CAXTON

Caxton Europe LLP TCFD Entity Report

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Introduction and Compliance Statement

Environmental, Social, and Governance ("ESG") related issues have become fundamental items within the lexicon of global economies and financial markets. Some of these issues have the potential to pose real threats to sustained economic growth; we believe these considerations will continue to influence government-led policy, impel innovative technologies, and drive investor and consumer behaviour.

The climate crisis poses an existential threat to (human) life on earth. As such, it becomes an imperative to be addressed. A transition to a global low-carbon economy will have to be one of the defining themes for societies in the years and decades ahead. The required decarbonisation implies a complete structural rewiring of the global economy as we know it. Every economy, industry and business model will likely be, in one way or the other, affected by these changes. As such, climate risk forms the core pillar of our ESG efforts.

This report is published by Caxton Europe LLP, authorised and regulated by the Financial Conduct Authority ("FCA") underd Firm Reference Number: 504390, in compliance with the requirements of the FCA's Environmental, Social and Governance sourcebook ("ESG Sourcebook").

Benjamin Ohly

Chief Compliance Officer
28th June 2024

Governance

We have formed an ESG Working Group which convenes periodically to review the firm's positioning across selected climate and broader ESG-related dimensions. The Working Group also oversees both (i) our stewardship activities and engagements and (ii) our own operational emission performance in combination with our aim to be net zero across our operations (excluding investments).

Strategy

As a steward of capital, it is important that we assess, holistically, the risk vs. return opportunities within our investment universe; we continue to dynamically evolve our framework to aid this assessment by incorporating additional factors deemed to be financial material. A consideration of certain ESG factors often supports the understanding of the overall risk profile.

As an allocator and fiduciary of client capital, we recognise the importance of integrating ESG considerations into our investment decisions. We believe integrating financially material ESG considerations across markets and asset classes will ultimately lead to better risk-adjusted performance as markets become more efficient at accounting for previously underappreciated or entirely unacknowledged ESG-related risks and opportunities. As such, we view ESG integration as part of the natural evolution of traditional financial security analysis and expect successful ESG integration to result in superior risk-adjusted returns over the long term. Our Portfolio Managers may integrate ESG considerations in their investment approach and are more likely to do so if these are deemed to be financially material, hence have the potential of generating alpha for our investors. Investment decisions at the Firm are solely made for financially material reasons and not for ESG-values driven reasons.

While the integration of ESG factors tends to be closer associated with the long-only space, we believe short selling to be a crucial tool for ESG investors. Short selling enables investors to (i) mitigate undesired (ESG-related) risks and (ii) impact asset prices, including effects on the cost of capital of the issuers in question. When identifying underappreciated ESG-related risks, short selling allows investors to translate unpriced risks into a tradable expression and communicate these views across financial markets. As such, short selling serves an important role in the toolbox of a successful ESG investor.

With the above, we aim to account for climate-related risks and capture climate-related opportunities wherever they are material across the multitude of strategies followed by our PMs.

Risk Management

Given the multitude of strategies applied, no one-size-fits-all approach can be fit. However, wherever financially material, we apply a three-step process to manage the associated risk:

1. Identify, where relevant, ESG factors.
2. Analyse how the strategy / trade is exposed to these factors
3. Project, when appropriate, the potential impact and probability-weighted scenarios.

In this way, addressing climate-related risks is not treated differently to convention risk factors.

Furthermore, we actively engage with corporates regarding ESG issues. On a quarterly basis, we identify issuers that perform poorly in regard to ESG related disclosures and engage with them in order to improve their ESG related disclosures.

Metrics and Targets

As mentioned above, investment decisions here at Caxton are solely made for financially material reasons and not for ESG-values driven reasons. Our main focus is to integrate ESG risks with the goal to maximize risk-return profiles of our capital allocations. This implies that setting targets around mainstream climate-metrics such as Scope 1-3 GHG emissions is not relevant. Rather, these data points are considered as inputs into the investment process whenever relevant to facilitate informed capital allocation in line with maximising risk-return profiles.

Given the markets we trade in and the often times short time horizon of our trades, emission metrics are not available and/or less material and can change significantly on a daily basis. Therefore, any disclosure would be less meaningful or inaccurate. Rather, we aim to consider the economic implications of the transition to a low-carbon economy as a whole and express views along the most attractive verticals at the most opportune moments in time.