
CAXTON

Caxton Europe LLP

Pillar 3 Disclosure 2020

I. Introduction

Caxton Europe LLP (the “Firm”) is authorized and regulated by the Financial Conduct Authority (“FCA”) as a BIPRU Firm and as such is subject to the FCA’s General Prudential Sourcebook (“GENPRU”) and the FCA’s Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”).

The regulatory capital framework contained within GENPRU and BIPRU consists of three ‘Pillars’:

- Pillar 1 sets out the minimum capital requirements applicable to the Firm based on its activity profile.
- Pillar 2 requires the Firm to assess whether its capital reserves, processes, strategies and systems are adequate to meet Pillar 1 requirements and further determine whether it should apply additional capital, processes, strategies or systems to cover any other risks to which it is, or may be, exposed.
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position to encourage market discipline.

This statement is designed to meet the Firm’s Pillar 3 obligations and has been prepared in accordance with section 11 of BIPRU.

Pillar 3 disclosures will generally be issued on an annual basis after the year-end and published as soon as practical with the annual accounts. Unless otherwise stated, all figures are as at the last financial year-end.

We are permitted to omit required disclosures if we believe that the information is immaterial, such that omission would be unlikely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions about the Firm. In addition, we may omit required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties, or as otherwise deemed to be necessary. We have made no omission on the grounds that it is immaterial, proprietary or confidential.

In relation to remuneration we may omit required disclosures where we believe that the information could be regarded as prejudicial to the U.K. or other national transposition of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data. We have made no omissions on the grounds of data protection.

The Firm is an investment management firm and as such generally has no trading book exposures.

The Firm reports to the FCA on a solo-basis.

II. Risk Management

The Firm has established a risk management process in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. This process is overseen by the Global Management Committee.

Appropriate action is taken where risks are identified that fall outside of the Firm's tolerance levels or where the need for remedial action is required in respect of identified weaknesses in the Firm's mitigating controls.

CE LLP's partners meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, business planning, and risk management. The partners engage in the Firm's risks through a framework of policies and procedures having regard to relevant laws, standards, principles and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are reviewed and updated as deemed necessary.

III. Risks

Specific risks applicable to the Firm come under the headings of business, operational, credit, market and liquidity risks.

Business Risk

The Firm's revenue is reliant on the performance of the funds under its management. As such, the risk posed to the Firm relates to under-performance resulting in a decline in revenue, adverse market conditions and ultimately the risk of redemptions from the funds managed by the Firm, resulting in an inability of the Firm's client to pay fees. This risk is mitigated by, among other things:

- the continued support of the Firm by its U.S. parent; and
- levels of capital held by the Firm that will continue to cover foreseeable expenses of the business.

Operational Risk

The Firm places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that personnel are aware of their responsibilities in this respect.

The Firm has identified a number of key operational risks to manage. These relate to the failure of a third-party provider, key men departures and the potential for serious regulatory breaches, such as, market abuse. Appropriate policies and procedures are in place to mitigate against these risks, which include taking out appropriate professional indemnity insurance.

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Credit Risk

The Firm's credit risk predominantly arises from fees receivable from its client and cash held on deposit. This risk is mitigated by the fact that the Firm's client is the Firm's US parent and that an element of fees receivable is drawn down on a monthly basis.

Market Risk

The Firm's market risk is generally limited to foreign exchange risk on accounts receivable in foreign currency. The Firm's exposure to foreign exchange risk is managed through foreign exchange transactions.

Liquidity Risk

The Firm retains an amount it considers suitable for providing sufficient liquidity to meet its working capital requirements under normal business conditions. The Firm has had sufficient liquidity within the business to meet its obligations and there are no perceived threats to this given the cash deposits it holds and the support it receives from its parent company. Additionally, it has historically been the case that all fee income has been received promptly, thus, ensuring further liquidity resources are available to the Firm on a timely basis. The cash position of the Firm is monitored by the Chief Financial Officer on a regular basis, and the Firm would be able to call on its parent for further capital as needed or required.

IV. Regulatory Capital

Requirement

The Firm's Pillar 1 capital requirement is the greater of €50,000 or the sum of credit and market risks or the Firm's fixed overhead requirement. The Firm follows the simplified standard approach to credit risk and the standardised approach to market risk. The Firm is not required to calculate an operational risk capital charge owing to the nature of its business, though it considers this as part of its process to identify the level of risk based capital required.

Pillar 1	Calculation Method	£000
Credit Risk	The firm uses the standardised approach, under which the capital requirement is calculated a 8% of the risk weighted exposure amounts as set out by the FCA (detailed breakdown tabulated below)	20,929
Market Risk	The firm calculates its market risk capital requirement using the foreign currency PRR method set out in the FCA's rules	256
Fixed Overhead Requirement (FOR)	The FOR is calculated as 13 weeks' fixed expenditure based on the audited financial statements for the year ended 31 December 2020	3,403
Pillar 1 Capital	Higher of the sum of the credit and market risk charges and the FOR	21,185

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The following table analyses the Credit Risk calculation between the standardised credit risk exposure classes:

Institution	Exposure £000	Average Risk Weight	Risk Weighted Exposure	Capital Requirement £000
Financial Institutions	4,252	20%	0.08	68
Corporate	260,768	100%	0.08	20,861
Total	265,020			20,929

The following table analyses Market Risk by currency:

Currency	Exposure £000	Risk Weighted Exposure	Risk Weighted Exposure	Capital Requirement £000
USD	3,200	100%	0.08	256
Total	3,200			256

The Firm's Pillar 2 requirement is the sum of the capital required under Pillar 1 plus any additional capital required to be maintained against risks not adequately covered by Pillar 1 capital. The Firm's overall approach to assessing the adequacy of its internal capital is set out in its ICAAP. The Firm's analysis, and associated stress and scenario tests, has concluded that no additional Pillar 2 capital or liquidity resource is required.

This is monitored by the Chief Financial Officer and reported to the Global Management Committee and the partners of the Firm as appropriate and at a minimum once a year.

Resources

The Firm is a Limited Liability Partnership and its capital arrangements are established in its Partnership deed. Its capital is summarized as follows:

	31 December 2020
	£000
Tier 1 Capital*	15,733
Tier 2 Capital	0
Deductions from Tiers 1 and 2	(21,185)
Total Capital Resources**	(5,452)

*Tier 1 capital in respect of a Limited Liability Partnership is generally defined to comprise eligible LLP members' permanent share capital

**Deficit caused by large performance fees receivable at year end

V. Remuneration

The Firm has adopted a policy on remuneration that complies with the FCA's BIPRU Remuneration Code located in the SYSC Sourcebook of the FCA's Handbook (SYSC 19C).

Our compensation arrangements are intended:

1. to be consistent with and promote sound and effective risk management;
2. to not encourage excessive risk taking;
3. to include measures to avoid conflicts of interest; and
4. to be in line with the Firm's business strategy, objectives, values and long-term interests.

This disclosure is made in accordance with our size, internal organization and the nature, scope and complexity of our activities.

Summary of the decision-making process used for determining the Firm's policy on remuneration

- The Firm's policy has been approved by the Global Management Committee in line with the principles laid down by the FCA.
- Due to the size, nature and complexity of the Firm, we are not required to appoint an independent Remuneration Committee.
- The Firm's policy is reviewed on an annual basis or following a significant change to the business requiring an update to its internal capital adequacy assessment.
- The Firm currently incentivizes staff through a combination of both fixed and variable compensation.
- The Firm's ability to pay variable compensation is based on the performance of the Firm overall, which is a function of, among other things, the returns of the funds that the Firm is sub-investment manager to.

Summary of the link between pay and performance

- Variable compensation is awarded on the basis of individual performance, Firm performance and the performance of the Funds that the Firm is sub-investment manager to.
- Individual performance is assessed on the basis of both financial and non-financial criteria. Key non-financial criteria includes adherence to the risk and compliance policies and procedures of the Firm.

Aggregate quantitative information

- The Firm has only one business area, Investment Management. As at 31 December 2020, there were a total of 42 Code Staff identified. The following aggregate amount of remuneration was awarded to these Code Staff for the period to which this disclosure relates: £235,836,000. Twelve of the Code Staff are identified as senior management and were awarded in aggregate £3,216,000 in fixed remuneration and £189,590,000 in variable compensation. The remainder of the Code Staff identified were awarded in aggregate £4,750,000 in fixed remuneration and £38,280,000 in variable compensation. Of the total variable compensation awarded, £60,591,000 was deferred and unvested; £52,257,000 was attributable to senior management and £8,334,000 was attributable to the remainder of the Code Staff.