

CAXTON EUROPE LLP – PILLAR 3 DISCLOSURE

Introduction

The Capital Requirements Directive (the 'Directive') of the European Union established a revised regulatory capital framework across Europe governing the amount and nature of capital which investment firms must maintain.

In the United Kingdom, the Directive was implemented by the Financial Conduct Authority (the 'FCA') in its regulations through the General Prudential Sourcebook ("GENPRU") and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU").

The framework consists of three 'Pillars':

- Pillar 1 sets out the minimum capital requirements applicable to the firms based on their 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.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This statement is designed to meet our Pillar 3 obligations.

The Pillar 3 disclosure statement has been prepared by Caxton Europe LLP ('CE' or the 'Firm') in accordance with the requirements of BIPRU 11 and is approved by the partners of the Firm. Unless otherwise stated, all figures are as at the last financial year-end.

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. 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.

Scope and application of the requirements

The Firm is authorized and regulated by the FCA and as such is subject to minimum regulatory capital requirements. The Firm is categorized by the FCA as a BIPRU firm for capital purposes. It is an investment management firm and as such generally has no trading book exposures.

The Firm reports to the FCA on a solo-basis and is not required to prepare consolidated reporting for prudential purposes.

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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.

The risk management process is overseen by a dedicated risk manager and department, with the partners of the Firm taking overall responsibility for this process and the fundamental risk appetite of the Firm. The Risk Committee has responsibility for the implementation and enforcement of the Firm's risk principles.

CE'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.

The Firm's partners have identified that business, operational, market, and credit are the main areas of risk to which the Firm is exposed. Annually, the partners review the Firm's risks, controls and other mitigation arrangements and discuss their effectiveness.

A formal update on operational matters is provided to the partners on a regular basis. Management accounts demonstrate continued adequacy of the Firm's regulatory capital and are reviewed on a regular basis.

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.

Risks

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

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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.

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/monthly basis, and the Firm would be able to call on its parent for further capital as needed or required.

Regulatory capital

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 2017
	£
Tier 1 Capital*	4,034,237
Tier 2 Capital	0
Deductions from Tiers 1 and 2	0
Total Capital Resources	4,034,237

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

Our Firm is small with a simple operational infrastructure. Its market risk generally is limited to foreign exchange risk on its accounts receivable in foreign currency, and credit risk from fees receivable and cash held on deposit. The Firm follows the standardised approach to market risk and the simplified standard approach to credit risk.

The Firm is subject to the Fixed Overhead Requirement and 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.

As discussed above, the Firm is a BIPRU firm and, as such, its Pillar 1 capital requirements are the higher of:

- the base capital requirement of €50,000;
- the sum of the market risk requirement and credit risk requirement; or
- the fixed overheads requirement ('FOR').

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The Firm has determined that the sum of its credit and market risk capital requirements yields the greater number and therefore constitutes the minimum capital that the Firm is required to hold.

The FOR is calculated, in accordance with FCA rules, based on the Firm's previous years audited expenditure. The Firm has adopted the standardized approach to credit and market risk. The Firm is not subject to an operational risk requirement.

Capital requirement

The Firm's Pillar 1 capital requirement has been determined by reference to the sum of the Firm's credit and market risk capital requirements, calculated in accordance with BIPRU 3 and BIPRU 7. The requirement is based on the sum of credit and market risks, since this exceeds the Firm's FOR and also exceeds its base capital requirement of €50,000.

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

UK Financial Reporting Council's Stewardship

FCA COBS Rule 2.2.3R requires FCA authorised firms to disclose whether they conform to the requirements of the U.K. Financial Reporting Council's Stewardship Code (the "Code"). Adherence to the Code is voluntary. The Firm's global macro investment strategy involves a wide variety of investment products and timeframes. Therefore, while the Firm supports the principles of the Code, it does not consider it appropriate to conform to the Code at this time.

Remuneration Code disclosure

The Firm is authorised and regulated by the FCA as a BIPRU Firm and it is therefore subject to the relevant FCA Rules on remuneration. These are contained in the FCA's BIPRU Remuneration Code located in the SYSC Sourcebook of the FCA's Handbook (SYSC 19C). The Remuneration Code (the "RemCode") covers an individual's total remuneration, fixed and variable. The Firm incentivises staff through a combination of the two.

The Firm's business is to provide investment management services in relation to a portion of a fund under delegation from its U.S. parent, Caxton Associates LP.

Our policy is designed to ensure that we comply with the RemCode and 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

to be in line with the Firm's business strategy, objectives, values and long-term interests.

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Proportionality

Enshrined in the European remuneration provisions is the principle of proportionality. The FCA has provided guidance that BIPRU firms can apply proportionality in application of certain aspects of these remuneration requirements.

Application of the requirements

We are required to disclose certain information on at least an annual basis regarding our Remuneration policy and practices for those staff whose professional activities have a material impact on the risk profile of the Firm. Our disclosure is made in accordance with our size, internal organization and the nature, scope and complexity of our activities.

1. Summary of information on the decision-making process used for determining the Firm's Remuneration Policy including use of external benchmarking consultants where relevant.
 - The Firm's policy has been agreed by the partners of the Firm in line with the RemCode 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 will be reviewed as part of annual process and procedures or following a significant change to the business requiring an update to its internal capital adequacy assessment.
 - The Firm's ability to pay bonuses is based on the performance of Firm overall, which is a function of, among other things, the returns of the fund that the Firm manages.
2. Summary of how the Firm links pay and performance.
 - Individuals are rewarded based on their contribution to the overall strategy of the business.
 - a. Investment Generation
 - b. Trading
 - c. Sales & Marketing
 - d. Operations
 - Other factors such as performance, reliability, effectiveness of controls, business development, contribution to the business and adherence to the risk and compliance policies and procedures are taken into account when assessing the performance of the senior staff responsible for the infrastructure of the Firm.
3. Aggregate quantitative information on remuneration

The Firm has only one business area, Investment Management. As at 31 December 2017, there were a total of 47 Code Staff identified for Caxton Europe LLP. Staff operating within this business area received the following aggregate amount of remuneration for the period to which this disclosure relates: £29,356,908.

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

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processing of personal data and on the free movement of such data. We have made no omissions on the grounds of data protection.