

CAXTON

# MIFIDPRU Public Disclosure 2023

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CAXTON ASSOCIATES LLP

## 1. Introduction

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- 1.1 Caxton Associates LLP (the “**Firm**”) is authorised and regulated by the Financial Conduct Authority (“**FCA**”) of the United Kingdom and is a “MIFIDPRU investment firm” as defined in the FCA Rules. The Firm is a non-SNI firm for the purposes of the rules in the Prudential sourcebook for MiFID Investment Firms (“**MIFIDPRU**”).
- 1.2 The Firm, which is part of the Caxton group of companies (the “**Group**”), acts as the sub-investment manager for various funds, under delegation from Caxton Associates LP (“**CALP**”), the US based investment manager of the Caxton funds.
- 1.3 The principal activity of the Group is the provision of investment management services to investment management vehicles based in the British Virgin Islands (the “**Funds**”). Caxton manages in excess of US\$10 billion of client assets. The assets in the Funds are invested across international currency, financial, commodities and securities markets. Investors in the Funds are banking institutions, family offices, pension and endowment funds and funds of funds. Caxton employs approximately 160 staff across offices in the US, UK, Singapore, Monaco and Dubai. In undertaking its activities, the Firm relies on the support, systems and personnel provided by other Group entities, including CALP.
- 1.4 The Firm’s governing body is its General Management Committee (the “**Management Body**”).
- 1.5 Under the FCA Rules (specifically Chapter 8 of MIFIDPRU), the Firm is required to make specific disclosures relating to its:
- Section 3 - Risk Management Objectives and Policies;
  - Section 4 - Governance Arrangements;
  - Section 5 - Own Funds; and
  - Section 6 - Remuneration Policy and Practices.
- 1.6 There have been no significant changes to the information disclosed since the Firm’s last disclosure period. Unless otherwise stated, information set out herein is provided as at 31 March 2024.

## 2. Risk Management objectives and policies

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- 2.1 The Management Body has overall responsibility for the management and governance of the Firm, including in relation to risk management. In this respect, the Management Body recognises that in pursuing its investment strategy, the activities of the Firm may give rise to certain risks which carry a potential for harm. As such, although the Firm is not required to establish a risk committee, the Management Body has chosen to do so through the establishment of a firmwide risk committee.
- 2.2 Set out below is a summary of some of the harms which could potentially be caused as a result of certain categories of risks related to the Firm's (i) Own Funds requirement; (ii) requirements around Concentration risk; and (iii) requirements around Liquidity. We have also set out a summary of the strategies and processes used to manage each of these categories of risk.
- 2.3 Regarding the Firm's approach to risk generally, the Firm promotes risk-informed decision-making aligned to the aims of the business. The Firm operates a strong internal control environment and seeks to mitigate risk through rigorous adherence to processes and has arrangements in place to identify and report operational risk failings.
- 2.4 Caxton's Risk Committee meets monthly and has the ultimate authority for risk management of market, credit and liquidity risk of the Funds. The Risk Committee members include the Chief Executive Officer, Chief Operating Officer / Chief Risk Officer, a Senior Risk Manager and a senior Portfolio Manager

### 2.5 Risks Related to the Firm's Own Funds Requirement

In accordance with MIFIDPRU requirements, the Firm performs an internal capital adequacy and risk assessment ("ICARA") process on an annual basis and documents this in its ICARA document. The ICARA process ensures that the Firm considers and identifies the various risks to its business and also ensures that it is able to remain financially viable throughout the economic cycle, with the ability to address any potential material harm which may result from its ongoing activities. The ICARA process includes identification and consideration of business, operational, market, credit, reputation and compliance risk. Examples of risks which have been identified through the ICARA process include, but are not limited to, poor fund performance, the breaching of regulatory requirements, failure of systems and negative press. As part of this process the Firm documents the nature of each risk it identifies, the financial impact that would occur if the risk were to crystallize and also the likelihood of it doing so.

The Firm operates a strong internal control environment and seeks to mitigate risk through rigorous adherence to certain processes, including, monthly reviews of investment strategies, the monitoring of performance on an intra-day basis, the employment of compliance personnel (as well as the use of compliance consultants and outside legal counsel), and the implementation of business continuity planning.

### 2.6 Concentration Risk

Concentration risk, as set out in MIFIDPRU 5, is the risk which arises from either the strength, or extent, of a firm's relationship or exposure to a single client or group of connected clients. Risks which may arise from the Firm's strategy, and which relate to the Firm's relationships with, or direct exposure to, a single client or group of connected clients include that the Firm has a single client (CALP), that the Firm may be subject to the concentration risk associated with a smaller pool of executing brokers or counterparties than may usually be the case (as a result of terminated contracts or otherwise).

The concentration risk associated with Firm acting for a single client, CALP, is mitigated by the fact that CALP is the investment manager to a range of funds which pool investments from, amongst others, a wide variety of institutional investors. Additionally, concentration risk that may arise with respect to a limited number of executing brokers or trading counterparties is managed through the implementation of a Order Execution Policy, overseen by the 'Research Committee, which promotes diversification.

## 2.7 Liquidity Risk

The Firm is subject to liquidity risk and aims to ensure that the Firm maintains sufficient liquid funds to meet obligations as they fall due. Examples of liquidity risks which could arise include the Firm not having sufficient cash to meet all of its intra-day obligation or the Firm facing a temporary downturn in its revenue generation. The Firm manages and mitigates the risks of harm identified above through various strategies and processes, including through the selection of cash management investments and monitoring of the Firm's assets through the Firm's monthly financial reporting process. The nature of the Firm's business is such that it (i) receives a management fee on a monthly basis and (ii) does not have intra-day liquidity issues which require planning for outside of normal monthly forecasting.

### 3. Governance arrangements

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#### Oversight of Governance Arrangements by the Management Body

- 3.1 The Firm, as a MIFIDPRU Investment Firm, is subject to the organisational requirements in 4.3A.1 R of the Senior Management Arrangements, Systems and Controls Sourcebook of the FCA Handbook (“SYSC”).
- 3.2 Under SYSC 4.3A.1 R, the Firm must ensure that the Management Body defines, oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management of the Firm, including the segregation of duties in the organisation and the prevention of conflicts of interest, and in a manner that promotes the integrity of the market and the interests of the Firm’s clients.
- 3.3 In order to comply with the requirement in SYSC 4. 3A.1 R, the Firm has procedures in place to ensure that members of the Management Body are selected based primarily on the following criteria:
- reputation within the market;
  - the possession of the necessary knowledge, skills and experience to perform the relevant duties;
  - whether their addition will complement the Management Body’s collective knowledge, skills and experience in relation to the Firm’s activities, including the main risks it faces;
  - diversity of viewpoints, backgrounds, experiences, and other demographics
- 3.4 As part of the Firm’s governance arrangements and structure, the Management Body defines, oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management of the Firm. These arrangements include ensuring that the Firm and its individual functions are adequately resourced and ensuring that there is appropriate segregation of duties and responsibilities (for example, appropriate segregation of front office and middle and back office functions, including risk management, operations and compliance functions that are independent of the front office) in a manner that promotes the integrity of the market and the interests of clients. Under the Firm’s governance arrangements, the Management Body also ensures that conflicts of interest between the interests of the Firm and the interests of a client (or between the interests of multiple clients) are avoided or managed appropriately, again, in a manner that promotes the integrity of the market and the interests of clients. This is predominantly achieved through the adoption, and regular review, by the Management Body of a comprehensive Conflicts of Interest Policy which identifies all relevant areas of the Firm’s business that could give rise to such conflicts and the various mitigants that the Firm has put in place either to avoid such conflicts or to manage them such that the risk of prejudice to the Firm’s clients has been reduced to an appropriate level.
- 3.5 All relevant staff report to the Management Body (either directly or to individuals who, in turn, report to the Management Body). The Management Body operates under a set of Terms of Reference which provide for certain decisions to be reserved to it. The Management Body meets at least quarterly to discuss significant matters affecting the firm and to make strategic decisions. Under the Firm’s governance arrangements including the Terms of Reference for the Management Body, the Management Body:
- has overall responsibility for the business and conduct of the Firm;
  - approves and oversees implementation of the Firm’s strategic objectives, risk strategy and internal governance;
  - has oversight of and ensures the integrity of the Firm’s accounting and financial reporting systems;
  - has put in place financial and operational controls and compliance with applicable regulations;
  - oversees the process of public disclosure and communications by the Firm with clients and regulators;
  - is responsible for providing oversight of the Firm’s senior management;
  - monitors, assesses and makes changes in respect of deficiencies found in respect of: (i) the adequacy/implementation of the Firm’s strategic objectives in the provision of investment services and activities (including ancillary services); (ii) the effectiveness of the Firm’s governance arrangements; and (iii) the adequacy of the policies relating to the provision of services to clients; and
  - has adequate access to information and documents which are needed to oversee and monitor management decision-making.

3.6 All members of the Management Body are required to commit sufficient time to ensure that they can perform their functions within the Firm and to act with honesty, integrity and independence of mind to effectively assess and challenge decisions where necessary and to effectively oversee and monitor management decision-making. In accordance with SYSC 4.3A.10 R, the Firm maintains a group DEI policy. None of the members of the Managing Body holds directorships which are disclosable in accordance with MIFIDPRU 8.3.1(2).

## 4. Own Funds and Own Funds Requirement

### Own Funds

4.1 The Firm is subject to the disclosure requirements stipulated in MIFIDPRU 8.4.1 R. As such, the tables below set out:

- A. details of common equity tier 1 items, additional tier 1 items, tier 2 items, and the applicable filters and deductions applied in order to calculate the own funds of the Firm (i.e. a composition of regulatory own funds);
- B. a reconciliation of the Firm's composition of regulatory own funds with the capital in the balance sheet in the audited financial statements of the Firm; and
- C. a description of the main features of the common equity tier 1 instruments, additional tier 1 instruments and tier 2 instruments issued by the Firm.

Please see the tables below which set out these disclosures.

#### A. COMPOSITION OF REGULATORY OWN FUNDS

Item	Amount (GBP thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements
1 OWN FUNDS	7,352	
2 TIER 1 CAPITAL	7,352	
3 COMMON EQUITY TIER 1 CAPITAL	7,352	
4 Fully paid up capital instruments	7,352	
5 Share premium		
6 Retained earnings		
7 Accumulated other comprehensive income		
8 Other reserves		
9 Adjustments to CET1 due to prudential filters		
10 Other funds		
11 (-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1		
19 CET1: Other capital elements, deductions and adjustments		
20 ADDITIONAL TIER 1 CAPITAL		
21 Fully paid up, directly issued capital instruments		
22 Share premium		
23 (-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1		
24 Additional Tier 1: Other capital elements, deductions and adjustments		
25 TIER 2 CAPITAL		
26 Fully paid up, directly issued capital instruments		
27 Share premium		
28 (-) TOTAL DEDUCTIONS FROM TIER 2		
29 Tier 2: Other capital elements, deductions and adjustments		

## B. OWN FUNDS: RECONCILIATION OF REGULATORY OWN FUNDS TO BALANCE SHEET IN THE AUDITED FINANCIAL STATEMENTS

	a	b	c
	Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross-reference to template OF1
	As at period end	As at period end	
<b>Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements</b>			
1 Debtors: amounts falling due within one year	7,297		
2 Cash at bank and in hand	34,426		
<b>Total assets</b>	<b>41,723</b>		
<b>Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements</b>			
3 Creditors: amounts falling due within one year	6,002		
<b>Total liabilities</b>	<b>6,002</b>		
<b>Shareholders' Equity</b>			
4 Loans and other debts due to members	28,369		
5 Members Other Interests	7,352		
<b>Total Shareholders equity</b>	<b>35,721</b>		

## C. OWN FUNDS: MAIN FEATURES OF OWN INSTRUMENTS ISSUED BY THE FIRM

The CET 1 instruments issued by the firm consist of LLP members' capital. The instruments have been issued as and when new LLP members have been admitted or when the Firm has required additional capital. The LLP members' capital does not have a nominal value. Its value reflects the amount paid in by the relevant member. Under the terms of the Firm's LLP Agreement, the LLP members' capital is non-convertible and perpetual (it does not have a maturity date), carries no right to dividends, coupon or other forms of income (instead, LLP members may, at the discretion of the Firm be awarded a share in the profits of the Firm at the end of the financial year) and is subject to restrictions on withdrawal in accordance with the requirements of MIFIDPRU 3.3.17 R.



## Own Funds Requirements

4.2 The below table relates to the Firm's own funds requirements under MIFIDPRU 4.3 in GBP in thousands.

		The Firm's K-Factor Requirement can be further broken down as follows:
K-Factor Requirement (calculated by the Firm in accordance with MIFIDPRU 4.6)	The Firm's K-Factor Requirement is: 1,247	the sum of: the K-AUM requirement; the K-CMH requirement; and the K-ASA requirement, which is: 1,247
		the sum of: K-COH requirement; and K-DTF requirement, which is: nil
		the sum of: the K-NPR requirement; the K-CMG requirement; the K-TCD requirement; and K-CON requirement, which is: nil
Fixed Overheads Requirements	The Firm's Fixed Overheads Requirement, calculated by the Firm in accordance with MIFIDPRU 4.5, is 6,224	

4.3 As part of its ICARA process, the Firm assesses the adequacy of its own funds in accordance with the overall financial adequacy rule in MIFIDPRU 7.4.7 R.

4.4 In particular, the Firm assesses the own funds it requires to:

- address any potential harms it has identified which it has not been able to mitigate;
- address any residual harms remaining after mitigation; and
- ensure an orderly wind down of its business.

4.5 As the Firm is not an SNI firm, it is required to use its K-factor requirement as a starting point for determining the appropriate amount of own funds to cover risks of harm to the business as a going concern, to the extent that such risks have not or cannot be mitigated.

4.6 The Firm assesses whether and to what extent a K-factor requirement covers each risk of harm identified during the ICARA process on a going concern basis (to the extent the risk of harm is not or cannot be adequately mitigated).

4.7 For this purpose, each risk of harm that is not adequately mitigated is mapped to the corresponding K-factor requirement. To the extent that the applicable K-factor requirement is insufficient to cover the post mitigation risk of harm or to the extent that there is no applicable K-factor requirement, the Firm will calculate a suitable amount of additional capital.

4.8 As part of its ICARA, the Firm also assesses the level of own funds that it would need in order to affect an orderly wind down, taking into account any additional risks of harm it identifies and whether the Firm's fixed overheads requirement adequately covers such risks.

## 5. Remuneration policy and practices

### Qualitative disclosures

5.1 The Firm's approach to remuneration for staff can be summarised as follows:

- **Philosophy:** The Firm's remuneration policies and practices are driven by its desire to reward its staff fairly and competitively, but at the same time create a culture of principled behaviour and actions (particularly with regards to the areas of risk, compliance, control, conduct and ethics). As such, the Firm's remuneration policies and practices have been designed so as to contribute to the achievement of the Firm's objectives, but in a way that does not encourage excessive risk-taking or the violation of applicable laws, guidelines, and regulations, and which takes the capital position and economic performance of the Firm over the long term into account.
- **Link between variable remuneration and performance:** The total amount of an individual's variable remuneration is based on a combination of the assessment of the performance of:
  - the individual;
  - the business unit concerned; and
  - the overall results of the Firm.

5.2 When assessing individual performance, financial as well as non-financial criteria are taken into account.

5.3 As a non-SNI firm, the Firm presents the following information in accordance with MIFIDPRU 8.6.8, for the performance year ending 31 December 2023. All amounts are stated in GBP in thousands.

Number of Material Risk Takers ("MRT") and Senior Management Functions ("SMF") 5

Employee Category	Total remuneration awarded	Total fixed remuneration	Total variable remuneration
SMFs and MRTs	25,698	1,924	23,774
All other individuals	44,526	14,140	30,386

Employee Category	Total guaranteed variable remuneration awarded	Number of MRTs who received it
SMFs and MRTs	0	N/A