

**SCULPTOR EUROPE LOAN MANAGEMENT  
LIMITED**

**MIFIDPRU 8 DISCLOSURES**

**For the Financial Year Ended 2022**

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# 1. Introduction and Context

## 1.1 Firm Overview

Sculptor Europe Loan Management Limited (the “Firm” or “SELM”)<sup>1</sup> is authorised and regulated by the FCA of the United Kingdom. SELM obtained its FCA authorisation in April 2016, and was formed to act as the sponsor and/or originator to, and manager of, certain European collateralised loan obligation investments vehicles. SELM is categorised as a “MIFIDPRU investment firm” as defined by the FCA and subject to the Prudential sourcebook for MIFID Investment Firms. Under MIFIDPRU 1.2, SELM is classified as a non-SNI firm.

## 1.2 Basis of Disclosure

The IFPR was implemented by the FCA on 1 January 2022. The new regime requires MIFIDPRU investment firms to publicly publish disclosures as per the rules set out in MIFIDPRU 8. The regulatory aim of the disclosure is to improve market transparency in regard to how the Firm is run.

The document has been completed on a proportional basis taking into consideration the size, nature and complexity of the Firm. The document has been prepared using the Firm’s financial information as at the reference date 31 December 2022.

## 1.3 Scope

The Firm is not a member of a UK or non-EEA consolidation group and consequently does not report on a consolidated basis for accounting or prudential purposes. SELM has prepared the disclosure document on an individual entity basis.

## 1.4 Frequency

The rules set out in MIFIDPRU 8 require that the information contained in this document is disclosed at least annually, on the date it publishes its annual financial statements.

## 1.5 Media and Location

This disclosure will be published on the Firm’s website: <https://www.sculptor.com/>

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<sup>1</sup> All abbreviations have been defined in the ‘Glossary of terms and abbreviations’ section on page 21 of the disclosure document

## 2. Governance

### 2.1 Organisational Structure

SELM is a UK-based regulated firm which is a wholly-owned subsidiary of Sculptor Capital LP (“Sculptor”, “SCLP”, “Parent”, or the “Group”) which is domiciled in Delaware, USA.

### 2.2 Governance Framework

The Board of Directors (the “Board”) is the governing body of SELM, and has the ultimate management and oversight responsibility of the Firm. The Board oversees that services are delivered to the CLOs in a timely manner, in compliance with all relevant regulations and investment management agreements. It is also responsible for instilling an appropriate risk culture within the Firm, aligning risks with the business strategy, defining the Firm’s risk appetite and approving risk policies and infrastructure.

The Board meets on a quarterly basis, or more frequently as needed. As of 21 April 2023, the Board is comprised of:

Name	Title
Adeel Shafiqullah	EMD, SELM Chief Executive Officer and Director and Senior Portfolio Manager Institutional Credit Strategies
Dylan Szymanski	EMD, SELM Director and Head of Corporate Credit for Europe and Asia

The Board has delegated the operational management of the Firm to the CEO and the UKEC, who are responsible for the day-to-day monitoring of the business, including progress towards achieving strategic and financial objectives. The UKEC monitor the systems and controls to ensure their effectiveness, and that the Firm complies with the requirements under the regulatory system. The UKEC meets, together with the UKEC of the affiliate Sculptor Capital Management Europe Limited once every month. Members meet more frequently when it is required to discuss particular issues. The UKEC is comprised of:

Name	Title
Adeel Shafiqullah	EMD, SELM Chief Executive Officer and Director and Senior Portfolio Manager Institutional Credit Strategies
Dylan Szymanski	EMD, SELM Director and Head of Corporate Credit for Europe and Asia
Angela Berti	MD, General Counsel & SMF16 and SMF17 for SCME and SELM

### 2.3 Directorships

No external directorships were held by members of the Board, except Dylan Szymanski held one internal directorship.

### 2.4 Committees

SELM has outsourced various functions and committees to Sculptor Capital Management. As such, several of the committees are responsible for the functions within SELM are Group committees.

#### ***Risk Committee***

The Group Risk Committee holds the responsibility of overseeing the risk management processes on a day-to-day basis. The Committee meets on a weekly basis and reviews, among other information,

sophisticated risk analysis, including the results of stress testing the Funds' portfolios under numerous scenarios, portfolio changes, and asset class allocation. Results and guidance from the Risk Committee help determine asset allocations across funds and the Committee has the ability to resize, adjust, or eliminate positions and implement hedges. It also discusses any pertinent risk related developments, and manages global economic, counterparty, geopolitical, and operational risks in addition to traditional portfolio risk management.

#### ***Audit Committee***

The Audit Committee meets at least quarterly, and is responsible for ensuring integrity of the Group's financial statements, the Group's compliance with legal and regulatory requirements, the qualifications and independence of the Group's independent registered accounting firm, and the performance of the internal auditor and independent registered public accounting firm. Its key duties include appointing and oversight of the independent auditor, reviewing annual auditor reports, overseeing the compliance program, and reviewing internal controls and procedures.

#### ***Compensation Committee***

The Compensation Committee meets at least quarterly, and is responsible for assisting the Group Board in matters relating to compensation of the executive officers, employees, and directors. Its key duties include reviewing and approving corporate objectives relevant to the compensation of the CEO and executive officers, overseeing the Group's overall compensation structure, and discussing the relationship between compensation and risk management policies.

#### ***Nominating, Corporate Governance and Conflicts Committee***

The Nominating, Corporate Governance and Conflicts Committee meets at least quarterly and is responsible for overseeing the Board's members. Its key duties include identifying members qualified to join the Board, recommending to the Board director candidates for election at the Annual Meetings, developing corporate governance guidelines to the Board, and overseeing the evaluation of the Board and its committees.

#### ***Conflicts and Compliance Committee***

The Conflicts and Compliance Committee meets on an ad-hoc basis, and is responsible for overseeing conflicts of interest within the Firm. Its key duties include considering and resolving conflicts matters that the Chief Compliance Officer or others raise to the Committee, reviewing actual and potential conflicts of interest that may arise as a result of the Firm's business as an investment adviser, making determinations regarding the response to identified conflicts, and reviewing disclosure of certain actual or potential conflicts of interest to investors of the Firms as appropriate.

#### ***Disclosure Committee***

The Disclosure Committee meets at least monthly, and is responsible for establishing and maintaining disclosure controls and procedures. Its key duties include evaluating the effectiveness of disclosure controls and procedures as of the end of each fiscal quarter, and assisting the Firm in making public disclosures that are accurate, complete and timely, and that otherwise comply with the applicable requirements of the applicable securities laws and regulatory requirements.

## **2.5 Diversity**

SELM does not have employees but utilizes the services of certain individuals seconded from SCME. The Group is committed to cultivating and growing a culture of diversity and inclusion. The Group believes that a breadth of backgrounds, experiences, and knowledge is a competitive advantage and enhances the well-being and effectiveness of our employees. The Group's diversity, equity and inclusion initiatives aim to recruit, retain, and promote diverse talent, as well as to engage and train employees with these goals in mind.

The Group recognises that having diverse senior talent in the organisation has an impact across investing teams, business development, and infrastructure groups. Diversity is a key guiding principle in regards to recruitment within the Group. The Group is an equal opportunities employer, providing all individuals with consideration for employment and advancement opportunities, and thus allowing for a more diverse workforce. The Firm's UKEC consists of 33% female members, and the Group is the only publicly traded alternatives firm to have a female Chairperson.

The Group strives to promote and establish a diverse and inclusive workforce. In order to facilitate this, the Group has adopted the following initiatives:

- Affinity Networks at Sculptor Capital have been established to support all genders, ethnicities, and groups of people with similar interests and to strengthen the relationships and shared values of our inclusive culture. The groups include Women, LGBTQ+, Hispanic & Latino, Black & African American, and Asian Employees
- Collaborating with collegiate diversity programs and universities in recruitment
- Celebrating and supporting ethnic and culturally diverse groups with periodic events throughout the year
- Supporting men and women who have served their countries, and promoting hiring of veterans
- Conducting annual evaluations of employees' participation in promoting an inclusive firm culture
- Conducting regular pay equity reviews across all levels and departments within the Group.

## 3. Risk Management

### 3.1 Risk Management Objective & Framework

The Firm's risk management objective is to ensure that the arrangements, systems and controls in place to monitor, manage and mitigate risk are effective and suitable for the Firm's ongoing operations. The senior management of the Firm considers it to be a key component of business strategy to embed risk management throughout the Firm.

SELM's risk management framework includes:

- Risk identification;
- Risk register which is managed by the Firm's finance and compliance functions and signed off by the Board;
- Control risk self-assessment to ensure that all significant risks are being monitored;
- Event data collection of, for example, trade errors and breaches, which is reviewed for trends, with serious losses or near misses escalated to the Board;
- Conducting stress testing; and
- Risk reporting to the Board, the CEO, and the UKEC.

### 3.2 Risk Management Governance

SELM's risk management governance framework ensures that roles and responsibilities in regard to the management of risk are clearly defined and assigned within the Firm. A three lines of defence model is used in order to ensure an effective and robust risk management framework.

The ultimate responsibility for the risk management process is held by the Board. The Board approves and reviews the strategies and policies for taking up, managing, monitoring, and mitigating risks to which the Firm is or might be exposed to on at least an annual basis. Its duties include overseeing the risk register, assessing the Firm's risk appetite statements, and overall ensuring an effective risk management process. Selected Group committees and functions of the risk management framework are described below:

#### ***Risk Committee***

The Group Risk Committee holds the responsibility of overseeing the risk management processes on a day-to-day basis. The Committee meets on a weekly basis and reviews, among other information, sophisticated risk analysis, including the results of stress testing the Funds' portfolios under numerous scenarios, portfolio changes, and asset class allocation. Results and guidance from the Risk Committee help determine asset allocations across funds and the Committee has the ability to resize, adjust, or eliminate positions and implement hedges. It also discusses any pertinent risk related developments, and manages global economic, counterparty, geopolitical, and operational risks in addition to traditional portfolio risk management.

#### ***Business Risk Committee***

The Group Business Risk Committee evaluates certain proposed transactions, prior to commitment, with respect to non-economic risks and considerations, and advises senior management concerning these transactions. The Committee further reviews new lines of business and strategies prior to inception and advises senior management about any such concerns. It meets on an ad-hoc basis as needed.

### ***Operational Committee***

The Group Operational Committee is responsible for assessing changes in the business environment and other external factors material to the Group's operations; reviewing and monitoring the hedge funds' risk management plans and programs, and monitoring the effectiveness of the Group's financial controls and the Group's technology. The Committee is also responsible for assessing the Group's business strategies and reviewing capital flows. It meets on a bi-weekly basis.

### ***ERM Function***

The Group also has an ERM function. These policies and procedures identify and assess the Group's risks and opportunities using a framework that includes a risk assessment, control environment, information and communication, and monitoring activities. The Head of ERM produces an annual risk report concerning key risk issues affecting SELM during the reporting period, including a report on the adequacy of the Firm's risk management systems and procedures. Such updates are provided to the Board and senior management.

In addition to the above, the following functions have been identified as integral to SELM's risk management framework:

- The Group accounting and financial reporting group
- The Group internal audit function
- The Group legal and compliance team
- Ad hoc meetings between portfolio managers and analysts to review risks related to positions

## **3.3 Risk Appetite**

The Firm defines "risk appetite" as the level of material risk that the Board considers to be acceptable for a given risk or group of risks. The Firm has undertaken a risk identification and scoring exercise which has rated all risks on a scale. The scale ranges from risks that could potentially cause a significant impact on the Firm's business on a quarterly to annual basis, to risks that could potentially cause minor to moderate impacts infrequently on the Firm's business. The position of rated risks are communicated to all senior members of the Firm on a regular basis and is reassessed by the Board on an annual basis.

Senior Management has determined that any risk rated as having a potential significant impact must have a plan to mitigate the risk within 10 working days of identification and be implemented within 30 days. Any risk rated as having the potential to have a lesser, but still material, impact must have a plan for treatment developed within 30 days of identification and implemented within 90 days.

## **3.4 Risk Reporting**

The Firm's Compliance Officer has established a risk-based compliance monitoring programme that takes into account certain areas of the Firm's services and activities. The Compliance Officer reports on an ad-hoc basis directly to the Board where any significant risk of failure to comply with obligations under the regulatory system is identified. The Board receives, on an annual basis, a report from the Group's designated risk officer addressing key risk issues affecting the Firm during the reporting period, including a report on the adequacy of the Firm's risk management systems and procedures and emerging risks affecting the Firm arising during the reporting period.

## **3.5 Key Risks**

Management has, through the risk management framework, identified the following material risks the Firm could be exposed to during the course of business operations. These risks are monitored through



the risk reporting framework of the Firm, and managed through implemented systems and controls to ensure they remain within the Firm's risk appetite.

### ***Credit Risk***

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

SELM has identified three main sources of credit risk: cash deposits, collateral management fees, and holdings in the retention notes. The Firm holds cash balances with UK credit institutions with a credit rating of A or better. Management regularly monitors the health and ratings of the credit institution used, and the Board is currently satisfied that the cash balances can reside with one credit institution.

None of the CLOs that SELM manages have deferred any collateral management fees, and the Firm considers this credit risk to be low. SELM continues to evaluate its ability to collect these fees, and does not expect any deferrals in the coming three years based on scenario tests run by management. SELM is compliant with the risk retention requirement, which requires the Firm to hold a risk retention investment equal to 5% of each CLO. Further, management monitors the mark-to-market on these investments at each month end, and will take actions as needed to ensure proper levels of capital in the event of any rapid unrealised losses in these holdings.

### ***Market Risk***

Market risk is the risk of loss resulting from fluctuations in the market value of positions and asset values attributable to changes in market variables, such as interest rates or foreign exchange rates.

As SELM does not undertake trading on its own account, its exposure to market risk is limited to the risk associated with failure to realise the full value of the Firm's assets as a result of foreign exchange rate fluctuations. SELM predominantly holds risk retention amounts and excess liquidity in (what management holds to be) stable currencies, such as Euro and USD, and thus exposes the Firm to little risk. The Board's risk appetite is to actively monitor and limit the exposure to non-sterling denominated currencies.

### ***Operational Risk***

Operational risk is the risk of loss to the Firm resulting from inadequate or failed internal processes, people, and systems, or from external events.

The Firm maintains and monitors operating controls over operations, financial, investments and other confidential data. Confidential data is protected through secure encryption and firewalls, the provision of training to employees, and the implementation of confidentiality agreements. The Firm's Parent also ensures that employees are vetted and well-qualified for their roles and that appropriate training, manuals and policies are made available to employees, which serves to minimise the risk to the Firm of internal breaches, fraud, theft, and collusion. The Firm also has mitigations in place in order to ensure swift corrections of any errors should they occur.

### ***Business Risk***

Business risk is the risk to the Firm arising from changes in its business, including the risk that the Firm may not be able to carry out its business plan and its desired strategy.

SELM is exposed to business risk as a result of its reliance on business infrastructure supported by the Parent/Group. The Firm may rely on its Parent to fund a risk retention investment in CLOs in the case

where cash on hand is insufficient to do so independently. The Firm does not believe there is an unmitigated material business risk that it is facing, based on the fact that since 2021, the Firm has been funding all of retention investments without a cash infusion from the Parent as it is generating sufficient funds itself.

### ***Liquidity Risk***

Liquidity risk is the risk that the Firm may not have sufficient financial resources available to be able to meet its liabilities.

The Firm manages liquidity risk by actively monitoring its expense levels and incoming revenue funding to ensure there are sufficient levels of cash to maintain the operations, as well as to remain within the Firm's risk appetite for its regulatory liquidity thresholds. Accounting and treasury functions review the bank cash balances periodically and coordinate closely with the operations to ensure that the Firm has sufficient funding for any new investments or projects. Accounting and treasury functions also monitor foreign exchange exposures from bank deposits and buy or sell currencies, as appropriate, to minimize unnecessary exposure to foreign exchange losses on currencies.

### ***Concentration Risk***

Concentration risk is the risk arising from exposure to a single client, or a group of connected clients, which in the case of counterparty default, may lead to severe losses within the Firm.

The Firm may be exposed to concentration risk in regard to the risk of over-reliance on a single source of income or a heavy concentration in a few positions. The Firm's portfolio is highly diversified and is managed in a manner so as to avoid heavy concentration in a few positions. Thus, concentration risk is deemed to be low as a result of diversification.

### ***Reputational Risk***

Reputational risk is the risk of failure to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by the Firm itself, our employees or those with whom we are associated, that may cause stakeholders to form a negative view of the Firm.

The Firm manages reputational risk by thoroughly vetting employees prior to joining the Firm. All employees attend mandatory compliance training programmes to remain informed of the Group's policies and procedures, including a yearly mandatory training related to financial crime. Further, the Firm's legal, risk and compliance teams make sure the Firm remains in compliance with its regulatory obligations, and prudent due diligence and risk assessment of business transactions entered into by the Firm is performed and documented.

## **3.6 Effectiveness of Firm's Risk Management Process**

The Board has conducted a review of the effectiveness of the Firm's risk management processes, and concluded that they have performed effectively. In reaching this conclusion, the Board took into account reports based on the Firm's risk policies and procedures, strong internal controls (overseen by the Group's Internal Audit Function), and regular reporting of significant findings to senior management. Further, the Firm's regulatory liquidity and capital levels remained in excess of their required levels throughout the review period.

## 4. Own Funds

### 4.1 Composition of Regulatory Own Funds

SELM exclusively holds Tier 1 capital, consisting of share capital, share premium and retained earnings and therefore all capital resources are considered to be high quality in nature. SELM does not hold any tier 2 or 3 capital resources. Additionally, there are no deductions necessary from SELM's eligible capital instruments, in line with the deductions required by MIFIDPRU 3.3.5.

As at 31 December 2022, SELM holds a total of £41.9m of eligible capital resources to meet its capital requirements.

The table below outlines the details of SELM's capital resources position as at 31 December 2022. This information has been sourced from the Firm's latest audited financial statement for year end 2022.

Table 1: 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	—	
2	TIER 1 CAPITAL	—	
3	COMMON EQUITY TIER 1 CAPITAL	41,889	
4	Fully paid up capital instruments	4,000	Called up share capital
5	Share premium	22,730	Share premium reserves
6	Retained earnings	17,103	Profit and loss account
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	(1,944)	Deferred tax assets
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	—	

As of 31 December 2022 and 2021, the Company's capital was comprised of 4,000,107 ordinary, private placement shares of £1 in nominal value per share, each authorised, of which 4,000,107 shares were issued and paid in primarily in 2016. The full amount of the called up share capital was recognized in the Firm's regulatory capital. Sculptor Capital LP is the Parent and sole shareholder of the Company.

### 4.3 Reconciliation of Regulatory Own Funds to Balance Sheet in the Audited Financial Statements

The table below describes the reconciliation with own funds in the balance sheet as at 31 December 2022, where assets and liabilities have been identified by their respective classes. The information in the table below reflects the balance sheet in the audited financial statements.

Table 2: Balance Sheet as per audited financial statements:

		a) Balance sheet as in published/audited financial statements (in thousands)	b) Under regulatory scope of consolidation	c) Cross reference to template OF1
As of 31 December 2022				
<b>Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements</b>				
1	CLO Investments	138,478		
2	Debtors: amounts falling due within one year	5,270		
3	Cash at bank and in hand	43,288		
4	Debtors: non-current asset - Deferred tax asset	1,944		19. CET1: Other capital elements, deductions and adjustments
5	<b>Total Assets</b>	<b>188,980</b>		
<b>Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements</b>				
1	Creditors: amounts falling due within one year	4,207		
2	Creditors: amounts falling due after one year	139,959		
	<b>Total Liabilities</b>	<b>144,166</b>		
<b>Shareholders' Equity</b>				
1	Called up share capital	4,000		4. Fully paid up capital instruments
2	Share premium reserves	22,730		5. Share Premium
3	Retained earnings	18,084		6. Retained earnings
	<b>Total Shareholders' equity</b>	<b>44,814</b>		<b>3. Common equity tier 1 capital</b>

## 5. Own Funds Requirements

### 5.1 Own Funds Requirements

SELM must at all times maintain its own funds to be at least equal to its own funds requirement. As per MIFIDPRU 4.3, the own funds requirement is the higher of the:

- (i) Permanent Minimum Requirement (MIFIDPRU 4.4R)
- (ii) Fixed Overhead Requirements (MIFIDPRU 4.5R)
- (iii) K-Factor Requirement (per MIFIDPRU 4.6R)

Table 3: Own funds requirement as at 31 December 2022:

Own Funds Requirement		£ in Thousands
Permanent Minimum Requirement		75
Fixed Overheads Requirements		1,419
K-Factor Requirement	$\sum$ K-AUM, K-CMH and K-ASA	536
	$\sum$ K-DTF and K-COH	—
	$\sum$ K-NPR, K-CMG, K-TCD and K-CON	—

The ‘K-factor’ approach is a new approach introduced by the IFPR to determine the minimum own funds requirements of an investment firm that is not an SNI. The aim of the K-factors is to provide a tailored and more appropriate method for setting a risk-based minimum own funds requirement for all types of investment firms compared to the CRR regime. For the definition of each K-factor, please refer to the Appendix.

### 5.2 Approach to Assessing the Adequacy of Own Funds

SELM is further required to disclose its approach to assessing the adequacy of its own funds in accordance with the own funds adequacy requirement as outlined in MIFIDPRU 7.4.7R.

Foremost is the annual assessment of own funds and liquidity adequacy conducted during the Internal Capital Adequacy and Risk Assessment process, which considers the Firm’s resource requirements under ‘business as usual’ and a variety of severe, yet plausible, stressed scenario contexts. The ICARA assists SELM with identifying and managing material harms that the Firm may cause through its regulated and unregulated activities.

The following are the key elements that have been assessed as part of the ICARA process include:

- Business strategy and governance
- Risk assessment and identification of key risks and potential harms
- Own funds adequacy
- Compliance to the OFAR
- Business model analysis
- Orderly wind-down planning

The adequacy of the ICARA process will be reviewed at least annually or more frequently should there be any material changes to SELM's risk profile, business strategy or if requested by the SELM Board.

The Firm ensures that its current level of financial resources, both in terms of amount and quality, are adequate to remain financially viable throughout the economic cycle with the ability to address and mitigate any potential harms that may be caused from its ongoing business activities. The financial resources should also be adequate so that the Firm is prepared for an orderly wind-down which minimises harm to customers or to other market participants.

## 6. Remuneration

### 6.1 Approach to Remuneration

The Remuneration Policy for the Group applies to all of the staff of SELM, to the extent specified. SYSC 19G.1.24G provides that the term “staff” should be interpreted broadly to include, for example, employees of SELM, partners or members, employees of other entities in the group, employees of joint service companies and secondees, all to the extent they provide services to SELM and in each case as relevant.

SELM does not directly enter into contracts of employment with staff. Instead, SELM staff are employed by SCME whose services are provided to SELM on the basis of certain secondment agreements. Compensation is set at a UK level for each employee of SCME, a proportion of which is then charged back to SELM in respect of the work carried out for SELM by the relevant SCME employee. For the purposes of the disclosures, "staff", therefore, includes those seconded to SELM.

### 6.2 Remuneration Policy

The Remuneration Policy sets out the policies and practices of remuneration for all the Firm’s employees including secondees from SCME and is intended to reflect the overall business philosophy, aims and objectives. The Remuneration Policy is reviewed by the Board annually to ensure that the terms are in line with new regulatory requirements.

It is the Firm’s intention that:

1. It complies in full with the MIFIDPRU Remuneration Code (SYSC 19G), ensuring that the Remuneration Policy is risk-focussed and adopts Remuneration Policies which promote effective risk management and do not expose the business to excessive risk;
2. The Remuneration Policy will align to the business strategy and the objectives, culture and values of the Firm;
3. The Remuneration Policy will support the long term aims. It will seek to encourage and support long term stability and sustainability, particularly of its capital base, and promote steady growth and keen risk awareness;
4. Decisions about Remuneration Policy will be reviewed, considered and approved/ratified by the Board and wider Group (including SELM’s Parent).

### 6.3 Remuneration Governance

SELM is governed by the policies set out in the Remuneration Policy Document which is reviewed at least annually by the Board. As a firm subject to the MIFIDPRU remuneration rules, the Firm has concluded, in light of its structure and the nature of its activities, that it does not need to appoint a remuneration committee. Instead, the Board sets, and oversees compliance with, the Firm’s remuneration policy.

The Parent’s risk and compliance functions will also provide input in relation to the setting of individual remuneration awards. The remuneration of the senior officer in the compliance function is primarily set by the Group Chief Legal Officer with input from the Group’s CFO, CAO, COO and CCO and the Firm CEO.

## 6.4 Material Risk Takers

The group of individuals that comprise MRTs at SELM is determined in accordance with the definitions and criteria outlined within MIFIDPRU SYSC 19 G.5.3, which includes any staff member whose professional activities have a material impact on the risk profile of the Firm or of the assets that the Firm manages.

The Firm reviews its list of MRTs at least annually, and updates that list as necessary throughout the year, including when staff join or leave the Firm, as required by the MIFIDPRU Remuneration Code. For the performance year 2022 there were 2 MRTs identified.

## 6.5 Control Function

When setting remuneration levels, the Firm recognises the importance of attracting and retaining experienced staff to perform control functions. Employees engaged in risk, audit and compliance functions are independent of the business units they oversee.

In accordance with SYSC 19G.3.6, staff engaged in control functions:

1. Are independent from the business units they oversee;
2. Have appropriate authority; and
3. Are remunerated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

## 6.6 Categorisation of Fixed & Variable Remuneration

SELM has two remuneration categories to disclose in line with MIFIDPRU 8.6.5 ; fixed and variable which include salaries and discretionary bonuses respectively. The Firm is required to ensure that the Policy makes a clear distinction between the criteria for setting fixed and variable remuneration.

Fixed remuneration is set using predetermined criteria and reflects a staff member's professional experience and organisational responsibility at the Firm. Fixed remuneration is set at an appropriate level which is sufficient to ensure that staff are not reliant on variable pay and therefore are not incentivised to take excessive risk. Fixed remuneration is predetermined, non-discretionary, non-revocable and not dependent on performance and therefore, fixed pay does not incentivise risk taking.

Variable remuneration may include bonuses, including (at the discretion of the Group) the award of restricted stock units, and/or Deferred Cash Interests, plus benefits. Staff are eligible to receive a discretionary bonus each year, provided they are still employed by the Group on the date(s) selected by the Firm each year for the payment of bonuses and are not under notice of termination of employment (whether served by the Firm or by the employee or another member of the Group). In addition, all Executive Managing Directors, as limited partners in certain entities within the Group (the "Operating Partnerships") are eligible to receive profits distributions from such Operating Partnerships.

SELM considers the performance of the Firm, the business unit and the individual in line with MIFIDPRU 8.6.5 when making decisions around remuneration. The factors to be used in setting awards are at the absolute discretion of the Firm. Among the factors considered are:

- Individual performance;
- Performance of the individual's business unit or departments;
- Overall results of the Firm; and
- Overall results of the Group.



## **6.7 Risk and Performance Adjustments**

The size of the Group's bonus pool is determined by the Group Management Committee. Where the financial performance of the Group or of the Firm is subdued or negative, total variable remuneration should generally be contracted.

All components of variable remuneration for current and future years, are within the sole discretion of the Firm (even if paid consistently over a period of years). Our approach to variable remuneration promotes a culture where staff are rewarded for long-term and sustained business performance, whilst demonstrating sound and effective risk management and avoiding excessive risk taking.

Measurements of performance used to calculate variable remuneration components and pools of profit allocation include adjustments for all types of current and future risks (taking into account the cost of the capital and liquidity required) and take into account the need for consistency with the timing and likelihood of the Firm receiving potential future revenues incorporated into current earnings. The allocation of variable remuneration takes into account all types of current and future risks, including non-financial risks, in accordance with the MIFIDPRU Remuneration Code.

### **6.7 Risk and Performance Adjustments for Material Risk Takers**

To comply with the MIFIDPRU Remuneration Code, the Firm is required to have in place a process and mechanisms through which it can, if required, reduce the variable remuneration of an MRT to take account of a specific crystallised risk or adverse performance outcome, including misconduct. In practice, this will be achieved through in-year adjustments to variable remuneration, clawback and/or malus mechanisms.

Clawback allows for recovery of variable pay awards that have already vested; malus allows the amount of any unvested variable pay awards to be reduced, potentially to zero, prior to payment. All of an MRT's discretionary and guaranteed variable remuneration, any retention awards, severance pay and buy-out awards will be subject to the in-year adjustment, clawback and, where deferral applies, malus arrangements.

The Firm will assess, in consultation with Sculptor Capital LP's senior management, an MRT's performance and conduct before granting a variable remuneration award and again, if relevant, before vesting. The majority of any performance adjustments are expected to take place before any such award is granted, taking all circumstances into account, and checking that the MRT's overall performance has remained satisfactory.

Severance payments may be made to MRTs from time to time at the sole discretion of the Firm, in consultation with Sculptor Capital LP's senior management, and will be assessed strictly in line with the requirements of the MIFIDPRU Remuneration Code 11.8. Any payments to MRTs related to early termination of an employment contract will reflect the individual's performance over time and will be designed in a way which does not reward failure or misconduct.

## 6.8 Appendix to Remuneration Disclosure

Table 4: Total amount of remuneration awarded to senior management, identified two material risk takers and other staff:

	Fixed remuneration (in thousands)	Variable remuneration (in thousands)
Senior Management	513	838
Other Material Risk Takers	—	—
Other staff	614	781
<b>Total</b>	<b>1,127</b>	<b>1,619</b>

Table 5: Total amount of guaranteed variable remuneration awards made to the two MRTs:

	Total amount of guaranteed variable remuneration awarded	Number of individuals
Senior Management	—	—
Other Material Risk Takers	—	—

Table 6: Total amount of severance payments awarded to the two MRTs, and the number of individuals receiving them:

	Total amount of severance payments awarded	Number of individuals
Senior Management	—	—
Other Material Risk Takers	—	—

Table 7: Highest Severance Payment awarded to an individual MRT:

Highest severance payment awarded to an individual Material Risk Taker	1. —
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NB the figures above are in respect of the financial period ending 31 December 2022 - including 12 months of fixed pay to 31 December 2022, and the bonus awards paid in January 2023 for the performance year FY 2022.

- **Glossary of terms and abbreviations**

BLAR	Basic Liquid Assets Requirement
CCO	Chief Compliance Officer
CEO	Chief Executive Offer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CLO	Collateralised Loan Obligations
COO	Chief Operating Officer
COSO	Committee of Sponsoring Organisations
DCI	Deferred Cash Interests
EMD	Executive Managing Director
ERM	Enterprise Risk Management
FCA	Financial Conduct Authority
FOR	Fixed Overhead Requirement
ICAAP	Internal Capital Adequacy Assessment Process
ICARA	Internal Capital Adequacy and Risk Assessment
IFPR	Investment Firms Prudential Regime
K-ASA	Assets Safeguarded and Administered
K-AUM	Assets Under Management
K-CMG	Clearing Margin Given
K-CMH	Client Money Held
K-COH	Client Orders Handheld
K-CON	Concentration Risk
K-DTF	Daily Trading Flow
K-NPR	Net Position Risk
K-TCD	Trading Counterparty Default
KFR	K-Factor Requirement
Non-SNI	Non-Small and non-Interconnected
OFAR	Overall Financial Adequacy Rule
PMR	Permanent Minimum Requirement
RSU	Restricted Stock Units
RtC	Risk-to-Client
RtF	Risk-to-Firm
RtM	Risk-to-Market
SCLP	Sculptor Capital Limited Partnership, the parent of SELM and SCME
SCME	Sculptor Capital Management Europe Limited
SELM	Sculptor Europe Loan Management Limited
UKEC	UK Executive Committee