the latter closely resembles the Code, it does contain additional principles and recommendations of specific relevance to investment companies. By reporting against the AIC Code, the Company will also meet its obligations under the Code.

No limit has been imposed on the overall length of service of Directors, although each Director stands for re-election every year. Andrew Henton was appointed as a Director of the Company on 3<sup>rd</sup> January 2012 and became Chairman in July 2017. He has now served for nine years as a Director, three of which have been as Chairman. Whilst the Board does not believe that Andrew Henton has ceased to be independent by virtue of his tenure alone (he has a broad range of commercial and professional interests), he has signalled his intention to retire as a director no later than the Annual General Meeting in 2022. He has agreed to stay on for up to one year longer than the recommended nine years to allow for the identification of, and smooth transition to a successor. The size of the Board will remain at four, and shareholders will be kept apprised of progress.

The Board has carried out a full review of the Code to ensure that the appropriate level of corporate governance is attained. The Board confirms that BGHL has complied with the provisions of the Code during the Year, with the following exceptions.

Firstly, there is no chief executive position within BGHL, nor any management committee. Being a closed-ended investment company whose Directors are all independent non-executives, BGHL has no employees and therefore no requirement for a chief executive nor management committee with executive responsibilities. Similarly, being externally managed, the Company does not have its own internal control function but instead places reliance on professional service providers acting in accordance with service contracts.

Secondly, there is no nomination or remuneration committee, with all proposed Director's appointments instead being considered by the full Board. The Chairman will not however be engaged in the selection process for his successor. Further information on Board committees and the Board's future plans is given below.

# Boussard & Gavaudan Holding Limited

## Directors' Report

### For the year ended 31 December 2020

Thirdly, BGHL does not have a formal diversity policy. This is a function of the fact that the Company's remunerated officers are limited to the Directors. The composition and effectiveness of the Board is internally assessed on an annual basis. The periodic rotation or retirement of directors is a trigger event which initiates a formal search and selection process. This prioritises professional experience relevant to the needs of the company over other more subjective factors which do not lend themselves to formal assessment and testing. Whilst BGHL does not therefore have any policy of positive discrimination in relation to age, gender or race, the company does recognise the value that different perspectives and outlooks can bring to quality of decision making. Accordingly, whilst remaining focussed on merit based appointments, the Board encourages and seeks to identify candidates who can also enhance the diversity of its composition.

The Board meets formally at least four times a year. In addition to these scheduled meetings, during the Year the Board has consulted the Investment Manager regularly. The Directors are satisfied that they have been kept fully informed of the investment performance, financial and operational controls, and other matters relevant to the business of BGHL. The Directors have access to the advice of the company secretary and have, where necessary to the furtherance of their duties, taken independent professional advice at the expense of BGHL.

The attendance record of the Directors is set out below:

	Quarterly Board	Ad hoc Board	Audit Committee	Management Engagement Committee	AGM	EGM
<b>Meetings Attended:</b>						
Andrew Henton	4/4	2/2	N/A	1/1	1/1	0/0
Andrew Howat	4/4	2/2	2/2	1/1	1/1	0/0
Sylvie Sauton	4/4	2/2	2/2	1/1	0/1	0/0

The focus at Board meetings is a review of investment performance, marketing and investor relations, risk management, general administration and compliance, peer group information and industry, regulatory and corporate governance issues. Board papers are circulated in advance, allowing the Directors the opportunity to add agenda items they consider appropriate for Board discussion. Each Director is required to inform the Board of any potential or actual conflicts of interest prior to Board discussions.

The letters of engagement of the Directors are available for inspection upon request of the Secretary at the registered office. The Board evaluates its performance and the performance of individual Directors on an annual basis by reference to the guidelines set out in the Code utilising questionnaires circulated by the Secretary, which require each director to review and comment on both their own and their fellow directors' performance. The results of those questionnaires are then discussed by the Board. The Chairman reviews and agrees with each Director their training and development needs, if any. Having performed this review in respect of the Year, the Board believes that the current mix of skills and experience of the Directors is appropriate to the requirements of BGHL. The Board is satisfied that it has the policies, processes, information, time and resources to function effectively and efficiently.

The Board has considered whether the Board evaluation should be externally facilitated. Acknowledging the relatively small size of the Board, that three of the four directors have been appointed within the last three years, and the anticipated retirement of the Chairman, it was agreed that the cost of external facilitation was not presently justified. This decision will be reviewed at least annually.

The Board confirms that there have been no material changes to the Chairman's commitments required to be disclosed to the Board or to be explained in this annual report.

BGHL has purchased Directors' and officers' liability insurance and intends to renew such insurance cover on an annual basis.

#### Directors' Interests and Remuneration

Each Director is required to inform the Board of any potential or actual conflicts of interest prior to Board discussions. Save as disclosed in these financial statements, BGHL is not aware of any potential conflicts of interest between any duty owed to BGHL by any of the Directors and their respective private interests. Each Director is currently paid an annual fee of €20,000 other than the Chairman, who is entitled to receive €38,000 per annum, and the Chairman of the Audit Committee, who receives an additional fee of €7,500 per annum.

The Articles of the Company stipulate that fees paid to Directors shall not exceed €150,000 in aggregate without the approval of shareholders. Fees for Directors have remained unchanged since 2017 and a review was undertaken in 2020 to assess fee levels relative to comparable peer group companies. The conclusion was that fees had fallen materially behind market comparators notwithstanding the workload necessary for Directors to discharge their responsibilities properly for the benefit of all shareholders. With effect from April 2021, fees will increase to €45,000 for the Chairman and to €30,000 for other Directors, with the Chair of the Audit Committee continuing to receive an additional amount of €7,500.

# **Boussard & Gavaudan Holding Limited**

## **Directors' Report**

### **For the year ended 31 December 2020**

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Due to the nature of their roles and in light of BGHL's stated investment objective and policy, no discretionary compensation payments are ordinarily made to the Directors. No Director has a contract for services and none of them is entitled to compensation in lieu of notice.

The Company's remuneration policy is designed to ensure that the remuneration of Directors is set at a reasonable level commensurate with the duties and responsibilities of each Director and the time commitment required to carry out their roles effectively. Remuneration is such that the Company is able to attract and retain Directors of appropriate experience and quality. The fees paid to Directors reflect the experience of the Board as a whole and take account of the responsibilities attaching to each role given the nature of the Company's interests, as well as the level of fees paid by comparable investment trusts and companies. Directors are reimbursed for travel and subsistence expenses incurred in attending meetings or in carrying out any other duties incumbent upon them as directors of the Company.

#### **Directors' Duties and Responsibilities**

The Directors' responsibilities are as follows:

- Statutory obligations and public disclosure; including the promotion of the success of the Company for the members as a whole;
- Strategic matters and financial reporting;
- Oversight of management and advisors' matters;
- Risk assessment and management, including reporting, monitoring, governance and control; and
- Other matters having a material effect on BGHL.

#### **Committees of the Board**

The Board has constituted two sub committees, an Audit Committee and a Management Engagement Committee, and publishes the terms of reference for both on its website.

The Board previously did not deem it necessary to appoint a nomination or remuneration committee because it comprised only three Directors, all of whom were independent, and the whole Board considered these matters. With the recent appointment of Mr Bruce James, the Board intends in the third calendar quarter of this year to create such committees, on which all independent non-executive directors (excluding the chairman) will sit.

#### **Management Engagement Committee**

A Management Engagement Committee was established in 2015 to oversee the performance of service providers, including the Investment Manager. It has defined terms of reference and duties and its members comprised Andrew Henton, Sylvie Sauton and Andrew Howat, with Mr Howat acting as permanent Chairman since 5 February 2018. Following his appointment it is intended that Bruce James will become a member of the Management Engagement Committee in the third calendar quarter of this year.

The last review, undertaken in January 2021, was positive, concluding that all service providers were performing their contracted duties satisfactorily and that no changes to the Company's service providers were necessary or desirable.

As required by the Code, the Management Engagement Committee also considers conflicts of interests, including those resulting from significant shareholdings, and seeks to ensure that the influence of third parties does not compromise or override independent judgement. The Management Engagement Committee considers that conflicts of interests were generally managed well during the Year, although it is recognised that the Company has limited influence over the Investment Manager and cannot direct how the Concert Party deals with its own conflict of interest caused by its role as the Company's AIFM and status as a significant shareholder.

#### **Audit Committee**

An Audit Committee, with defined terms of reference and duties, has been established and comprised the following members as of 31 December 2020: Andrew Howat and Sylvie Sauton, with Mr Howat acting as permanent Chairman. Following his appointment it is intended that Bruce James will become a member of the Audit Committee in the third calendar quarter of this year.

A separate Report of the Audit Committee setting out its duties and how it has fulfilled them is included later in this annual report. The Audit Committee monitors and reviews the principal risks facing the Company on a regular basis throughout the year. BGHL considers that the Audit Committee's performance of its duties fulfils the requirements of the Code.

# **Boussard & Gavaudan Holding Limited**

## **Directors' Report**

### **For the year ended 31 December 2020**

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#### **Principal and Emerging Risks and Uncertainties**

BGHL's business model involves identifying and taking positions on assets whose market price does not reflect the Investment Manager's assessment of intrinsic value. As market prices trend towards the Investment Manager's assessment of intrinsic value, profits are generated. In adopting this strategy, BGHL is deliberately and consciously exposed to various types of market risk which are described in the report of the Investment Manager. There has in this regard been no change to the investment strategy pursued by the Company. Additional risks are described in the notes to the accompanying financial statements. The Report of the Audit Committee describes financial reporting risks and how these risks have been mitigated. The Board believes that these disclosures are accurate, complete and not misleading.

The COVID-19 pandemic was identified as an emerging risk during 2020. Ensuring the continued effective administration of the Company, and monitoring the Investment Manager's operations in relation to the Master Fund, have been significant areas of focus for the Board. All service providers successfully implemented contingency and business continuity plans by which the disruption associated with "working from home" and social distancing have been mitigated. The impact of the pandemic on Level 3 assets valuations has been fully assessed. Discussion has also taken place with the Investment Manager over the course of the Year about the valuation of assets held in the Master Fund that are wholly or in part derived from property assets. The pandemic remains a major risk whose long term impact on the Company cannot be predicted with any accuracy. Should the new variants of the virus spread more aggressively or become more virulent it may present risks to the operations of the Company, its Investment Manager and other major service providers. This could threaten both the ability of the Company to operate, the ability of investors to transact in the Company's securities and ultimately the ability of the Company to pursue its investment objective and purpose.

Environmental risk is considered to be a second emerging area of risk whereby positions are taken without a full recognition of climate change impacts, resulting in losses when the costs of any such exposures become apparent to markets. A secondary risk is that the Company fails adequately to report against emerging environmental disclosure standards, thereby attracting criticism and loss of favour amongst shareholders. The Investment Manager's approach to ESG is described in the Investment Manager Report above, and the Investment Manager believes it to be a source of competitive advantage when identifying opportunities for the Master Fund. The Board considers the Investment Manager to be fully engaged with the process of embedding ESG principles into its investment process, recognising the value thereof to Shareholders that this should deliver through NAV appreciation.

The most persistent risk identified by the Directors is lack of liquidity in BGHL's shares, exacerbating the discount to NAV at which they trade. This creates a potential arbitrage opportunity and threat to the long term future of the Company, notwithstanding the track record of strong NAV appreciation. The associated principal risk is that of the investment strategy pursued by the Master Fund no longer achieving its investment objectives, leading to non-achievement by BGHL of a long term appreciation in its asset value on a "per share" basis. This might be occasioned if the pricing relationships between and within different asset classes diverged materially from historical patterns, or the quality of investment analysis conducted within the Investment Manager was materially degraded. The next most significant risk is considered to be a significant systemic market event which cannot be anticipated in advance and is associated with geopolitical or other non-financial risk. COVID-19 would fall into this category.

The Investment Manager seeks to deliver risk adjusted returns which are attractive. The main information provided by the Investment Manager to the Board, and by which risk exposures are assessed, are as follows:

Relative performance analysis: NAV accretion or dilution is reported monthly, and broken down by attribution to each specific strategy pursued within the Master Fund. Individual and aggregated strategy performances are compared to relevant indices or benchmarks. This serves to highlight over and under performances, and also any divergence from historic trends.

Stress testing: The impact on NAV is modelled each month against a series of downside scenarios. These scenarios make allowance not just for market movements, but also for liquidity related events (for example "mid cap" stocks falling by a greater amount than the main index due to materially reduced trading volumes in smaller company stocks). Different scenarios are modelled both singly, and in combination so that "contagion" risks are considered. Portfolio construction is informed by the results of this modelling.

Pricing analysis: The Investment Manager shares with the Board of Directors analysis that is prepared by the administrator of the Master Fund. This highlights the percentage of NAV in the Master Fund which is based on prices that cannot be independently verified by reference to an independent or market source. The existence of instruments for which independent pricing is not available is deemed to be a risk factor, and any such instruments are subjected to additional ongoing scrutiny.

In addition to the various financial and market risks, the Board actively monitors operational and commercial risk. Key risks in this regard are the following:

# **Boussard & Gavaudan Holding Limited**

## **Directors' Report**

### **For the year ended 31 December 2020**

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Prevailing share price: Whilst it narrowed during 2020, BGHL's shares continue to trade at a discount to NAV. Albeit a function of supply and demand for BGHL's shares in the market that cannot be controlled by the Board, an increase in buy back activity during the Year was intended to mitigate – at least in part - the impact of supply side imbalance. The buy-back programme has remained value accretive to shareholders at prevailing prices.

Scale of operations: The Board reviews the operational plans of the Investment Manager at least annually. In so doing it seeks assurances that adequate resources are available to maintain an effective and compliant operating infrastructure. Future business development plans, headcount, organisational structure and the experience of operational incidents (if any) are all taken into account.

Service providers: BGHL places reliance on the administrator, sub-administrator, depositary and sub-custodian of the Master Fund. To the extent that independent assurance statements or reports can be obtained in relation to these firms, the Board of Directors requests them. Oversight is also exercised via open market sources (credit ratings), direct enquiry of the Investment Manager and feedback from other independent advisers (including the auditor).

Cyber security: The threat posed by “hackers” to companies operating in the financial services sector, (the nature of whose activities involves the management of assets readily convertible into cash) is acknowledged by the Board of Directors. The measures in place to mitigate these risks (including those measures intended to identify and contain intrusions, should they occur) form part of the oversight regime directed at the Investment Manager and key service providers.

Emerging risks, along with all other risks the directors have identified the Company as being exposed to, are monitored via the Company's risk register. During the year, as part of their regular review and assessment of risk, the Directors have also considered the impact of the emerging risk of climate change on the Company's business model and long term viability, but do not consider this to be a material new risk at this time.

#### **Risk Management and Internal Control Systems**

The Management Engagement Committee conducted a review of BGHL's system of internal controls in January 2021.

The Board is ultimately responsible for BGHL's system of internal controls and for reviewing its effectiveness. The Board has developed a framework that is designed to manage, rather than to eliminate the risk of failure to achieve BGHL's business objectives. The framework involves identifying sources of risk, the potential significance (financial and operational) of any risk impact(s), and the associated controls in place to identify, pre-empt and mitigate those potential impacts. This is documented in a Business Risk Assessment which is considered at least annually by the Board. The framework is discussed with the Investment Manager, and members of the Audit Committee conduct an onsite review meeting with the Investment Manager to review the effectiveness of controls and any breaches / errors that have occurred since the last inspection visit. Any such control failures are also recorded on an exceptions basis and reported at quarterly Board meetings or in real time if sufficiently significant. No significant failings or weaknesses have been identified. These processes ensure an at least annual review of BGHL's system of internal controls, including financial, operational, compliance and risk management. The system can only provide reasonable and not absolute assurance against material misstatements.

The Board has delegated the management of BGHL's investment portfolio, the provision of custody services, the administration (including the independent calculation of BGHL's NAV), share registration, corporate secretarial functions and the production of the half-yearly and annual independently audited financial reports. The Board retains accountability for the functions it delegates. Formal contractual arrangements have been put in place between BGHL and the providers of these services.

Compliance reports are provided at each quarterly Board meeting. The Board considers that its internal control processes meet best practice as recommended in the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the UK's Financial Reporting Council as an adjunct to the UK Corporate Governance Code.

#### **Regulatory Compliance**

BGHL keeps abreast of regulatory and statutory changes and responds as appropriate. Compliance reports are provided at each quarterly Board meeting by BGHL's Secretary. The Board continues to take advice on AIFMD from external professional advisers and to implement necessary measures to ensure compliance with relevant requirements of the AIFMD Regulations. The Chief Compliance Officer within the Investment Manager is also a resource relied upon by the Board in this regard. Although the majority of the obligations associated with AIFMD are applicable to the AIFM, the Board is satisfied that BGHL as an AIF complies fully with its relevant obligations under the UK's AIFMD and the AIFMD Regulations 2013. Key Information Documents (“KIDs”) have been produced in accordance with the Packaged Retail and Insurance-based Investment Products (“PRIIPs”) regulation and are available at <https://www.bgholdingltd.com/priips.php>.

# **Boussard & Gavaudan Holding Limited**

## **Directors' Report**

### **For the year ended 31 December 2020**

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BGHL fell within the scope of The EU General Data Protection Regulation (“GDPR”) and The Data Protection (Bailiwick of Guernsey) Law, 2017 (whose provisions are substantially equivalent to GDPR) throughout the Year and had measures in place to ensure compliance with both. Policies have been enacted both to ensure ongoing compliance by BGHL, and also to oversee compliance by third party service providers who process or hold relevant data belonging to BGHL.

#### **Long Term Viability**

The principal risks facing BGHL are documented in the Business Risk Assessment and described above. The business model and investment strategy are described and evaluated in the Investment Manager’s report. The Board’s review of the effectiveness of BGHL’s risk management and internal control systems is described in the Audit Committee’s report.

Given the nature of its assets (mainly redeemable units in the Master Fund, which are themselves backed by a high proportion of liquid, tradeable assets) it would take a general failure in the effective and ongoing operation of financial markets (cessation of market liquidity) to threaten BGHL’s solvency. Such a market failure could prevent investments held by the Master Fund from being redeemed. This in turn would inhibit BGHL from being able to redeem its position in the Master Fund wholly or in part, and thereby leave it potentially unable to meet its trading obligations as they fall due. Notwithstanding the uncertainty caused by COVID-19 and its attendant global consequences, the fact that the operating expenses (excluding performance fees) of BGHL represent less than 2% of its NAV on an annual basis makes this risk remote.

The Board has conducted a robust assessment of the principal and emerging risks and uncertainties facing BGHL, and also assesses long term viability. The ongoing impact of the COVID-19 pandemic has formed part of this assessment. The key risk to BGHL has been identified as a failure of the investment decision making process to generate NAV accretion that is in line with investor expectations, and which is attractive on a risk adjusted basis when compared with alternative managed investment opportunities.

BGHL’s performance is measured on a monthly basis via both the NAV of its underlying investments and its share price. Key data inputs used by the Investment Manager when making investment decisions in the Master Fund (BGHL’s principal investment) comprise company earnings (quarterly), macro factors (daily interest and currency exchange rates) and indicators of sentiment (yield curves and risk measures, such as the VIX index). Scenario stress tests are run on a monthly basis to measure potential “drawdowns” (i.e. reductions in NAV on a monthly basis) on the portfolio in the event of changes in the economic climate. These stress tests comprise severe but plausible scenarios and have been an integral part of the portfolio construction process for many years.

BGHL’s performance is compared primarily to peer group funds on an annual basis, and performance fees payable to the Investment Manager are also calculated annually. The significant majority of investment positions taken by the Master Fund are in liquid assets that can be converted to cash readily in the market and great effort is made by the Investment Manager to minimise drawdowns and to maintain liquidity. This emphasis on short term position management is an important feature of the Master Fund’s strategy. Given that BGHL’s operating costs as a percentage of its realisable investment portfolio are low, and that it is a closed ended fund, the Directors consider there to be significant liquidity headroom available in all but the most extreme market failure scenarios.

Despite the emphasis on short term performance and resilience described above, not all investment positions are entered into with the expectation of them being unwound within twelve months. Moreover, the “repeatability” of the investment process is of fundamental importance. The Investment Manager has developed proprietary analytical tools and processes that it seeks to apply on a consistent basis over time when making investment decisions. In this way it seeks to generate positive risk adjusted returns using proprietary strategies that are sustainable for the medium to long term, such that performance is not predicated on the retention of “key men”. Such algorithms and tools are necessarily a function of market behaviour and asset pricing correlations, and hence subject to change over time.

Whilst the turnover of positions within the Master Fund is thus relatively short term in duration, the timeframe over which it is necessary to identify and respond to “paradigm shifts” in economic markets is longer term in nature. Factors such as government or central bank policies (e.g. quantitative easing) or external events (including wars and regional instability) can cause significant changes in investor sentiment, which can in turn alter market assessments of intrinsic value and correlations between different asset types. For these reasons, the Board considers a three-year time horizon to 30 April 2024 as being the appropriate period over which to assess future prospects and viability.

The Board has made a commitment that, if the Company’s shares trade at an average discount in excess of 15 per cent over the financial year to 31 December 2022, the Board will propose a continuation vote (the “**Continuation Vote**”) in 2023. The Board has invited the Concert Party to consider whether it would commit to abstain from voting on the Continuation Vote and, if applicable, on any subsequent vote to liquidate the Company, but the Concert Party declined to make any voting commitment in advance. Without their support, the Company would not have the shareholder support necessary to pass a special resolution to liquidate the Company.

# **Boussard & Gavaudan Holding Limited**

## **Directors' Report**

### **For the year ended 31 December 2020**

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On the basis of the relevant and rigorous assessment described above, the Board believes that BGHL will remain viable as a closed-ended investment company for at least the period ending 30 April 2024, whilst also remaining conscious that a continuation vote will be put to shareholders in November 2022 if the average discount then prevailing is greater than 15%.

#### **Going Concern**

The Board conducts a rigorous and proportionate assessment of BGHL's operational and financial risks with reference to cash flow requirements, and the liquidity of investments on a quarterly basis. BGHL incurs ongoing fees and expenses associated with its day to day operations, provides cash collateral under currency hedging transactions and uses cash to repurchase its own shares.

The Directors regularly consider the financial solvency of BGHL and are required by the Companies Law to do so on every occasion that any distribution is to be declared, including, but not limited to, the redemption and conversion of shares, and repurchases by BGHL of its own shares. This is evidenced by a formal solvency statement. The Directors are confident that BGHL's assets exceed its liabilities and that BGHL has sufficient liquid assets to meet its liabilities as they fall due. Substantially all of the net assets of BGHL are currently invested in BGF shares. BGF shareholders have a monthly redemption right with 60 calendar day prior notice.

The Board is comfortable that BGHL currently has the ability to meet all expenses for the period ending 30 April 2022. BGHL's annual operating expenses (excluding any performance fees payable to the Manager) are relatively low at less than 2% of NAV. The predictable nature of those expenses means that the Company is able on a monthly basis to calculate and accurately predict how much cash is required to meet them. In order to generate the necessary liquidity to pay expenses, the Company redeems shares in the Master Fund on a regular basis. Should BGHL have insufficient cash to meet its expenses, BGHL expects that it would rapidly be able to realise sufficient investments to meet such expenses.

The Directors have also reviewed the possible impact of an excessive number of redemption requests at the Master Fund level caused by market turmoil, perhaps triggered by the ongoing COVID-19 pandemic. Whilst any long-term liquidity lock up would impact the cash reserves of BGHL and its ability to meet its obligations, to date there have been no suspensions of redemption requests at the Master Fund level. If a gate was to be imposed by the Master Fund, at least 10% of any redemption request would continue to be honoured. This would allow BGHL to realise sufficient liquidity to meet its operating costs. To date, the market and wider socio-economic impacts of the COVID-19 pandemic have not posed any significant stress either to BGHL or to the Master Fund.

After making enquiries, the Board has a reasonable expectation that BGHL has adequate resources to continue in operational existence for the period up to 30 April 2022. Therefore, the financial statements have been prepared on a going concern basis.

#### **Relations with Shareholders**

The Board engages with institutional shareholders directly, as do both the Investment Manager and the Corporate Advisor. Shareholders continue to be welcome to contact the Board of BGHL in writing via the Secretary, should they wish to have a dialogue and/or provide any feedback.

Furthermore, at a minimum, the Chairman of the Board and the Chairman of the Audit Committee attend BGHL's annual general meeting. Separate resolutions are proposed for each item at each general meeting of shareholders, including a vote on BGHL's annual financial report and the (re)appointment of directors. Forms of proxy issued by BGHL for use at each general meeting provide for three way voting – for, against or vote withheld. Notices of annual general meetings are sent at least 20 working days before the meeting and in accordance with the notice periods set out in the Companies Law.

After each general meeting, the results of the meeting are publicised and the announcement of results is also made available on the BGHL's website. As a matter of best practice, all resolutions are voted upon by a poll. If required, BGHL can also make available representatives of the Investment Manager to Shareholders.

While BGHL reports formally to its shareholders twice a year, it also maintains a website which contains comprehensive information ([www.bgholdingltd.com](http://www.bgholdingltd.com)). This includes historic communications, investment philosophy, risk management policies, Investment Manager's reports, statistical information and corporate governance guidelines.

In addition, during 2019 and early 2020 the Directors met with major shareholders in person in London during a series of meetings, which were followed by further meetings and calls with those shareholders who wished to continue such engagement. Due to the COVID-19 pandemic and measures introduced by governments worldwide to contain its spread it has not been possible to conduct physical meetings since the second calendar of quarter of 2020. However the Directors have continued to conduct telephone meetings with shareholders, assisted by the Corporate Advisor, and intend to offer face-to-face meetings with shareholders once circumstances permit.

# **Boussard & Gavaudan Holding Limited**

## **Directors' Report**

### **For the year ended 31 December 2020**

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#### **Section 172 Statement**

The Code requires that the Company should understand the views of BGHL's key stakeholders and describe in the annual report how their interests and the matters set out in section 172 of the UK's Companies Act 2006 have been considered in Board discussions and decision-making.

The Company is a publicly traded fund whose objective is the delivery of consistent and uncorrelated growth in net asset value of 400-600 bps net of fees above the "risk free rate" (defined as capitalised EONIA) over the course of an economic cycle. The Company's strategy has not changed during the Year and is not expected to change since a consistent and disciplined application by the Investment Manager of its proprietary analytical investment processes is the determining driver of NAV appreciation. The Company has no employees and all of the directors are non-executive. The Board considers that its key stakeholders are its shareholders, its service providers, society and regulators.

During the course of the Year the Board initiated a number of discussions, and took several decisions, that were focused on promoting the success of the Company for the benefit of its shareholders as a whole. Highlights were as follows:

Consultations with Shareholders – the Board discussed with shareholders the level of discount at which Shares trade to NAV, and additional measures that might be put in place to reduce this discount. The Investment Manager was included in these discussions given that the Concert Party controls c.25% of the Company. An update to Shareholders was communicated via Regulatory News Service on 10 December 2020, a copy of which is on the Company website.

Longevity of Company – the Company has an unlimited life and, as described in the Company's viability statement, the Board has considered the prospects of the Company for the three year period up to April 2024 when considering the Company's long-term sustainability. A continuation vote will be put to shareholders in November 2022 if the discount is then still greater than 15%;

Share buy-back programme – as described in the Directors' Report, a total of 1,415,966 Shares were bought back during the Year at an average discount of 26.5% for the benefit of Shareholders;

ESG factors – the Investment Manager has accelerated the process by which ESG factors are formalised within the investment analysis process. As further described in the Investment Manager Report, ESG related issues have for some time been considered a source of value catalysation by the Investment Manager but have not hitherto been publicly disclosed. The application of quantitative techniques by the Investment Manager to data disclosures that other companies will henceforth be making is considered to be a source of differentiation and performance enhancement. This is expected to have the dual benefits of supporting NAV growth for shareholders, and also (as ESG processes are further embedded within the wider investment sector) improving environmental outcomes by companies accessing capital via the public markets;

Asset valuation – the Company has one level 3 asset, RLI. During the Year the asset was revalued downwards, with particular consideration given to the impact of COVID-19 on an asset operating in the hospitality and leisure sector. The assessment of value also continued to take account of the mismatch between RLI management's timescales for realising value, and BGHL's requirements for such value realisation. The Board was mindful of the lack of fit between RLI and the long term investment objective of the Company; and

High standards of business conduct – the Board has worked closely with its service providers during 2020 in order to oversee the maintenance of standards during the disruption associated the COVID-19 pandemic. As part of its annual review process, the Management Engagement Committee enquires about any incidents, breaches or other occurrences within its service providers that might create a reputational risk or other negative exposure for the Company.

The Board considers that there is a very low risk of modern slavery or human trafficking associated with the Company's activities given it has no employees, premises, manufacturing or other physical operations. Its suppliers are professional services providers, most of whom are regulated and none of whom operate in jurisdictions that have a poor record on modern slavery or human trafficking.

#### **Statement of Directors' Responsibilities**

The Directors are responsible for the preparation of financial statements in accordance with applicable Guernsey law and generally accepted accounting principles. Guernsey law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of BGHL as at the end of the year and profit or loss for that year.

The Directors are also responsible for ensuring that the annual report includes information required by the rules of the UK Listing Authority. The Directors ensure that BGHL complies with the provisions of the Listing Rules and the Disclosure Guidance and Transparency Rules of the UK Listing Authority which, with regard to corporate

# **Boussard & Gavaudan Holding Limited**

## **Directors' Report**

### **For the year ended 31 December 2020**

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governance, require BGHL to disclose how it has applied the principles, and complied with the provisions, of the Code.

In preparing those financial statements, the Directors should:

- Select suitable accounting policies and then apply them on a consistent basis;
- Make judgements and estimates that are reasonable;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is not appropriate to presume that BGHL will continue in business.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of BGHL and to enable them to ensure that the financial statements comply with the Companies Law. They are also responsible for the system of internal controls for safeguarding the assets of BGHL and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Shareholders holding more than 3% of the shares in issue need to disclose their holdings to the AFM, the Dutch regulatory authority. The AFM discloses this information on its web site. The information can be found under the section "Register substantial holdings and gross short positions". Shareholders may use the following link to access the information directly:

<https://www.afm.nl/en/professionals/registers/meldingenregisters/substantiele-deelnemingen/details?id=22451>

The Directors consider the BGHL Annual Report and audited financial statements, taken as a whole:

- is fair, balanced and understandable; and
- provides the information necessary for shareholders to assess the BGHL's performance, business model and strategy.

#### **Audit Confirmation**

So far as each of the Directors is aware, there is no relevant audit information of which BGHL's auditor is unaware and each Director has taken all reasonable steps he ought to have taken as a Director to make himself aware of any relevant information and to establish that BGHL's auditor is aware of that information.

By order of the Board



Andrew Henton  
Chairman



Andrew Howat  
Director

21 April 2021

# **Boussard & Gavaudan Holding Limited**

## **Report of the Audit Committee**

### **For the year ended 31 December 2020**

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#### **Role and responsibility**

This is the report of the Audit Committee (herein the “**Committee**”) which has been prepared with reference to the Code and describes the work of the Committee in discharging its responsibilities.

BGHL established the Committee in compliance with the FCA’s Disclosure and Transparency Rule 7.1 and the Code. The Committee meets formally at least twice each year and on an ad hoc basis when required and reports to the Board. It has formally delegated duties and responsibilities with written terms of reference which are reviewed and reapproved annually. Those terms of reference are published on BGHL’s website at <http://www.bgholdingltd.com>

The Committee is mandated by the Board to investigate any activity within its terms of reference and to consult externally with legal or other independent professional advisors, as required, to ensure that the Committee adequately discharges its duties and responsibilities, which include:

- a) considering the appointment of the external auditor, its letter of engagement and the terms thereof, the audit fee, and any questions of resignation or dismissal of the external auditor;
- b) reviewing from time to time the effectiveness of the audit and the independence and objectivity of the external auditor;
- c) developing and implementing policy on the engagement of the external auditor to supply non-audit services where necessary, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- d) reviewing BGHL’s half-yearly and annual financial reports, not excepting the full Board’s responsibility over the reports, focusing particularly on:
  - Any changes in accounting policies and practice;
  - Major judgmental areas;
  - Significant adjustments arising from the audit;
  - The going concern assumption;
  - Compliance with accounting standards (and in particular accounting standards adopted in the financial year for the first time);
  - Compliance with applicable legal and regulatory requirements (including inter alia, those of the FCA, the London Stock Exchange, the Guernsey Financial Services Commission, the Companies Law, NYSE Euronext, and the Netherlands Authority for the Financial Markets);
  - A risk management review; and
  - Assessing the effectiveness of internal controls.
- e) discussing any problems and reservations arising from the final audit, and any other matters which the auditor may wish to discuss (in the absence of BGHL’s agents where necessary);
- f) reviewing the external auditor’s Report to the Audit Committee and determining whether any changes have to be implemented as a result;
- g) reviewing, on behalf of the Board, BGHL’s system of internal control (including financial, operational, compliance and risk management) and making recommendations to the Board;
- h) considering the major findings of internal investigations and management’s response;
- i) reviewing BGHL’s operating, financial and accounting policies and practices;
- j) considering any other matters specifically delegated to the Committee by the Board from time to time; and
- k) reporting to the Board on how it performs its duties and;
- l) confirming to the Board as to whether the Annual Report and audited financial statements taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess BGHL’s performance, business model and strategy.

The Committee may review any matter that it considers appropriate notwithstanding that it is not specifically mentioned in the above list of duties.

# **Boussard & Gavaudan Holding Limited**

## **Report of the Audit Committee**

### **For the year ended 31 December 2020**

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#### **Composition**

The Committee comprised the following members as of 31 December 2020: Andrew Howat and Sylvie Sauton, with Mr Howat acting as permanent Chairman of the Committee. Both members of the committee have relevant competence to the sector in which BGHL operates in addition to relevant financial experience as required by the Code. Bruce James will become a member of the committee in March 2021.

Only independent non-executive Directors serve on the Committee and the members do not have any links with BGHL's external auditor. They are also independent of the management teams of the Investment Manager, administrator and all other service providers. In addition, it meets the external auditor at least twice a year. The membership of the Committee and its terms of reference are kept under review.

#### **Oversight of controls and risk management**

The Board, via its Management Engagement Committee, conducts an annual Business Risk Assessment in conjunction with the Investment Manager. The intention of this exercise is to identify and articulate the material risks that might affect BGHL and its trading prospects, the likelihood of them occurring and their assessed impact. As part of this process the explicit controls intended to mitigate either or both of the risk of occurrence, or the impact of an occurrence, are also articulated. In this way a residual net impact assessment is derived.

Due to COVID-19 restrictions the Management Engagement Committee undertook a virtual conference with the Investment Manager to review and inspect operations. The Committee interviewed senior staff members responsible for the internal control and oversight functions, and who report as to the proper conduct of the business in accordance with the regulatory environment in which both BGHL and the Investment Manager operate.

The oversight programme followed a preplanned agenda and in January 2021 involved reviews of, inter alia (i) changes that had taken place within the Investment Manager's operation; (ii) IT systems and controls, including cyber security arrangements; (iii) regulatory compliance; (iv) investor relations; (v) the valuation of unquoted investments; (vi) the risk register, complaints, errors and breaches logs and business continuity arrangements; (vii) ESG and responsible investment policies; and (viii) the impact of external factors such as Brexit and COVID-19. Performance was assessed as satisfactory with no unacceptable or unanticipated risk exposures. The results of the oversight visit are documented.

As part of the oversight programme, both the Investment Manager and the Administrator report formally to the Committee at least annually on their systems of internal controls. In accordance with the provisions of the Code, the Committee has conducted a review of those systems of internal controls and is satisfied that they are sufficient to withstand the risks to which BGHL is subject.

As BGHL is a closed-ended investment company, all of whose Directors are non-executive, and as all executive functions have been delegated to professional third party advisors, the Committee does not consider it necessary for BGHL to have its own internal audit function. Whilst no reliance can be placed on them, reviews conducted on the Investment Manager's operations by independent custodians, and on site due diligence visits by prospective investors and their professional advisers, provide a degree of additional comfort.

Whilst BGHL does not have any staff, the Committee considers that the arrangements by which staff of the Investment Manager and the Administrator may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters are of great importance. The Committee reviews such arrangements annually and, as required by the Code, is satisfied that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

**Boussard & Gavaudan Holding Limited**  
**Report of the Audit Committee**  
**For the year ended 31 December 2020**

**Significant issues considered regarding the Annual Financial Report**

In discharging its responsibilities, the Audit Committee has specifically considered the following significant issues relating to the financial statements:

Significant issue	How the issue was addressed
<p>Valuation of BGHL's investments</p>	<p>The Board reviews portfolio valuations on a regular basis throughout the Year, and at quarterly meetings with the Investment Manager seeks assurance that the pricing basis is appropriate and in line with relevant accounting standards. BGHL's net asset value is calculated on a daily basis by the Sub-Administrator.</p> <p><u>Rasaland investment</u></p> <p>Rasaland is the sole remaining unlisted and level 3 asset in the BGHL portfolio. This position is not immediately realisable and requires valuation based on third party assessments and judgements. Consideration was given as to whether the selected basis of valuation was reasonable and fair.</p> <p>Historically, the valuation used has been based on calculations produced by the management of that company. A key input is land valuations produced independently of management by a third party. Consistent application of the valuation mechanic used by RLI management is verified by reporting accountants, although this verification does not of itself opine on the resultant valuation.</p> <p>Following a successful cash tender offer made in July 2020, an c.80% provision was made against the net asset value at 31 December 2020 representing the fair value calculated using the tender price. The Audit Committee remains of the view that a provision reflecting illiquidity is appropriate given BGHL's intention to trade out of the position before RLI management deliver final liquidity to investors. The quantum of the provision reflects the differential between the respective time horizons of BGHL and RLI management for value realisation. This is considered to have implications for the manner in which fair value should be assessed, and greater emphasis has been placed on realisable value than intrinsic value.</p> <p>There remains no immediate threat to solvency and going concern within RLI, and there are physical land assets to underpin the valuation. The provision against the reported valuation in 2020 is considered fair.</p> <p><u>BG Fund investment</u></p> <p>The Audit Committee concluded that the NAV for the Master Fund remained the appropriate basis of valuation.</p> <p>The results of, and governments responses to the COVID-19 pandemic have escalated rapidly. The impact on financial markets has already been significant, reflecting disruption to international supply chains, the interruption of production generally, delays in corporate activity and investment, uncertainty about the availability of financing and increased volatility in the value of financial instruments. The Audit Committee has considered the particular circumstances of the Company in light of the increasingly broad effects of COVID-19, in particular the associated risk exposures and implications for financial reporting.</p> <p>As an investment company, the Company does not have employees, customers or suppliers in a conventional sense. Reliance is however placed on service providers, principally the Investment Manager and the Administrator. The Committee has been kept apprised of business continuity measures enacted by these key service providers and is receiving updates in relation to any emergent risks, vulnerabilities and the continued effectiveness of internal controls. Information flows between the Investment Manager and other advisers have been effective and a key component of oversight in prevailing conditions. Both the Board and the Investment Manager are maintaining dialogue with shareholders in order to provide transparency.</p>

**Boussard & Gavaudan Holding Limited**  
**Report of the Audit Committee**  
**For the year ended 31 December 2020**

<p>COVID-19</p>	<p>The continued nature of the global pandemic, and uncertainty about its long term economic impact, remains. The Committee took note of the fact that NAV has continued to perform within the bounds predicted by stress testing scenarios notwithstanding the unprecedented nature of the disruption inflicted on societies and businesses by the disease. The derivative instruments used to provide downside protection are “over the counter” (“OTC”) and remain capable of being priced by reference to third party market sources, thereby supporting valuations. The Committee remains vigilant in considering potential adverse effects that might challenge the Investment Manager’s models and asset allocation style.</p> <p>The Committee reviews information provided by the Investment Manager in relation to the COVID-19 pandemic and believes the Company is meeting regulatory and broader stakeholder requirements for financial and other public disclosures.</p>
<p>Completeness and accuracy of the disclosures in the financial statements</p>	<p>The Audit Committee concluded that all appropriate and required disclosures have been incorporated in the financial statements, and drew comfort from the fact that multiple layers of oversight exist to achieve this objective. Specifically, the sub-administrator, administrator, Investment Manager and external auditor have all performed their own checks for completeness.</p> <p>The Audit Committee continues to give particular attention to the extent of disclosures about the underlying portfolio of the Master Fund. Risk measures, sensitivities and performance are driven by the make up of that portfolio and hence additional disclosures about it are appropriate to permit a full understanding of the accounts. However, BGHL does not have direct influence over the Master Fund and the Committee remains concerned to ensure that the correct balance gets struck between disclosing the drivers of performance, without inviting users of the financial statements to conflate BGHL with the Master Fund.</p>
<p>Presentation of financial statements</p>	<p>The Audit Committee considered the complexity of the financial statements in their entirety, and the descriptive narrative supporting the financial disclosures. It was recognised that the sophistication of the investment strategies pursued by BGHL do not lend themselves to description in “plain English” and that the use of technical terminology was not always consistent with the goals of ensuring transparency and maximising ease of understanding.</p> <p>On balance the Audit Committee concluded that the benefits of accurate - but detailed - descriptive narrative outweighed the possible benefit of simplified summaries. The nature of the shareholder base (predominantly sophisticated professional investors) was an important factor in reaching this conclusion.</p>

**Going concern**

The Audit Committee reviewed the assumptions upon which it is assumed that BGHL can continue to operate on a going concern basis. These assumptions include the significant COVID-19 issue. In so doing, it assessed outstanding financial obligations and calls on BGHL’s resources, investment performance and the meeting of shareholders’ expectations.

**Auditor and audit tenure**

BGHL’s auditor has acted in this role since 2006, but there have been partner rotations in 2014 and 2019. The Committee, in conjunction with the Board, is committed to reviewing this appointment on a regular basis to ensure that BGHL is receiving an optimal level of service. The appointment of the auditor is reviewed annually, and the Committee is satisfied that sufficient safeguards are put in place by the auditor to mitigate risks associated with long association such as regular partner rotation. There are no contractual obligations which restrict BGHL’s choice of auditor. Notwithstanding the Board’s satisfaction that the auditor remains independent, it had been the intention of the Company to initiate a tender programme during 2021. The Board does not now expect to initiate such a process until the disruption of the COVID-19 pandemic has subsided since the Directors do not believe that an effective auditor hand over process could take place in the absence of face to face meetings taking place.

**Boussard & Gavaudan Holding Limited**  
**Report of the Audit Committee**  
**For the year ended 31 December 2020**

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The Committee does not award any non-audit work other than the review of its interim financial statements for the half year ended 30 June. The full Board would have to approve any other non-audit work. Where non-audit services are provided by the auditor, these engagements are pre-approved by the Committee to ensure that the auditor's independence and objectivity is not breached and a recommendation is made to the Board. Whilst interim reviews of financial information are considered to be a non-audit service, the Committee did not consider that this role undermined auditor independence. No other non-audit services were provided in 2020.

The Committee considered the experience and tenure of the audit partner and staff and the nature and level of services provided. The Committee received confirmation from the auditor that it had complied with the relevant UK professional and regulatory requirements on independence.

**Assessment of the external audit process**

The Committee considers the nature, scope and results of the auditor's work and monitors the independence of the external auditor. Formal reports are received from the auditor on an annual basis relating to the extent of their work. The work of the auditor in respect of any significant audit issues and consideration of the adequacy of that work is discussed.

The Chairman of the Committee liaises with the Investment Manager, the Administrator and the Sub-Administrator to discuss the extent of audit work completed to ensure all matters of risk are covered, while the Committee assesses the quality of the draft financial statements prepared by the Sub-Administrator.

The Committee has an active involvement and oversight of the preparation of both half yearly and annual financial statements. Ultimate responsibility for reviewing and approving the annual financial report remains with the Board.

**Conclusion in respect of the Annual Report and audited financial statements**

The production of BGHL's Annual Report and audited financial statements is a comprehensive process requiring input from a number of different parties. One of the key governance requirements is that BGHL's Annual Report and audited financial statements be fair, balanced and understandable. The Board has requested that the Committee advise on whether it considers that the annual financial report fulfil these requirements.

As a result of the work performed, the Committee recommended that the Board should conclude that the Annual Report and audited financial statements for the Year, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess BGHL's performance, business model and strategy and has reported on these findings to the Board. The Board's conclusions in this respect are set out in the Directors' Report above.



Andrew Howat  
Chairman of Audit Committee  
21 April 2021

# **Boussard & Gavaudan Holding Limited**

## **Alternative Investment Fund Managers Directive Report**

### **For the year ended 31 December 2020**

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#### **Background**

The AIFMD came into force on 22 July 2013, although there was a transitional period for compliance by existing AIFMs and AIFs until 21 July 2014 under the UK's Alternative Investment Fund Managers Regulations, 2013 (the "AIFMD Regulations"). The objective of the AIFMD is to introduce a common regulatory regime for funds marketed in or into the EU which are not regulated under the UCITS regime, with a view to increased investor protection and to enable European regulators to obtain increased information in relation to funds being marketed in or into the EU to assist their monitoring and control of systemic risk issues.

BGHL is not marketed in the EU and therefore does not fulfill the definition of an AIF. However, the Board has chosen to voluntarily adopt the requirements of AIFMD and AIFMD regulations for the Year.

The Investment Manager established in the United Kingdom was an EU-based AIFM throughout the Year. Since 1 January 2021, the Investment Manager is no longer an EU-based AIFM. Although the Investment Manager was within the scope of AIFMD, BGHL is a non-EU AIF not currently marketed in the EU, so the depositary rules in Article 21 of the AIFMD and the transparency requirements of Articles 22 (annual report) and 23 (Disclosure to investors) of the AIFMD do not apply to BGHL. However, on the advice of the Investment Manager the Board wishes to provide the BGHL shareholders with the information below.

#### **1. Material changes in the disclosures to investors**

During the Year, there were no material changes to the information required to be made available to investors before they invest in BGHL under Article 23 (Disclosure to investors) of the AIFMD.

#### **2. Presentational changes to the income and expenditure account**

Note 12 to financial statements details the realised and change in unrealised gain /loss at asset type level as per the AIFMD requirements.

#### **3. Risk management policy note**

The current risk profile of BGHL, the main features of the risk management systems employed by Investment Manager to manage those risks and the measures to assess the sensitivity of BGHL's portfolio to the most relevant risks are set out in the Investment Manager's Report and in note 4 to the financial statements.

#### **4. Leverage and borrowing**

BGHL is entitled to employ leverage in accordance with its investment policy and as described in the section entitled "Gearing" reproduced in the Investment Manager's Report. The investment policy does not restrict the types and sources of leverage.

Derivatives are used by BGHL for the purpose of hedging the exposure on assets denominated in currencies other than the Euro.

##### *Collateral and asset re-use*

The investment policy does not restrict collateral and asset "re-use" arrangements.

##### *Leverage limits and usage*

BGHL is subject to the following leverage limits:

- 200% of the Net Asset Value as described in the "Gearing" section of the investment policy.
- 200% of the Net Asset Value as per the AIFMD's "commitment method",
- 200% of the Net Asset Value as per the AIFMD's "gross method"

#### **5. Liquidity arrangements**

BGHL is a closed-ended AIF with the ability to employ leverage, which has two implications on its liquidity management:

- BGHL has no redemption-related liquidity management requirements.
- The Investment Manager monitors the liquidity risk and ensures that the liquidity profile of BGHL's investments complies with BGHL's underlying obligations. BGHL's liquidity risk, obligations and liquidity sources are described in note 4c (liquidity risk).

# **Boussard & Gavaudan Holding Limited**

## **Alternative Investment Fund Managers Directive Report**

### **For the year ended 31 December 2020**

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Within the meaning of AIFMD:

- There were no “new arrangements for managing the liquidity” of BGHL during the reporting Year.
- BGHL has no “assets subject to special arrangements arising from their illiquid nature”.

#### **6. Disclosures on Securities Financing Transactions and Total Return Swaps**

BGHL, being managed by an EU-based AIFM throughout the Year, is subject to the European Regulation (EU) 2015/2365 on transparency of securities financing transactions and of reuse.

BGHL does not use securities financing transactions nor total return swaps.

#### **7. AIFM Remuneration Policy**

Remuneration reporting requirements under the AIFMD Regulations are effective once a first full year period has been completed. Given that BGHL decided to voluntarily comply with the AIFMD Regulations with effect from 21 July 2014, these requirements apply to BGHL.

The Investment Manager (the “AIFM”) Remuneration Policy is designed to support a pay for performance philosophy and reward eligible colleagues for both team and individual performance against specific goals in line with the needs of the business. All employees share in the responsibility for financial success and the growth of the business. The Remuneration Policy links individual objectives directly to the goals of the business. A participant’s actual incentive pay-out will be based on both funding results and business distribution approach. Incentive funding takes into consideration financial performance of a participant’s business as well as the Investment Manager overall financial performance. The Investment Manager has a pay for performance philosophy and expects differentiated rewards based on individual performance and contributions. Therefore, distribution of the funded incentive pool is intended to deliver differentiated incentives to the highest performers. Management discretion may be used in determining the funding and the final pay-out. An incentive pay-out is not an entitlement or guarantee, it is designed to enlist and encourage the right actions/behaviours, and reward based on results. All staff receive fixed remuneration in the form of basic pay to ensure that the fixed and variable components are appropriately balanced. The element of basic pay is sufficiently high to allow the operation of a fully flexible policy on variable remuneration including allowing no variable remuneration component being paid. The remuneration policy includes the following features: deferral over 3 years, awards in instruments, at least 50% in shares, retention of the shares for 6 months, and potential application of malus and clawback provisions.

#### **Total remuneration paid to staff of the AIFM during the financial period ending 31 March 2020:**

Fixed remuneration\*: €8,749,073

Variable remuneration\*: €9,278,198

Number of staff: 87

Aggregate remuneration of senior management\*: €6,101,803

Aggregate remuneration of employees whose actions have a material impact on the risk profile of the AIFs managed by the AIFM\*: €8,941,040

\*Remuneration figures reflect an approximation of the portion of remuneration reasonably attributable to the AIFs.

The numbers cover the period from 31 March 2019 to 31 March 2020.

**Boussard & Gavaudan Holding Limited**  
**Management Report**  
**For the year ended 31 December 2020**

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A description of important events which have occurred during the Year, their impact on the performance of BGHL as shown in the financial statements and a description of the principal risks and uncertainties facing BGHL, together with an indication of important events that have occurred since the end of the Year and BGHL's likely future development is given in the report of the Investment Manager, the Directors' report and the notes to the financial statements. They are considered to be incorporated here by reference.

There were no material related party transactions which took place in the Year, other than those disclosed in the report of the Investment Manager and in note 6 to the financial statements.

The Directors confirm that to the best of their knowledge:

- (a) The financial statements, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of BGHL as at and for the Year and,
- (b) This management report (including the information incorporated by reference) includes a fair review of the development and performance of BGHL and its position at the Year end, together with a description of the principal risks and uncertainties that BGHL faces.

By order of the Board



Andrew Henton  
Chairman



Andrew Howat  
Director

21 April 2021

# **Boussard & Gavaudan Holding Limited**

## **Report of Independent Auditor**

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### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BOUSSARD & GAVAUDAN HOLDING LIMITED**

We have audited the financial statements of Boussard & Gavaudan Holding Limited (the 'Company') for the year ended 31 December 2020 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 17, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements, including the UK FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included;

- Confirming our understanding of the Investment Manager's going concern assessment process by engaging with the Investment Manager early in the audit process to ensure all key factors were considered in their assessment;
- Obtaining the Investment Manager's going concern assessment which comprised a cash flow forecast for the going concern period to 30 April 2022, acknowledging the liquidity of the investment in BG Fund, consideration of any potential gate imposed at the Master Fund level and the significant net asset position, and testing for arithmetical accuracy;
- Challenged the appropriateness of the Investment Manager's forecasts by applying sensitivities to understand the impact on liquidity of the Company;
- Holding discussions with the Investment Manager and the Board on whether events or conditions exist that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern;
- Assessing the assumptions used in the going concern assessment prepared by the Investment Manager and considering whether the methods utilised were appropriate for the Company;
- Reading the going concern disclosures included in the annual report and financial statements in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the period to 30 April 2022.

# Boussard & Gavaudan Holding Limited

## Report of Independent Auditor

In relation to the Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

### Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> <li>Valuation of Level 2 investments</li> </ul>
Materiality	<ul style="list-style-type: none"> <li>Overall materiality of €3.6m which represents 1% of total equity.</li> </ul>

### An overview of the scope of our audit

#### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Fair value of Level 2 Investments are not properly determined (2020: €364.6 million, 2019: €344.1 million)</b></p> <p>Refer to the Report of the Audit Committee on page 27, Accounting policies Note 2 on page 45 and Note 3 of the Financial Statements on page 51.</p> <p>99.7% of the fair value of investments relate to the Company's holding in the BG Fund.</p> <p>The valuation of the investments is the principal driver of the Company's net asset value and total comprehensive income. Incorrect valuation could have a significant impact on the net asset value of the Company.</p>	<ul style="list-style-type: none"> <li>We have updated our understanding of BGHL's valuation methodology (including the controls surrounding the valuation process) and accounting policies for its investments and confirmed our understanding by obtaining the "SOC 1" report of SS&amp;C Financial Services LLC;</li> <li>We have obtained an analysis of the Level 2 investment held by BGHL in BG Fund and the methods used to value these investments;</li> <li>We have confirmed the Net Asset Value ("NAV") at the reporting date with the independent administrator of BG Fund;</li> <li>We have recalculated the fair value of the investment in BG Fund based on the number of units held and NAV at the reporting date confirmed by administrator;</li> </ul>	<p>No significant findings were reported to the audit committee in respect of the valuation of Level 2 investments.</p>

**Boussard & Gavaudan Holding Limited**  
**Report of Independent Auditor**

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	<ul style="list-style-type: none"> <li>• We have observed liquidity in the Company’s level 2 investment around the year end date by obtaining the issues/redemptions schedule from the independent administrators; and</li> <li>• We have obtained a copy of the signed annual report and Financial Statements of the BG Fund for the year ended 31 December 2020 and agreed the NAV per unit to this.</li> </ul>	

**Our application of materiality**

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

**Materiality**

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Company to be €3.6 million (2019: €3.5 million), which is 1% (2019: 1%) of total equity. We believe that total equity provides us with an appropriate basis for audit materiality as this is a key published performance measure and is a key metric used by management in assessing and reporting on the overall performance of the Company.

During the course of our audit, we reassessed initial materiality and noted that total equity had increased from €336.2 million at 30 June 2020 to €357.4 million as at 31 December 2020. This resulted in a higher materiality of €3.6 million compared to €3.3 million that was originally determined at the audit planning stage.

**Performance materiality**

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Company’s overall control environment, our judgement was that performance materiality was 75% (2019: 75%) of our planning materiality, namely €2.7 million (2019: €2.6 million). We have set performance materiality at this percentage due to the investment strategy remaining consistent with our previous experience and limited identification of audit findings in previous periods.

**Reporting threshold**

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of €0.2 million (2019: €0.2 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

**Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

# **Boussard & Gavaudan Holding Limited**

## **Report of Independent Auditor**

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Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters in relation to which the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Company; or
- the financial statements are not in agreement with the Company's accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

### **Corporate Governance Statement**

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified, set out on page 24;
- Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on page 23;
- Directors' statement on fair, balanced and understandable set out on page 26;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 21;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 22; and
- The section describing the work of the audit committee set out on page 27.

### **Responsibilities of directors**

As explained more fully in the statement of directors' responsibilities set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

# **Boussard & Gavaudan Holding Limited**

## **Report of Independent Auditor**

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### *Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with those charged with governance of the Company.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the Companies (Guernsey) Law, 2008, the UK Corporate Governance Code and the listing rules of Euronext Amsterdam and the UK Listing Authority.
- We understood how the Company is complying with those frameworks by making enquiries of the Investment Manager and those charged with governance regarding:
  - their knowledge of any non-compliance or potential non-compliance with laws and regulations that could affect the financial statements;
  - the Company's methods of enforcing and monitoring non-compliance with such policies;
  - management's process for identifying and responding to fraud risks, including programs and controls the Company has established to address risks identified by the entity, or that otherwise prevent, deter and detect fraud; and
  - how management monitors those programs and controls.
- Administration and maintenance of the Company's books and records is performed by JTC Fund Solutions (Guernsey) Limited (Administrator and Corporate Secretary) and SS&C Financial Services, LLC (Sub-Administrator) which are regulated firms, independent of the Investment Manager and the Company. We corroborated our enquiries through our review of Board minutes and any correspondence received from regulatory bodies. We also obtained their SOCI controls reports and bridging letters for the period not covered by the reports, and reviewed them for findings relevant to the Company. We noted no contradictory evidence during these procedures.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by:
  - obtaining an understanding of entity-level controls and considering the influence of the control environment;
  - obtaining management's assessment of fraud risks including an understanding of the nature, extent and frequency of such assessment documented in the Company's risk register;
  - making inquiries with those charged with governance as to how they exercise oversight of management's processes for identifying and responding to fraud risks and the controls established by management to mitigate specifically those risks the entity has identified, or that otherwise help to prevent, deter and detect fraud;
  - making inquiries with management and those charged with governance regarding how they identify related parties including circumstances related to the existence of a related party with dominant influence; and
  - making inquiries with management and those charged with governance regarding their knowledge of any actual or suspected fraud or allegations of fraudulent financial reporting affecting the Company.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified above. Our procedures involved a review of board minutes, inquiries of the Investment Manager and those charged with governance, and focused testing, including:
  - Through discussion, gaining an understanding of how those charged with governance, the Investment Manager, Administrator and Sub-Administrator identify instances of non-compliance by the Company with relevant laws and regulations;
  - Inspecting the relevant policies, processes and procedures to further our understanding;

## **Boussard & Gavaudan Holding Limited**

### **Report of Independent Auditor**

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- Reviewing Board minutes and internal compliance reporting;
- Inspecting correspondence with regulators; and
- Obtaining relevant written representations from the Board of Directors.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### **Use of our report**

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



*Richard Le Tissier*

*for and on behalf of Ernst & Young LLP  
Guernsey, Channel Islands  
21 April 2021*

#### Notes:

1. The maintenance and integrity of the Boussard & Gavaudan Holding Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Boussard & Gavaudan Holding Limited**  
**Statement of Financial Position**  
**As at 31 December 2020**

	Note	31 Dec 2020 €	31 Dec 2019 €
<b>Assets</b>			
Investments at fair value through profit or loss			
Cost €198,740,566 (2019: €214,549,129)	3	365,610,630	348,549,793
Unrealized gain on forward derivatives contracts	3	197,195	76,778
Due from brokers	14	530,000	850,000
Cash and cash equivalents		2,615,428	1,041,187
<b>Total assets</b>		<b>368,953,253</b>	<b>350,517,758</b>
<b>Liabilities</b>			
Due to brokers	14	1,225,051	334
Performance fees payable	8	8,788,664	-
Management fees payable	8	1,312,323	1,705,271
Other liabilities		179,761	87,329
<b>Total liabilities</b>		<b>11,505,799</b>	<b>1,792,934</b>
<b>Equity</b>			
Share capital		199,708,055	199,708,196
Treasury shares		(5,444,132)	(5,266,580)
Retained earnings		163,183,531	154,283,208
<b>Total equity</b>		<b>357,447,454</b>	<b>348,724,824</b>
<b>Total equity and liabilities</b>		<b>368,953,253</b>	<b>350,517,758</b>
<b>Net asset value per share:</b>			
Class A EURO shares outstanding 13,493,269 (2019: 14,804,678)		€ 25.9356	€ 22.8994
Class A GBP shares outstanding 294,494 (2019: 398,542)		£22.7685	£ 20.6363

The financial statements on pages 41 to 60 were approved by the Board of Directors on 21 April 2021 and signed on its behalf by:



Andrew Henton  
**Chairman**



Andrew Howat  
**Director**

The accompanying notes on pages 45 to 60 form an integral part of these financial statements

**Boussard & Gavaudan Holding Limited**  
**Statement of Comprehensive Income**  
**For the year ended 31 December 2020**

	Note	31 Dec 2020 €	31 Dec 2019 €
<b>Income</b>			
Net realised gain on financial assets and liabilities at fair value through profit or loss	12	12,968,106	172,644,891
Change in unrealised gain/(loss) on financial instruments at fair value through profit or loss	12	32,989,815	(142,564,775)
Net gain on financial assets at fair value through profit or loss		45,957,921	30,080,116
Other realised and unrealised foreign currency gain/(loss)		17,337	(90,782)
Other income	3.1	2,285,196	-
<b>Total income</b>		<b>48,260,454</b>	<b>29,989,334</b>
<b>Expenses</b>			
Interest expense on loan		-	961,729
Interest expense on cash equivalents		3,973	5,227
Performance fees	8	8,788,663	-
Management fees	8	5,110,080	9,029,693
Administrative fees	7	141,321	109,173
Directors fees	6	88,028	88,412
Professional fees		107,165	58,687
Audit fees		82,549	58,701
Other expenses		230,628	167,732
<b>Total expenses</b>		<b>14,552,407</b>	<b>10,479,354</b>
<b>Net profit before tax</b>		<b>33,708,047</b>	<b>19,509,980</b>
<b>Taxation</b>			
Withholding tax		-	-
<b>Net profit and total comprehensive income</b>		<b>33,708,047</b>	<b>19,509,980</b>
<b>Basic and diluted earnings per share</b>			
Class A EURO €33,664,993 Profit / 14,162,580 shares (2019: €18,168,303 Profit / 26,477,639 shares)		€ 2.3770	€0.6862
Class A GBP £ 33,973 Profit / 325,201 shares, (2019: £1,166,171 Profit / 573,684 shares)		£0.1045	£2.0328

There is no statement of Other Comprehensive Income presented as there was no other comprehensive income during the Year.

All activities are of a continuing nature.

The accompanying notes on pages 45 to 60 form an integral part of these financial statements

**Boussard & Gavaudan Holding Limited**  
**Statement of Changes in Equity**  
**For the year ended 31 December 2020**

	Share Capital €	Distributable Reserve €	Treasury Shares €	Retained Earnings €	Total Equity €
<b>2020</b>					
Balance as at 1 January 2020	199,708,196	-	(5,266,580)	154,283,208	348,724,824
Net gain attributable to ordinary shares	-	-	-	33,708,047	33,708,047
Treasury shares acquired	-	-	(24,985,417)	-	(24,985,417)
Treasury shares cancelled	(141)	(24,807,724)	24,807,865	-	-
Transfer to retained earnings	-	24,807,724	-	(24,807,724)	-
<b>Balance as at 31 December 2020</b>	<b>199,708,055</b>	<b>-</b>	<b>(5,444,132)</b>	<b>163,183,531</b>	<b>357,447,454</b>
<b>2019</b>					
Balance as at 1 January 2019	511,878,078	-	-	134,773,228	646,651,306
Net loss attributable to ordinary shares	-	-	-	19,509,980	19,509,980
Shares redeemed*	(312,169,882)	-	-	-	(312,169,882)
Treasury shares acquired	-	-	(5,266,580)	-	(5,266,580)
<b>Balance as at 31 December 2019</b>	<b>199,708,196</b>	<b>-</b>	<b>(5,266,580)</b>	<b>154,283,208</b>	<b>348,724,824</b>

\* In 2019, redeemed amounts of € 310,101,835 was non cash transactions and € 2,068,047 was cash transactions as a result of the share exchange are mentioned in note 1.1 on page 45.

The accompanying notes on pages 45 to 60 form an integral part of these financial statements

**Boussard & Gavaudan Holding Limited**  
**Statement of Cash Flows**  
**For the year ended 31 December 2020**

	31 Dec 2020	31 Dec 2019
Note	€	€
<b><u>Cash flows from operating activities</u></b>		
Net profit and total comprehensive income	33,708,047	19,509,980
Adjustments to reconcile net profit to net cash used in operating activities:		
Unrealised (gain)/loss on financial instruments at fair value through profit and loss	12 (32,989,815)	142,564,775
Realised gain on financial instruments at fair value through profit and loss	12 (12,968,106)	(172,644,891)
Other Income	(2,285,196)	-
Decrease in due from brokers	320,000	760,000
Decrease in interest payable	-	(123,900)
Increase/(decrease) in due to brokers	(118)	(166)
Increase in performance fee payable	8,788,664	-
Decrease in management fee payable	(392,948)	(784,759)
Increase in other liabilities	92,432	32,677
<b>Net cash used in operating activities</b>	<b>(5,727,040)</b>	<b>(10,686,284)</b>
<b><u>Cash flows from investing activities</u></b>		
Sales of investments at fair value through profit or loss	3.2 29,100,000	87,424,761
Cash distribution received from investments at fair value through profit or loss	2,285,196	-
<b>Net cash provided by investing activities</b>	<b>31,385,196</b>	<b>87,424,761</b>
<b><u>Cash flows from financing activities</u></b>		
Treasury shares acquired	(23,760,582)	(5,266,580)
Net (purchases)/sales of foreign exchange forward derivative contracts	12 (323,333)	407,783
Repayment of short term loan	-	(70,000,000)
Cash transfer on share exchange	1.1 -	(2,068,047)
<b>Net cash used in financing activities</b>	<b>(24,083,915)</b>	<b>(76,926,844)</b>
<b><u>Cash and cash equivalents</u></b>		
Beginning of the period	1,041,187	1,229,554
Net movement in cash and cash equivalents	1,574,241	(188,367)
<b>Cash and cash equivalents at Dec 2020</b>	<b>2,615,428</b>	<b>1,041,187</b>
<b><u>Supplementary information</u></b>		
Interest paid	(3,973)	(1,090,856)
Redemption in specie*	-	310,101,835

\* In 2019, redeemed amounts of € 310,101,835 were non cash transactions as a result of the share exchange mentioned in note 1.1 on page 45.

The accompanying notes on pages 45 to 60 form an integral part of these financial statements

# **Boussard & Gavaudan Holding Limited**

## **Notes to the Financial Statements**

### **For the year ended 31 December 2020**

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#### **1. General information**

##### ***1.1 BGHL***

BGHL is a limited liability closed-ended investment company incorporated in Guernsey on 3 October 2006 with registration number 45582.

BGHL was admitted to the Eurolist Market operated by Euronext Amsterdam on 3 November 2006. As a result of listing and trading of the shares on Euronext Amsterdam, BGHL is subject to Dutch securities regulations and to supervision by the relevant Dutch authorities. BGHL is registered with the Dutch Authority for the Financial Markets as a collective investment scheme.

On 28 July 2008, BGHL's shares were also admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange Plc's main market for listed securities. As a result of admission to the Official List of the UK Listing Authority, BGHL is subject to the UK Listing Authority's Listing, Prospectus, Disclosure Guidance and Transparency Rules, save where Dutch securities regulations take precedence. BGHL's share issue costs were borne by the Investment Manager.

At the time of this dual listing, BGHL created a class of shares denominated in Sterling (the "Sterling Shares") through the conversion of existing Euro shares into new Sterling shares at the prevailing NAV per Euro share as at 30 June 2008. From that date, shareholders have been able to convert their existing holding of shares in BGHL from one class into another class. Conversions, from one class to another, are effected once a year on the last business day of November in compliance with the procedure published on BGHL's website. In 2020, there have been two share conversions. The first occurred in March 2020 and was the 2019 annual share conversion which had been postponed as a result of the Exchange Offer which took place on 31 October 2019. The second occurred in November 2020 and was the 2020 annual share conversion.

On 1 November 2019, following a proposal by the Board approved by the shareholders, 13,887,723 BGHL shares, representing 47.25% of BGHL's share capital, participated in a share exchange offer. BGHL redeemed the participating shares and paid the redemption in kind. Holders of participating shares received new shares in BG Eire Fund, an alternative investment fund domiciled in Ireland and managed by Boussard & Gavaudan Investment Management LLP. BG Eire Fund received the portion of the BGHL assets attributable to the participating shares.

##### ***1.2 The Investment Manager***

Boussard & Gavaudan Investment Management LLP is the Investment Manager of BGHL. The Investment Manager is an English limited liability partnership. The Investment Manager is authorised by the United Kingdom's Financial Conduct Authority to perform the activity of managing alternative investment funds.

The Investment Manager also manages BGF and the Master Fund.

The Administrator arranges for the monthly publication of the NAV of BGHL as at the end of the previous month and the Investment Manager provides daily estimates.

Neither of BGHL and BGF have or have ever had any employees or own or has ever owned any facilities.

#### **2. Accounting policies**

##### **Basis of preparation and statement of compliance**

The financial statements have been prepared on a historical cost basis except for financial assets and liabilities held at fair value through profit or loss that have been measured at fair value.

The financial statements are prepared in accordance with IFRS and with legislation and rules pertaining to Amsterdam Euronext and London Stock Exchange for listed companies, as well as in accordance with the Companies Law.

The accounting policies have been applied consistently by BGHL and are consistent with those used in the previous year. Major accounting policies are described below.

# **Boussard & Gavaudan Holding Limited**

## **Notes to the Financial Statements**

### **For the year ended 31 December 2020**

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#### **Going Concern**

As set out in the Directors' Report, the Board has a reasonable expectation that BGHL has adequate resources to continue in operational existence for the period ended 30 April 2022. Therefore, the financial statements have been prepared on a going concern basis.

#### **New standards, amendments and interpretations issued but not effective for the financial Year beginning 1 January 2020 and not early adopted by BGHL**

IAS 1 'Presentation of financial statements' Classification of Liabilities as Current or Non-current. The International Accounting Standards Board issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The effective date is for annual periods beginning on or after 1 January 2023. The standard is not expected to have a material impact on the financial statements or performance of BGHL.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant or material impact on BGHL.

#### **New standards, amendments and interpretations effective for the Period beginning 1 January 2020 and adopted by BGHL**

The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

BGHL adopted the amendments on its effective date of 1 January 2020 and such adoption has no impact on BGHL's financial statements.

There are no other standards, amendments to standards or interpretations that are effective for periods beginning on 1 January 2020 that have a material effect on the financial statements of BGHL.

#### **Significant accounting judgements, estimates and assumptions**

The preparation of BGHL's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amount of the asset or liability affected in future periods.

#### ***Judgements***

In the process of applying BGHL's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

#### ***Fair Value***

Carrying value of all financial assets and liabilities are reasonable approximation of the fair values. When the fair value of financial assets cannot be derived from active markets, their fair value is determined using valuation techniques that may include the use of valuation models. BGHL applies judgement when selecting the method of valuation.

#### ***Estimates and assumptions***

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. BGHL based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of BGHL. Such changes are reflected in the assumptions when they occur.

# **Boussard & Gavaudan Holding Limited**

## **Notes to the Financial Statements**

### **For the year ended 31 December 2020**

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#### *Fair Value*

The inputs to the valuation models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty's), correlation and volatility.

Changes in assumptions about these factors could affect the reported fair value of financial instruments in the statement of financial position and the level where the instruments are disclosed in the fair value hierarchy.

The models are tested for validity by calibration against prices from any observable current market transactions in the same instrument (without modification or repackaging) when available. To assess the significance of a particular input to the entire measurement, BGHL performs sensitivity analysis or stress testing techniques.

BGHL may invest in private equity funds, which are not quoted in an active market and which may be subject to restrictions on redemptions such as lock up periods, redemption gates and side pockets.

The Investment Manager considers the valuation techniques and inputs used in valuing these investments as part of its due diligence prior to investing, to ensure they are reasonable and appropriate and therefore the NAV of these funds may be used as an input into measuring their fair value. In measuring this fair value, the NAV of the funds is adjusted, as necessary, to reflect restrictions on redemptions, future commitments, and other specific factors of the fund and fund manager. In measuring fair value, consideration is also paid to any transactions in the shares of the fund.

When assessing the fair value of the RLI position, BGHL made an estimation of the level of discount to the valuation reported by RLI reflecting the value currently realisable by BGHL.

For a description of estimates and assumptions used in assessing fair value of financial assets, please refer to Note 3. Management believes that the estimates utilised in preparing its financial statements and management judgements applied are reasonable. However, actual results could differ from these estimates.

#### **Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which BGHL operates ('the functional currency'). The functional currency is Euro, which reflects BGHL's primary activity of investing in Euro denominated securities. BGHL has adopted the Euro as its presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

#### **Financial assets and liabilities at fair value through profit or loss**

A financial asset is measured at fair value through profit or loss if:

- (a) Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest (SPPI) on the principal amount outstanding; or
- (b) It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell; or
- (c) At initial recognition, it is irrevocably designated as measured at fair value through profit or loss when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Included within this category are:

- Investments in equity instruments;
- Investments in debt instruments that are held under a business model to manage them on a fair value basis for investment income and fair value gains; and
- Derivative forward contracts that are in an asset position.

Investments in equity are initially recognised at fair value excluding attributable purchase costs. For equity and debt instruments that are listed they are subsequently valued by using quoted prices, whereas non-listed equities are determined by using the NAV determined by independent administrator as its basis or by using valuation models. The valuation methodology is discussed in note 3.

# **Boussard & Gavaudan Holding Limited**

## **Notes to the Financial Statements**

### **For the year ended 31 December 2020**

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#### Derivative forward contract

A forward contract is a contract which obliges one party to the contract to buy, and the other party to sell, the asset that is the subject of the contract for a fixed price at a future date. Forward contracts are initially recorded at fair value. A forward currency contract involves an obligation to purchase or sell a specific currency at a future date, at a price set at the time the contract is made. Forward foreign exchange contracts are subsequently valued by reference to the forward price at which a new forward contract of the same size and maturity could be undertaken at the valuation date. The unrealised gain or loss on open forward currency contracts is calculated as the difference between the contract rate and this forward price, and is recognised in the Statement of Financial Position.

Changes in the fair value of investments are recorded in the Statement of Comprehensive Income in net unrealised gain/loss on financial assets at fair value through profit or loss.

BGHL's policy is to determine that any transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting Year.

#### **Financial liabilities at fair value through profit or loss**

A financial derivative liability is required to be measured at fair value through profit or loss. Included within this category are:

- Derivative forward contracts that are in a liability position.

Accounting policy for forward contracts in liability position is the same as described in financial assets at fair value through profit or loss.

#### **Recognition/derecognition of financial assets and liabilities at fair value**

Purchases and sales of financial assets and liabilities at fair value are recognised on the trade date - the date on which BGHL commits to purchase or sell the investment. Financial assets and liabilities are derecognised when the rights to receive cash flows from the investments have expired or BGHL has transferred substantially all risks and rewards of ownership.

#### **Due from and due to brokers**

Amounts due from and to brokers represent deposits held with brokers, receivables for securities sold, payables or payments for securities purchased that have been contracted for but not yet settled or delivered on the statement of financial position date respectively, and cash pledged as collateral on derivative contracts. Amounts due from brokers is initially measured at fair value plus transaction costs and subsequently measured at cost less impairment. Amounts due to brokers is initially measured at fair value less transaction costs and subsequently measured at amortised cost.

#### **Impairment of financial assets**

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the expected credit loss ("ECL") is negligible. Investments held at fair value through profit or loss are not subject to IFRS 9 impairment requirements.

For due from brokers the Company uses a 12 month expected loss allowance. The Company has completed some high-level analysis and forward looking qualitative and quantitative information, to determine if the receivables are low credit risk. Based on this analysis the expected credit loss ("ECL") on receivables is not material and therefore no impairment adjustments were accounted for.

#### **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

# **Boussard & Gavaudan Holding Limited**

## **Notes to the Financial Statements**

### **For the year ended 31 December 2020**

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#### **Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term investments in an active market with original maturities of three months or less and bank overdrafts.

#### **Taxation**

Current income tax assets and liabilities for the current Year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where BGHL directly and through the Master Fund, operates and generates taxable income.

BGHL invests in foreign countries which may levy withholding tax at source on revenues derived by non-residents. Where such tax is withheld at source by the broker or another party BGHL records the revenue on a gross basis in Statement of Comprehensive Income (the revenue is grossed up and offset against an expense representing the tax withheld at source).

#### **Expenses**

Expenses are accounted for as they occur on an accrual basis. Expenses are charged to the Statement of Comprehensive Income.

#### **Interest income and expense**

Interest income, arising on due from brokers and interest expense on due to broker and short term loans are recognised in the Statement of Comprehensive Income within interest income and interest expense.

#### **Dividend income**

Dividend income is recognised on ex-dividend date.

#### **Investment entity**

BGHL has unrelated investors and holds multiple investments. Ownership interests in BGHL are in the form of equity shares which are exposed to variable returns from changes in the fair value of BGHL's assets and liabilities. BGHL has been deemed to meet the definition of an investment entity per IFRS 10 as the following conditions exist:

- (a) BGHL has obtained funds for the purpose of providing investors with investment management services.
- (b) BGHL's business purpose, which was communicated directly to investors, is investing solely for returns from capital appreciation and investment income, through investments.
- (c) The performance of investments is measured and evaluated on a fair value basis.

BGHL's exit strategy with respect to its investment in BGF is that BGHL may redeem its shares in BGF on a monthly basis and does not have any special or preferential rights in BGF. Redemptions and subscriptions in BGF are made in order to manage BGHL's exposure in accordance with BGHL's investment policy.

#### **Basic and diluted earnings per share, and NAV per share**

Basic earnings per share are calculated by dividing the net income by the weighted average number of registered shares in issue, during the Year. There is no difference between the basic and diluted earnings per share.

NAV per share is calculated by dividing the net assets at the Statement of Financial Position date by the number of shares outstanding at the Statement of Financial Position date.

#### **Treasury shares**

When BGHL purchases its own equity instruments (treasury shares), they are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of BGHL's own equity instruments.

**Boussard & Gavaudan Holding Limited**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2020**

**3. Fair value of financial instruments**

The following tables analyse BGHL's net assets between the three levels of the fair value hierarchy:

<b>31 December 2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>	<b>Total Cost</b>
<b>Financial assets at fair value €:</b>					
BG Fund	-	364,601,372	-	364,601,372	196,081,077
Private equity investments	-	-	1,009,258	1,009,258	2,659,489
Sub-Total €	-	364,601,372	1,009,258	365,610,630	198,740,566
<b>Derivatives</b>					
Forward foreign exchange contracts	-	197,195	-	197,195	-
<b>Total €</b>		<b>364,798,567</b>	<b>1,009,258</b>	<b>365,807,825</b>	<b>198,740,566</b>
<b>31 December 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>	<b>Total Cost</b>
<b>Financial assets at fair value €:</b>					
BG Fund	-	344,077,387	-	344,077,387	211,889,640
Private equity investments	-	-	4,472,406	4,472,406	2,659,489
Sub-Total €		344,077,387	4,472,406	348,549,793	214,549,129
<b>Derivatives</b>					
Forward foreign exchange contracts	-	76,778	-	76,778	-
<b>Total €</b>	-	<b>344,154,165</b>	<b>4,472,406</b>	<b>348,626,571</b>	<b>214,549,129</b>

Other short term operating assets and liabilities are excluded from the table due to their nature.

In accordance with IFRS, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. The above tables analyse BGHL's investment into the three levels of fair value hierarchy in accordance with IFRS 13 as described below:

Level 1 – quoted prices in active markets for identical investments that BGHL has the ability to access.

Level 2 – valuations based on other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment spreads, credit risk, etc.) or quoted prices from inactive exchanges. Forward contracts are valued primarily based on market observable inputs such as a share price or forward foreign currency curves at the balance sheet date.

Level 3 – valuations based on significant unobservable inputs (including BGHL's own assumptions in determining the fair value of investments)

**3.1 Level 3 investments**

<b>Financial assets €</b>	<b>31 December 2020</b>	<b>31 December 2019</b>
<b>Opening Balance</b>	<b>4,472,406</b>	<b>8,311,616</b>
Redemption in specie	-	(4,024,229)
Realised loss	-	(1,698,068)
Unrealised (loss)/gain	(3,463,148)	1,883,087
<b>Closing Balance</b>	<b>1,009,258</b>	<b>4,472,406</b>

The above tables present the movements in Level 3 investments. There were no transfers between levels for the Year.

**Rasaland Investors Plc ("RLI")**

RLI is classified as a Level 3 asset for valuation purposes.

RLI is administered by Francis J. Vassallo & Associates, a Maltese company. RLI management value the net assets of the company using a documented valuation procedure. The key significant unobservable input used in this process is land values in Mexico sourced from independent professional advisers, Cushman & Wakefield. These "area based" land values are applied without adjustment to individual properties, the existence and ownership of which is also independently verified by law firm Baker & Mackenzie. The administrator Francis J. Vassallo & Associates, performs an annual valuation each 31 December. In addition, on an annual basis RLI commissions PricewaterhouseCoopers to undertake an agreed upon procedure to verify the consistency and accurate application of various aspects of the agreed valuation methodology.

BGHL's valuation committee values RLI at a significant discount to the administrator's NAV.

In Q1 2020, RLI elected to make a cash distribution to shareholders which resulted in BGHL receiving USD 2,790,796 equivalent to EUR 2,285,196 (US\$0.2773 per share) in December 2020.

# Boussard & Gavaudan Holding Limited

## Notes to the Financial Statements

### For the year ended 31 December 2020

In June 2020, RLI's life term was extended until January 2027. In 2020, the Investment Manager has received a strong indication that it is going to be at least another 10 years until RLI realizes its remaining assets. BGHL's exit is likely to be on the secondary market, at a material discount to the net asset value.

In July 2020, RLI made a tender offer for a fixed price per share of US\$0.12270. 11.71% of the shareholders participated in the offer and given the significance of the transaction and RLI's medium term horizon, BGHL's valuation committee has decided to use the tender - post distribution - price to fair value its RLI position.

RLI	NAV per share \$ as of 31.12.2020	BGHL Valuation	Discount %
Price post distribution	0.58667	0.12270	(79.85)%

	NAV per share \$ as of 31.12.2019	BGHL Valuation	Discount %
RLI price	0.9036	0.4988	(55.20)%

As of 31 December 2020, a 25% increase or decrease in the NAV after the applied discount rate would result in an increase/decrease of profits of € 252,314 (31 December 2019: €1,118,101).

### 3.2 Level 2 investments

The significant majority of BGHL's gross assets are invested in the Master Fund. Notwithstanding the significance of BGHL as a material investor in the Umbrella Fund, BGHL does not enjoy any special or particular rights in relation to the management of the Master Fund because of the voting rights attached to its investment. Specifically, it receives no information from the Umbrella Fund that is not communicated simultaneously to other investors, has no right to appoint a Director or attend board meetings, and has no influence on investment and operational decisions. Therefore, BGHL has no control over the Umbrella Fund nor, in the opinion of the Directors, could it exercise significant influence as described in IAS 28.

BGHL's investment in BGF is classified as Level 2 in the fair value hierarchy because the only inputs to valuation are number of shares and the quoted observable market price of those shares. The quoted price is published on the Irish Stock Exchange. BGHL classifies the interest in BGF as Level 2 because there is not a continuous active market in BGF's shares. The market is active only once a month when investors can transact in BGF shares at the published price which is calculated by the administrator of BGF based on its NAV.

The underlying investments of BGF, which are principally held by the Master Fund, are predominantly classified as Level 1 and Level 2 in the fair value hierarchy.

The proportion of Level 3 direct and indirect investments of the Master Fund is disclosed in the tables below including the proportion of the investments which are fair valued by the Investment Manager using a variety of techniques including discounted cash flows and public/private company comparables. Indirect investments refer to the proportion of Level 3 investments of the BG Select Investments (Ireland) Limited, a subsidiary fully owned by the Master Fund.

Master Fund % AUM (*)	31 Dec 2020	31 Dec 2019	Variation %
Level 3	7.21%	5.84%	1.37%
of which Investment Manager's Valuation	0.87%	0.03%	0.84%

Source: Administrator, SS&C Financial Services LLC

BG Select Investments %AUM of Master fund (*)	31 Dec 2020	31 Dec 2019	Variation %
Level 3	7.31%	6.00%	1.31%
of which Investment Manager's Valuation	1.73%	3.06%	(1.33)%

Source: Administrator, SS&C Financial Services LLC

Total exposure in % AUM (*)	31 Dec 2020	31 Dec 2019	Variation %
Level 3	14.52%	11.84%	2.68%
of which Investment Manager's Valuation	2.6%	3.09%	(0.49)%

Source: Administrator, SS&C Financial Services LLC

(\*) Profit & Loss of the FX to hedge investors is included in the AUM of the Master Fund.

# Boussard & Gavaudan Holding Limited

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Instruments held by the Master Fund are valued in the risk management system which is fed by real time market data in order to price the portfolio. Some instruments such as, but not limited to, derivatives are priced by using in-house developed models.

The system calculates profits and losses as well as net asset values. Inputs are used in applying the various valuation techniques and broadly based on the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, spot and volatility prices, interest rate, credit and foreign exchange levels, default probabilities, liquidity factors as well as other data.

BGHL does not have access to the detail of the underlying valuations nor to the sensitivities and strategies of the Umbrella Fund, BGF and the Master Fund other than as explained in the Investment Manager's Report. BGHL does not have the ability nor the responsibility to direct or to implement the Master Fund's investment objective and policy. As a consequence, BGHL does not consider that it is appropriate to seek to disclose in the notes of the financial statements all quantitative information relating to the underlying investments held by the Master Fund in its financial statements. General information about the Master Fund's exposure can be found in the Investment Manager's Report.

#### Umbrella Fund

BGHL's holding of voting shares in the Umbrella Fund is disclosed in the table below:

BGHL's holdings	31 Dec 2020	31 Dec 2019
Voting shares - Umbrella Fund	18.31%	13.02%

The investment in the Umbrella Fund is measured at fair value through profit or loss.

Investment by BGHL into BGF in €	31 Dec 20	31 Dec 19
Subscriptions	-	-
Redemptions	(29,100,000)	(393,502,367) *
<b>Change in holding</b>	<b>(29,100,000)</b>	<b>(393,502,367)</b>

\*Included in the total redemption for December 2019 is a redemption in specie to the amount of EUR 305,902,367 transferred from BGHL to BG EIRE Fund as a result of the share exchange offer described under note 1.1 on page 45. The net cashflow from redemptions for the year was EUR 87,600,000 of which a significant portion was used to repay the loan.

As at 31 December 2020 and 31 December 2019 there were no capital commitment obligations and no amounts due to BGF for unsettled purchases.

#### 4. Financial instruments and associated risks

BGHL's objective in managing risk is the creation and protection of shareholder value. Risk is inherent in BGHL's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to BGHL's continuing profitability. BGHL is exposed to market risk (which includes currency risk, interest rate risk and price risk), credit risk and liquidity risk arising from the financial instruments it holds.

##### Risk management structure

The Investment Manager is responsible for identifying and controlling risks. The Board of Directors supervises the Investment Manager and is ultimately responsible for the overall risk management of BGHL.

##### Risk measurement and reporting system

Monitoring and controlling risks is primarily set up to be performed based on limits established by the Board of Directors. These limits reflect the business strategy including the risk that BGHL is willing to accept and the market environment of BGHL. In addition, BGHL monitors and measures the overall risk in relation to the aggregate risk exposure across all risk types and activities.

BGHL is substantially invested in the Master Fund, which represents over time between 80% and 110% of its Net Asset Value. Prima facie, this creates a concentration risk. This concentration risk is addressed by the fact that the Master Fund has wide discretion to invest across different asset classes and to pursue different strategies, and therefore has the benefit of diversification inherently embedded within it. However, the considerable discretion to allocate assets within the Master Fund is of itself a risk since it is theoretically possible for that vehicle to take highly concentrated positions. This risk is managed by the scenario analysis that is performed as part of the stress testing processes. These tests are intended to identify concentration risk which may exist within the Master Fund. The tests are described in the Directors' report.

# **Boussard & Gavaudan Holding Limited**

## **Notes to the Financial Statements**

### **For the year ended 31 December 2020**

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BGHL has investment guidelines that set out its overall business strategies, its tolerance for risk and its general risk management philosophy. The Master Fund's maximum level of leverage in accordance with the gross and commitment methods as required under AIFMD is expressed as a percentage of NAV, are 700% under the commitment method and 2,000% under the gross method.

Further commentary on risks and the management of risk is contained within the Investment Manager's report.

#### **(a) *Market Risk***

BGHL is exposed to market risk directly from the investments it makes and indirectly as a result of the types of investments that the Master Fund makes. Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market variables.

Market risk consists of equity price risks, foreign currency risks and interest rate risks and is discussed in below sections.

#### ***Price risk***

Price risk is the risk of changes in the fair values of equities or equity-linked financial instruments as the result of changes in the levels of equity indices and the value of individual shares. Price risk exposure arises from BGHL's investments in equity securities. BGHL takes significant equity price risk from the investments it makes. At 31 December 2020, should the price of BGF and investments other than BGF have increased/decreased by 10% with all other variables remaining constant, the effect on profit and loss for the Year and on net assets would result in an increase/decrease of approximately € 36,561,063 (2019: €34,854,979).

The above impact includes BGHL's indirect exposure to the Master Fund's price risk.

#### ***Interest rate risk***

BGHL is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its Statement of Financial Position and Statement of Cash Flows. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. Volatility in interest rates could make it more difficult or expensive for BGHL to obtain debt financing, and could negatively cause the prices of long or short positions to move in directions not initially anticipated and could decrease the returns that BGHL's investments generate.

BGHL has no significant exposure to short term interest rate risk in the current or prior year.

BGHL is also indirectly exposed to interest rate risk through its exposure in the Master Fund.

#### ***Foreign currency risks***

Foreign currency risk is the risk the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

#### ***Currency hedge of the Sterling Shares***

BGHL uses forward foreign exchange contracts with maturities of less than three months to hedge the sterling share class exposure in order to provide Sterling shareholders with Sterling equivalent of the Euro performance.

#### ***Portfolio currency hedge***

BGHL's investments in currencies other than the Euro are hedged by the Investment Manager using forward currency contracts which are commitments either to purchase or sell a designated currency at a specified future date for a specific price and may settle in cash or another financial asset. Forward currency contracts are individually traded over-the-counter contracts which result in credit exposure to the counterparty. Forward currency contracts result in exposure to market risk based on changes in market prices relative to contracted amounts. Market risks arise due to the possible movement in foreign currency exchange rates. BGHL uses forward foreign exchange contracts with maturities up to three months to hedge its private equity investments which are denominated in foreign currencies.

Notional amounts are the underlying reference amounts to foreign currencies upon which the fair value of the forward contracts held by BGHL are based. While notional amounts do not represent the current fair value and are not necessarily indicative of the future cash flows of BGHL's forward contracts, the underlying price changes in relation to the variables specified by the notional amounts affect the fair value of these derivative financial instruments.

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Forward foreign exchange contracts settle on a net basis and the net amount at 31 December 2020 was receivable €197,195 (2019: receivable €76,778). The table below summarises BGHL's exposure to foreign currency risks:

Portfolio Currency Exposure - Amounts in €	31 December 2020		31 December 2019	
	GBP	USD	GBP	USD
Investments at fair value through profit or loss	-	1,009,258	-	4,472,406
Due from brokers	55,473	2,296,261	44,937	16,880
Foreign exchange forward derivatives contracts	7,350,961	(3,370,579)	9,675,267	(4,574,083)
Net FX exposure of the portfolio	7,406,434	(65,060)	9,720,204	(84,797)
Net assets effect -5% change in currency	(370,322)	3,253	(486,010)	4,240
Sterling Share Currency Exposure - Amounts in €	31 December 2020		31 December 2019	
	GBP	USD	GBP	USD
Foreign exchange forward derivatives contracts – hedge	7,350,961	-	9,675,267	-
Value of sterling shares	(7,491,023)	-	(9,706,292)	-
Net FX exposure	(140,062)	-	(31,025)	-
Sterling Share Net Assets effect -5% change in currency	7,003	-	1,551	-

At 31 December 2020, BGHL had contracted to buy and sell the foreign exchange amounts:

Purchase Currency	Unit	Sale Currency	Unit	Settlement Date	Unrealised gain/(loss) (€)
EUR	3,537,760	USD	(4,125,000)	2/3/2021	168,878
GBP	6,580,000	EUR	(7,322,738)	1/6/2021	28,317
<b>Total</b>					<b>197,195</b>

At 31 December 2019, BGHL had contracted to buy and sell the foreign exchange amounts:

Purchase Currency	Unit	Sale Currency	Unit	Settlement Date	Unrealised gain/(loss) (€)
EUR	4,582,579	USD	(5,144,192)	2/5/2020	9,233
GBP	8,200,000	EUR	(9,608,973)	1/6/2020	67,545
<b>Total</b>					<b>76,778</b>

BGHL is also indirectly exposed to foreign exchange risk through its exposure in the Master Fund.

**(b) Credit risk**

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with BGHL.

The impairment model requires the recognition of impairment provisions based on expected credit losses under IFRS 9.

As soon as a financial instrument is originated or purchased, 12-month expected credit losses are recognised in profit or loss and a loss allowance is established. This serves as a proxy for the initial expectations of credit losses. For financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk at the reporting date, the loss allowance for 12-month expected credit losses is maintained but updated for changes in amount.

BGHL's credit risk is assessed as low since its exposure to brokers/dealers is with reputable broker/dealers, all securities transactions of BGHL are cleared by major securities firms pursuant to customer agreements, BGHL's appointed Custodian is a large financial institution having investment grade ratings from the major rating agencies and all of BGHL's exposures to counterparties are with reputable financial institutions.

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Amounts appearing in the Statement of Financial Position as due from and due to brokers, which contribute to credit risk and which are detailed by main categories in the following table.

31 December 2020	Gross amount € Due from Brokers	Gross amount € Due to Brokers	Net amount due €
Unsettled trades	-	(1,225,051)	(1,225,051)
Cash held with custodians	2,615,428	-	2,615,428
Cash Collateral	530,000	-	530,000
Gain/(loss) on forward contract	197,195	-	197,195
<b>Total €</b>	<b>3,342,623</b>	<b>(1,225,051)</b>	<b>2,117,572</b>

31 December 2019	Gross amount € Due from Brokers	Gross amount € Due to Brokers	Net amount due €
Unsettled trades	-	(334)	(334)
Cash held with custodians	1,041,187	-	1,041,187
Cash Collateral	850,000	-	850,000
Gain/(loss) on forward contract	76,778	-	76,778
<b>Total €</b>	<b>1,967,965</b>	<b>(334)</b>	<b>1,967,631</b>

#### *Unsettled trades*

BGHL is exposed to the credit risk of the counterparties, brokers, dealers and exchanges with which it deals, whether BGHL engages in exchange-traded or off-exchange transactions. BGHL's principal trading activities are primarily with brokers and other financial institutions located in Europe. At the end of the Year, substantially all the investments in securities owned and securities sold, not yet purchased, due from brokers and due to brokers, are positions with and amounts due to or from these brokers. BGHL may be subject to the risk of loss of assets placed on deposit with a broker in the event of the broker's bankruptcy, the bankruptcy of any clearing broker through which the broker executes and clears transactions, or the bankruptcy of an exchange clearing house. BGHL's exposure to brokers/dealers is with reputable broker/dealers.

Amounts receivable or payable for securities transactions that have not settled at the Year end are reflected under the line unsettled trade. The nominal amount is the maximum exposure. Most of the transactions settle on a delivery versus payment basis. The risk on unsettled trades is the difference between the contractual price and the replacement price of the transaction if the counterparty were to default. Dividends receivable from brokers are at risk for their full nominal amount. All securities transactions of BGHL are cleared by major securities firms pursuant to customer agreements.

#### *Cash held with custodian*

BNP Paribas Securities Services SA ("BPSS") was appointed by BGHL to act as custodian, and is responsible for the safe custody of those assets held by BGHL through BPSS. BPSS is a wholly-owned subsidiary of BNP Paribas SA. The Custodian is entitled to receive a fee from BGHL based on an agreed percentage per annum of the assets held in custody. BPSS is a large financial institution having investment grade ratings from the major rating agencies.

#### *Off balance sheet risk in relation to over-the-counter derivatives*

Participants on over-the counter markets are not subject to credit valuation and regulatory oversight as are members of "exchange-based" markets. BGHL may invest in over-the-counter transactions in these markets, and may take a credit risk with regard to parties with which it trades and may bear the risk of settlement default. These risks may differ materially from those involved in exchange-traded transactions described above.

Transactions entered into directly between two counterparties generally do not benefit from these protections, which in turn may subject BGHL to the risk that a counterparty does not settle a transaction in accordance with agreed terms and conditions because of a dispute over the terms of the contract or because of a credit or liquidity problem. Counterparty risk is increased for contracts with longer maturities when events may intervene to prevent settlement. The ability of BGHL to transact business with any one or any number of counterparties, the lack of any independent evaluation of the counterparties or their financial capabilities, and the absence of a regulated market to facilitate settlement, may increase the potential for losses to BGHL. BGHL's exposure to counterparty risk associated with counterparty non-performance on over-the-counter derivatives is generally limited to the fair value of over the counter contracts reported as assets which are not covered by an equivalent collateral amount and to the independent amounts requested by counterparties to cover the risk of a derivative contract. Counterparty risk exposure is monitored daily. The risk management system gives real time marked to market position, collateral and risk exposure. All of BGHL's exposures to counterparties are with reputable financial institutions which are at least single A investment grade rated from the major rating agencies.

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There are no assets and liabilities held at Year end, other than FX forwards which are subject to offsetting.

BGHL is also indirectly exposed to credit risk through its exposure in the Master Fund.

**(c) Liquidity risk**

Liquidity risk is the risk that BGHL will encounter difficulty in realising assets or otherwise raising funds to meet financial commitments.

The Investment Manager of the Master Fund monitors the liquidity adequacy between assets and liabilities on an ongoing basis. As part of this monitoring, attention is paid to the liquidity and the maturity of the assets in the portfolio.

BGHL's financial commitments are represented from time to time by:

- interest, fees and other expenses payable
- amounts payable for the share buy-backs
- amounts due under forward foreign exchange contracts

BGHL manages its ability to fulfill these commitments by combining the unencumbered cash held for working capital purposes and redemptions in BGF.

BGHL retains an amount of cash with its custodian which is used as working capital in order to manage day to day expenses such as fees and expenses payable.

BGHL invests into BGF by subscribing redeemable participating shares. BGHL may redeem its shares in BGF on a monthly basis with a 60-day notification and does not have any special or preferential rights in BGF.

Compared to last year end, there were no material change in the contractual undiscounted cash outflows for financial liabilities.

All financial liabilities of BGHL at 31 December 2020 are shown on an undiscounted basis in the following maturity table.

In EURO	31 December 2020			
	< 1 month	1 to 3 months	4 months to 1 year	> 1 year
Due to brokers	(1,225,051)	-	-	-
Performance fees Payable	-	(8,788,664)	-	-
Management fee payable	-	(1,312,323)	-	-
Other payables	(179,761)	-	-	-
<b>Total financial liabilities</b>	<b>(1,404,812)</b>	<b>(10,100,987)</b>	-	-
In EURO	31 December 2019			
	< 1 month	1 to 3 months	4 months to 1 year	> 1 year
Due to Brokers	(334)	-	-	-
Management fee payable	-	(1,705,271)	-	-
Other payables	(87,329)	-	-	-
<b>Total financial liabilities</b>	<b>(87,663)</b>	<b>(1,705,271)</b>	-	-

**5. Capital management**

BGHL is not subject to any externally imposed capital requirements. When managing the capital of BGHL as detailed below, the Investment Manager seeks to provide consistent absolute returns in accordance with BGHL's investment objectives and policies, for example those related to gearing.

BGHL operated a share buy-back programme designed to reduce its capital, which has had the favourable effect of increasing the NAV per Share since the Shares were repurchased at a discount to their NAV. Transactions under the programme are disclosed in note 10. Details of the exchange and shares buyback of the class B shares in the prior year is provided on page 45 of the financial statements.

**6. Related Party transactions**

The relationship between BGHL and the Investment Manager and the fees earned are disclosed in note 8.

The Chairman is currently entitled to an annual fee of €38,000 (2019: €38,000) and each Director to an annual fee of €20,000 (2019: €20,000). The Chairman of the audit committee is entitled to receive an additional fee of €7,500 (2019: €7,500) per annum. A review of fees has been conducted during 2020 and following an analysis of amounts paid to Directors of similar listed companies the Chairman's annual fee will increase to €45,000 from April 2021, and fees to other Directors will increase to €30,000. The Chair of the Audit Committee will continue to receive an additional fee of €7,500.

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As of 31 December 2020, Directors Sylvie Sauton and Andrew Henton are invested respectively for 6,177 and 6,000 in shares of BGHL.

The issued share capital of BGHL is owned by numerous parties and therefore in the opinion of the Directors, there is no ultimate and immediate controlling party as no BGHL investors hold more than 50% of total shares in issue.

**7. Administration fees**

JTC Fund Solutions (Guernsey) Limited, the Administrator, is entitled to an annual fee. In addition, the Administrator outsources the accounting to SS&C Financial Services LLC for an annual service fee payable monthly. As of 31 December 2020 the administration expenses during the Year was €141,321 (2019: €109,173) and payable at the end of the Year was €29,741 (2019: €25,178).

**8. Management fees and Performance fees**

Under the Investment Management Agreement, the Investment Manager has been given responsibility for the day-to-day discretionary management of BGHL’s assets in accordance with BGHL’s investment objective and policy, subject to the overall supervision of the Directors. The Investment Management Agreement is terminable by either party giving to the other not less than twelve months notice in writing, except in certain circumstances where, inter alia, the Investment Manager ceases to have all necessary regulatory permissions, becomes insolvent or is in material breach of the Investment Management Agreement, in which case the Investment Management Agreement may be terminated forthwith. If the Investment Management Agreement is terminated before 31 December in any period, the performance fee in respect of the then current calculation period is calculated and paid as though the date of termination were the end of the relevant calculation period.

The Investment Manager receives a management fee, accrued monthly and payable quarterly, calculated at the annual rate of 1.5 percent of the NAV.

The Investment Manager is also entitled to receive a performance fee. The performance fee is calculated in respect of each calculation period. The performance fee is deemed to accrue on a monthly basis as at each valuation day. For each calculation period, the performance fee is equal to 20 percent of the appreciation in the NAV per share during that calculation period above the previous high NAV per Share of the relevant class (the “Base NAV per Share”). The Base NAV per Share is the highest NAV per Share achieved as at the end of any previous calculation period (if any).

For the Year the Management fees and the Performance fees were as follows:

	31 December 2020		31 December 2019	
	Expense during the year €	Payable at the end of the year €	Expense during the year €	Payable at the end of the year €
Management Fees	5,110,080	1,312,323	9,029,693	1,705,271
Performance Fees	8,788,663	8,788,663	-	-

**9. Expense Ratio**

Expense ratios are as below. Performance fees are not taken into account in the expense ratio.

Year ended	AUM € year Average	Management Fees	Administration & Depositary Fees	Other Fees	Expense Ratio
31 December 2020	340,469,182	1.50%	0.04%	0.15%	1.69%
31 December 2019	603,166,502	1.50%	0.02%	0.06%	1.58%

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#### 10. Share Capital and Treasury Shares

##### Authorised share Capital

The authorised share capital of BGHL is €1,010,000 divided into 5,100,000,000 ordinary shares of €0.0001 each and 5,000,000,000 C Shares of €0.0001 each. During the Year there was no class C shares in issue.

##### Allotted, issued and fully paid

The share capital detail as of 31 December 2020 is as follows:

Class A Shares	Euro Shares				Sterling Shares
	Issued and fully paid	Treasury Shares	Outstanding Shares	% Treasury Shares (*)	Issued and fully paid
<b>At 1 January 2019</b>	<b>28,782,231</b>	-	<b>28,782,231</b>	<b>0.0%</b>	<b>608,712</b>
Repurchase of own shares	-	(300,000)	(300,000)	-	-
Shares redeemed(**)	(13,677,553)	-	(13,677,553)	-	(210,170)
<b>At 31 December 2019</b>	<b>15,104,678</b>	<b>(300,000)</b>	<b>14,804,678</b>	<b>1.99%</b>	<b>398,542</b>
Repurchase of own shares(*)	-	(1,415,966)	(1,415,966)	-	-
Share Cancelled	(1,429,532)	1,429,532	-	-	-
Share conversions	104,557	-	104,557	-	(104,048)
<b>At 31 December 2020</b>	<b>13,779,703</b>	<b>(286,434)</b>	<b>13,493,269</b>	<b>2.08%</b>	<b>294,494</b>

(\*) Under the Companies Law and the listing rules of EuroNext Amsterdam and the UK Listing Authority, BGHL is only allowed to acquire its own shares with the prior approval of its members in general meeting and that authority is limited to a maximum of 14.99% of its issued share capital on the date that the members' resolution is passed. Authority to repurchase 8% of the issued share capital was sought and granted at the annual general meeting held on 29 July 2020. All shares held in treasury are cancelled after each month end and BGHL seeks renewal of its authority to repurchase its own shares at each annual general meeting.

(\*\*) In 2019, the shares were converted to Class B shares from Class A shares as disclosed in the exchange offer in note 1.1 on page 45.

##### Voting

The shareholders are entitled to receive notice of and to attend and vote at general meetings of BGHL and each holder of shares being present in person or by proxy or corporate representative at a meeting shall upon a show of hands have one vote and upon a poll each such holder present in person or by proxy or by corporate representative shall have one vote in respect of each share held by him.

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, any share in BGHL may be issued with such preferred, deferred or other special rights or restrictions whether as to dividend, voting, return of capital or otherwise as BGHL at any time by ordinary resolution may determine and subject to and in default of such determination as the Board may determine. Subject to the provisions of the Companies Law, the terms and rights attaching to any class of shares, the Articles and any guidelines established from time to time by the Directors, BGHL may from time to time, purchase or enter into a contract, under which it will or may purchase any of its own shares.

If at any time the share capital is divided into further classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue) may whether or not BGHL is being wound up, be varied with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of a special resolution of the holders of the shares of that class. On a winding-up, the shareholders are entitled to the surplus assets remaining after payment of all the creditors of BGHL.

#### 11. Segment information

For management purposes, BGHL is engaged in one main operating segment, which invests in financial instruments. All of BGHL's activities are interrelated, and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of BGHL as one segment. The financial results from this segment are equivalent to the financial statements of BGHL as a whole.

The following table analyses BGHL's total income per geographical location. The basis for attributing the total income is the place of incorporation of the instrument's counterparty.

In EURO	31 December 2020	31 December 2019
Ireland	49,623,983	29,310,081
United Kingdom	(203,381)	458,537
Rest of the world	(1,160,148)	220,716
<b>Total</b>	<b>48,260,454</b>	<b>29,989,334</b>

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The following table analyses BGHL's operating income per investment type.

In EURO	31 December 2020	31 December 2019
Equity securities	48,446,031	29,495,100
Derivative financial instruments	(202,914)	585,016
Foreign exchange gains on financial instruments not at fair value through profit or loss	17,337	(90,782)
<b>Total</b>	<b>48,260,454</b>	<b>29,989,334</b>

**12. Net realised and change in unrealised gain and loss on financial assets and liabilities:**

Realised gain on financial assets and liabilities at fair value through profit or loss €	31 December 2020	31 December 2019
<b>Realised gain</b>		
Equity securities	13,291,439	172,237,108
Derivatives – Foreign Exchange Forward	(323,333)	407,783
<b>Net realised gain on financial assets and liabilities at fair value through profit or loss</b>	<b>12,968,106</b>	<b>172,644,891</b>

Change in unrealised gain or loss on financial assets and liabilities at fair value through profit or loss €	31 December 2020	31 December 2019
<b>Change in unrealised gain</b>		
Equity securities	36,332,546	1,883,087
Derivatives – Forward	120,417	177,234
<b>Change in unrealised loss</b>		
Equity securities	(3,463,148)	(144,625,096)
<b>Net change in unrealised gain/(loss)</b>	<b>32,989,815</b>	<b>(142,564,775)</b>

**13. Taxation**

BGHL has been granted exemption under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 from Guernsey Income Tax, and is charged the annual fee of £1,200 (2019: £1,200). As a result, no provision for income tax has been made in the financial statements.

BGHL invests in foreign countries which may levy withholding tax at source on revenues derived by non-residents. Where such tax is withheld at source by the broker or another party BGHL records the revenue on a gross basis in Statement of Comprehensive Income (the revenue is grossed up and offset against an expense representing the tax withheld at source).

**14. Due from brokers and due to brokers**

Amount due from brokers include €530,000 (2019: €850,000) of cash pledged as collateral on forward foreign exchange contracts. Amount due to brokers include €1,225,051 (2019: €334) on repurchase of own shares and forward foreign exchange contracts.

**15. Changes in liabilities arising from financing activities**

	Loans payables	Foreign exchange forward derivatives contracts
Balance at 1 January 2020	-	-
Cash flows	-	(323,333)
Changes in fair value	-	323,333
<b>Balance at 31 December 2020</b>	<b>-</b>	<b>-</b>

	Loans payable	Foreign exchange forward derivatives contracts
Balance at 1 January 2019	70,000,000	100,456
Cash flows	(70,000,000)	407,783
Changes in fair value	-	(508,239)
<b>Balance at 31 December 2019</b>	<b>-</b>	<b>-</b>

The 'Changes in fair values' row above includes realised loss on foreign exchange forward derivatives contracts and unrealised loss/gain on foreign exchange forward derivatives contracts under financial liabilities.

**Boussard & Gavaudan Holding Limited**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2020**

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**16. Post balance sheet events**

There were no material post balance sheet events since the Year end.

**17. Approval of financial statements**

The financial statements were approved and authorized for issue by the Board on 21 April 2021, at which date these financial statements were considered final.