

Registered No. OC304607

Pacific Alternative Asset Management Company Europe LLP

**Members' report and Financial Statements
for the year ended 31 December 2011**

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Pacific Alternative Asset Management Company Europe LLP

Registered Number, OC304607

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

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Pacific Alternative Asset Management Company Europe LLP

Registered Number OC304607

REGISTERED OFFICE AND PROFESSIONAL ADVISORS

Designated Members

Pacific Alternative Asset Management Company, LLC

Stephen Edward Oxley

Neale Graham Safaty

Auditors

Grant Thornton UK LLP

30 Finsbury Square

London

EC2P 2YU

Bankers

Barclays Bank PLC

81 Fleet Street

London

EC4Y 1EL

Registered Office

25 Victoria Street

London

SW1H 0EX

Registered Number OC304607

Members' report

The members present their annual report together with the financial statements of the partnership for the year ended 31 December 2011.

Principal activity and review of the business

The principal activity of the partnership is to provide investment services

Results and distributions

The results for the period are shown in the profit and loss account on page 8. The partnership's balance sheet as detailed on page 9 shows a satisfactory position with members' interests amounting to £636,807 (2010 £754,669)

Members' profit allocation

Any profits are shared among the members and governed by the Partnership Agreement dated 1 August 2003 as amended on 28 June 2010

Policy for members' drawings, subscriptions and repayment of members' capital

The Partnership Agreement dated 1 August 2003 as amended 28 June 2010 governs policies for members' drawings, subscriptions and repayment of members' capital

Designated Members

The designated members of the LLP during the period were as follows

Pacific Alternative Asset Management Company, LLC
Stephen Edward Oxley
Neale Graham Safaty

Auditors

In so far as the members are aware

- there is no relevant audit information of which the LLP's auditor is unaware, and
- the members have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

Grant Thornton UK LLP, having expressed their willingness to continue in office, will be deemed reappointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 as modified by the Limited Liability Partnerships Regulations 2008 unless the partnership receives notice under section 488(1) of the Companies Act 2006 as modified by the Limited Liability Partnerships Regulations 2008

This Members' Report was approved by the Designated Members on 19 April 2012 and signed on their behalf by



Stephen Oxley

Statement of Members' responsibilities for the Financial Statements

The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 require the members to prepare financial statements for each financial year. Under the law the members have elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the LLP and of the profit or loss of the LLP for that period. In preparing those financial statements, the members are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the limited liability partnership will continue in business

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdiction

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Independent auditor's report to the members of Pacific Alternative Asset Management Company Europe LLP

We have audited the financial statements of Pacific Alternative Asset Management Company Europe LLP for the year ended 31st December 2011 which comprise the profit and loss account, the balance sheet, the statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as applied to limited liability partnerships by the Limited Liability Partnership (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the partnership and members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of members and auditor

As explained more fully in the Members' Responsibilities Statement set out on page 5, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the limited liability partnership's affairs as at 31st December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

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Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 as applied to limited liability partnerships requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- we have not received all the information and explanations we require for our audit

Grant Thornton UK LLP

Marcus Swales
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

19 April 2012

Profit and loss account

For the year ended 31 December 2011

		2011	2010
		£	£
	Notes		
Turnover	2		
Marketing fees		935,518	873,442
'Cost plus' revenue from controlling party		3,987,228	3,866,057
Other		1,154,812	876,297
		<u>6,077,558</u>	<u>5,615,796</u>
Expenses			
Administration expenses		(3,305,396)	(3,071,449)
Operating profit	3	<u>2,772,162</u>	<u>2,544,347</u>
Interest receivable		12	17
Profit for the financial year before members' remuneration and profit shares		<u>2,772,174</u>	<u>2,544,364</u>
Members' remuneration charged as an expense		(266,232)	(205,606)
Profit for the financial year available for discretionary division among members	10	<u>2,505,942</u>	<u>2,338,758</u>

There are no recognised gains or losses in the period other than those reported in the profit and loss account. All amounts are in respect of continuing operations.

The notes on pages 11 to 18 form an integral part of these Financial Statements

Pacific Alternative Asset Management Company Europe LLP

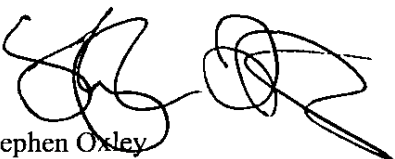
Registered Number OC304607

Balance sheet

as at 31 December 2011

		2011 £	2010 £
	Notes		
Fixed Assets			
Tangible fixed assets	6	347,280	460,940
Current Assets			
Debtors and prepayments	7	289,314	240,760
Cash		392,859	331,597
		<u>682,173</u>	<u>572,357</u>
Current Liabilities			
Creditors falling due within one year	8	(201,802)	(88,595)
Net Current Assets		480,371	483,762
Creditors falling due in more than one year	8	(190,844)	(190,033)
NET ASSETS ATTRIBUTABLE TO MEMBERS		<u>636,807</u>	<u>754,669</u>
REPRESENTED BY:			
Loans and other debts due to members within one year			
Members' capital classified as a liability		220,500	220,500
Other amounts	9	151,525	310,361
		<u>372,025</u>	<u>530,861</u>
Members' other interests			
Members' other interests – other reserves classified as equity		264,782	223,808
		<u>636,807</u>	<u>754,669</u>
TOTAL MEMBERS' INTERESTS:			
Loans and other debts due to members		372,025	530,861
Members' other interests		264,782	223,808
	10	<u>636,807</u>	<u>754,669</u>

The financial statements were approved by the Designated members on 19 April 2012 and signed on their behalf by


Stephen Oxley

The notes on pages 11 to 18 form an integral part of these Financial Statements

Statement of cash flows

for the year ended 31 December 2011

		2011	2010
		£	£
	Notes		
Net cash inflow from operating activities	11	2,606,557	1,906,259
Returns on investments and servicing of finance			
Interest received		12	17
Capital expenditure and financial investment			
Payment to acquire tangible fixed assets		(48,826)	(233,850)
Transactions with members			
Drawings		(2,469,691)	(1,662,948)
Increase in cash		<u>88,052</u>	<u>9,478</u>

Reconciliation of net cash flow to movement in net funds

	2011	2010
	£	£
Increase in cash in the period	88,052	9,478
Translation difference	(26,790)	11,786
Net funds at start of period	331,597	310,333
Net funds at 31 December	<u>392,859</u>	<u>331,597</u>

The notes on pages 11 to 18 form an integral part of these Financial Statements

Notes to the Financial Statements

for the year ended 31 December 2011

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention, and in accordance with applicable accounting standards, the Statement of Recommended Practice ("SORP"), Accounting by Limited Liability Partnerships, revised in March 2010, and the terms of the LLP's Membership Agreement

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling on the date of the transaction. Differences arising from the rate between due date and actual payment date are taken to the profit and loss account. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

Fixed assets

All fixed assets are stated at cost less accumulated depreciation and provision for impairment.

Depreciation

Depreciation is provided on all tangible fixed assets on a straight-line basis as below:

Computer hardware	5 years
Computer software	3 years
Office equipment	5 years
Furniture	7 years
Leasehold Improvements	The remainder of the lease or 10 years, whichever is smaller. Costs of reinstating leasehold premises are capitalised when a dilapidation provision has been recognised in accordance with FRS 12 (Provisions, contingent liabilities and contingent assets). Included in leasehold improvements is a dilapidation provision of £32,000, which is amortized over the remainder of the lease.

Leased assets

Rentals payable under an operating lease, after taking into account reduced rent periods, are charged to the profit and loss account on a straight line basis over the term of the lease.

Taxation

No provision for taxation is made as any liability arising is assessable directly on the members.

Notes to the Financial Statements

for the year ended 31 December 2011

Members' participation rights

Members' participation rights are the rights of a member against the LLP that arise under the members' agreement (for example, in respect of amounts subscribed or otherwise contributed, remuneration and profits)

Members' participation rights in the earnings or assets of the LLP are analysed between those that are, from the LLP's perspective, either a financial liability or equity, in accordance with FRS 25 (IAS 32) Financial Instruments Disclosure and Presentation and UITF abstract 39 Members' shares in co-operative entities and similar instruments. A member's participation right results in a liability unless the right to any payment is discretionary on the part of the LLP.

Amounts subscribed or otherwise contributed by members, for example members' capital, are classed as equity if the LLP has an unconditional right to refuse payment to members. If the LLP does not have such an unconditional right, such amounts are classified as liabilities.

Where profits are automatically divided as they arise, so the LLP does not have an unconditional right to refuse payment, the amounts arising that are due to members are in the nature of liabilities. They are therefore treated as an expense in the Profit and Loss Account in the relevant year. To the extent that they remain unpaid at the year end, they are shown as liabilities in the Balance Sheet.

Conversely, where profits are divided only after a decision by the LLP or its representative, so that the LLP has an unconditional right to refuse payment, such profits are classed as an appropriation of equity rather than as an expense. They are therefore shown as a residual amount available for discretionary division among members in the Profit and Loss Account and are equity appropriations in the Balance Sheet.

Other amounts applied to members, for example remuneration paid under an employment contract and interest on capital balances, are treated in the same way as all other divisions of profits, as described above, according to whether the LLP has, in each case, an unconditional right to refuse payment.

All amounts due to members that are classified as liabilities are presented in the Balance Sheet within 'Loans and other debts due to members'. Amounts due to members that are classified as equity are shown in the Balance Sheet within 'Members' other interests'.

Notes to the Financial Statements

for the year ended 31 December 2011

2. Turnover

Turnover, which is stated net of value added tax, is derived from four sources, research services provided to Pacific Alternative Asset Management Company, LLC ("PAAMCO, LLC") charged on a 'cost plus' basis, marketing fees earned from PAAMCO, LLC, supplemental fees earned from PAAMCO, LLC and rental income from a sub-lease agreement. Marketing fees are recognised on a receivable basis. Other income is recognised as and when earned. All revenue is derived from continuing activities in the UK.

3. Operating profit

This is stated after charging

	2011	2010
	£	£
Depreciation	162,486	97,801
Foreign exchange differences	26,790	11,786
Auditors' remuneration		
Audit fee	16,300	14,600
Tax services	6,650	6,810
Operating lease rentals	389,994	274,913

4. Employees

Average monthly number of employees in the year was 15 (2010: 15)

Staff costs

	2011	2010
	£	£
Wages and salaries	1,524,215	1,509,275
Pensions	46,906	42,458
National insurance and social security costs	165,945	149,768
	1,737,066	1,701,501

5. Members and their remuneration

The average number of members during the year was 3 (2010: 3)

The profit (including remuneration), that is attributable to the member with the largest entitlement to profit (including remuneration), is £1,576,749 (2010: £1,571,900). The average profit (including remuneration) per member is £924,058 (2010: £848,121).

Notes to the Financial Statements

for the year ended 31 December 2011

6. Tangible fixed assets

	Computer Equipment £	Office Equipment, Fixtures and Fittings £	Leasehold Improvements £	Total £
Cost:				
Brought forward	75,788	164,898	447,041	687,727
Additions	11,426	1,860	35,540	48,826
At 31 December 2011	<u>87,214</u>	<u>166,758</u>	<u>482,581</u>	<u>736,553</u>
Accumulated depreciation:				
Brought forward	55,208	67,122	104,457	226,787
Charge for the period	6,763	27,178	128,545	162,486
At 31 December 2011	<u>61,971</u>	<u>94,300</u>	<u>233,002</u>	<u>389,273</u>
Net book value:				
At 31 December 2010	<u>20,580</u>	<u>97,776</u>	<u>342,584</u>	<u>460,940</u>
At 31 December 2011	<u>25,243</u>	<u>72,458</u>	<u>249,579</u>	<u>347,280</u>

7. Debtors

Amounts falling due in less than one year

	2011 £	2010 £
Accounts receivable	7,143	6,404
VAT	59,739	38,607
Other debtors	3,498	6,339
Prepayments and accrued income	218,934	189,410
	<u>289,314</u>	<u>240,760</u>

There are no balances included that are due greater than one year (2010 £0)

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Notes to the Financial Statements

for the year ended 31 December 2011

8. Creditors

Amounts falling due within one year

	2011	2010
	£	£
Trade creditors	44,379	32,713
Accruals and deferred rental	157,423	55,882
	<u>201,802</u>	<u>88,595</u>

Amounts falling due in more than one year

	2011	2010
	£	£
Accrued rent	161,930	161,131
Rent deposit	28,914	28,902
	<u>190,844</u>	<u>190,033</u>

9. Loans and other debts due to members – other amounts

	2011	2010
	£	£
Owed to members – falling due within one year	<u>151,525</u>	<u>310,361</u>

Amounts owed to members would rank equally with other unsecured creditors in the event of a winding up of the LLP

Notes to the Financial Statements for the year ended 31 December 2011

10. Reconciliation of movements in members' other and members' total interests

	Members' other interests – other reserves classified as equity	Members' capital classified as a liability	Amounts due to Members	Members' Total Interests
	£	£	£	£
At 31 December 2010	223,808	220,500	310,361	754,669
Members' remuneration charged as an expense	-	-	266,232	266,232
Profit for financial year available for discretionary division among members	2,505,942	-	-	2,505,942
Members' interests after profit for the year	2,729,750	220,500	576,593	3,526,843
Other divisions of profits	(2,464,968)	-	2,464,968	-
Drawings	-	-	(2,469,691)	(2,469,691)
Other movements	-	-	(420,345)	(420,345)
At 31 December 2011	264,782	220,500	151,525	636,807

Notes to the Financial Statements for the year ended 31 December 2011

11. Reconciliation of operating profit to net cash inflow from operating activities

	2011	2010
	£	£
Operating profit	2,772,162	2,544,347
(Gain)/loss on foreign exchange	26,790	(11,786)
Depreciation charge	162,486	97,801
Loss on disposal of fixed assets	-	3,025
(Increase) in debtors	(468,899)	(886,928)
Increase in creditors	114,018	159,800
Net cash inflow from operating activities	2,606,557	1,906,259

12. Related parties

The ultimate controlling party is PAAMCO, LLC incorporated in the United States of America. The LLP charged PAAMCO, LLC £5,999,004 (2010 £5,584,120) during the period for research services (charged on a 'cost plus' basis), marketing fees and supplemental fees. The transactions were conducted on an arms length basis. At the year end £666,123 (2010 (£456,616)) was due from PAAMCO, LLC.

13. Financial commitments

As at 31 December 2011 the LLP had annual commitments under non-cancellable operating leases as set out below:

	2011		2010	
	Land & Buildings	Other Items	Land & Buildings	Other Items
	£	£	£	£
Operating leases which expire				
In two to five years	462,699	6,963	461,339	6,963
	462,699	6,963	461,339	6,963

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14. Foreign currency forward contract

On 23 November, 2011 the LLP entered into a foreign currency forward contract with a delivery date of 20 December 2011 related to the foreign currency exposure of a foreign currency denominated transaction in December 2011

15. Subsequent events

On 28 February, 2012 and effective 1 January, 2012, PAAMCO, LLC entered into a Deed of Assignment with a new member, to transfer and assign all of its rights and interests in £3,307 50 of its "B Capital", to be redesignated as "A Capital" and then be assigned to the new member as part of the admission to the LLP in consideration of payment of £3,307 50 from the new member to PAAMCO, LLC

In addition, on 21 March, 2012 and effective 1 January, 2012, the LLP entered into The Third Amendment Agreement to the Solicitation and Sub-advisor Agreement with PAAMCO, LLC to amend the terms of the agreement in place to a firm percentage of 9.11% for the supplemental fee and further amend the member percentage allocations

Pacific Alternative Asset Management Company Europe LLP

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**The following pages do not form part of the statutory financial statements which
are the subject of the report of the independent auditor on pages 6 and 7.**

Pacific Alternative Asset Management Company Europe LLP

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Pacific Alternative Asset Management Company Europe LLP

Pillar 3 Disclosure

Introduction

Pacific Alternative Asset Management Company Europe LLP ("the LLP") is authorised and regulated by the Financial Services Authority ("FSA") and as such is subject to minimum regulatory capital requirements. The LLP is categorised by the FSA, for capital purposes, as a limited licence firm. The LLP is not required to prepare consolidated reporting for prudential purposes.

The FSA's capital requirement framework consists of three "pillars"

- Pillar 1 – This is the minimum regulatory capital requirement and consists of both the base capital requirement and the variable capital requirement
- Pillar 2 – This is the capital that the LLP believes it needs to hold in respect of individual risks identified under the overall Pillar 2 rule
- Pillar 3 - Requires firms to make disclosures which will allow market participants to assess key information about the LLP's underlying risks, risk management controls and capital position

This document is designed to meet the LLP's Pillar 3 obligations

Disclosure Policy

The Pillar 3 rules in BIPRU 11 set out the need for firms to have a formal disclosure policy. In accordance with the rules of the FSA the LLP will disclose the information set out in BIPRU 11 (the Pillar 3 rule) on at least an annual basis. The Pillar 3 disclosure will be made in the LLP's annual financial statements.

The LLP may omit information it deems as immaterial, confidential or proprietary in accordance with the rules.

Risk Management

The LLP is governed by its members ("Principals") who determine its business strategy and risk appetite. The Principals meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, and business planning and risk management. The Principals manage the LLP's risks through a framework of policies and procedures having regard to relevant laws, standards, principles and rules (including FSA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required.

The Principals have identified business and concentration risks as the main areas of risk to which the LLP is exposed. Annually the Principals formally review the areas of risk to the LLP and identify any new risks that may have arisen and approve the ICAAP. The Principals determine how the risks the LLP faces may be mitigated and assess the arrangements to manage those risks. Where the Principals identify material risks they consider the financial impact of these risks as part of the LLP's business planning and capital management and conclude whether the amount of regulatory capital is adequate.

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Capital Resources

The Pillar 1 capital requirement is the greater of the variable capital requirement and the base capital requirement. The LLP's variable capital requirement exceeds the base capital requirement and therefore constitutes the LLP's Pillar 1 requirement. The variable capital requirement is defined as the higher of the credit risk and market risk capital requirements combined and the fixed overhead requirement. The LLP's credit risk plus market risk is lower than the LLP's fixed overhead requirement, therefore, the LLP's variable capital requirement is equal to the fixed overhead requirement.

Our overall approach to assessing the adequacy of our internal capital is set out as part of our Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP process involves separate consideration of risks in accordance with the Pillar 2 rules. The only material risk identified by the ICAAP was PAAMCO, LLC choosing to close down the LLP for business or regulatory reasons. We estimated the capital required for an orderly wind-up of the company to be below the LLP's requirement under Pillar 1.

The LLP is a Limited Liability Partnership and its capital arrangements are established in its Partnership deed. The LLP's capital position at December 31, 2011 is summarised as follows:

	£
Members' contributed capital	220,500
Other reserves	416,307

Total capital	636,807
	=====

The LLP's capital resources are comprised of core tier one capital only, there are no other items or deductions.

The LLP holds a considerable surplus of capital above the capital requirement.

Remuneration

The LLP must comply with the FSA's Remuneration Code ("the Code"). The purpose of the Code is to ensure that firms have risk focused remuneration policies, which are consistent with and promote effective risk management and do not expose themselves to excessive risk. We have reviewed all existing employment contracts to ensure they comply with the Code.

The Code can be applied in a proportionate way and the LLP is in proportionality tier four. As such Senior Management has determined that the following rules are not proportionate to the LLP and have not implemented these detailed rules:

SYSC 19A 3 44 - Leverage,
SYSC 19A 3 47 - Retained shares and other instruments,
SYSC 19A 3 49 - Deferral, and
SYSC 19A 3 51, 19A 3 52 - Performance adjustment

The LLP's Remuneration Policy has been formally approved and adopted by the LLP's governing body, which will have ultimate responsibility for its implementation. There is a Remuneration Committee based at the group's headquarters in the United States. This Committee determines remuneration levels for all group companies. In setting remuneration levels, the LLP recognises the importance of attracting and retaining experienced, capable staff. The Remuneration Committee has the ability to adjust discretionary bonus amounts.

Where remuneration is performance-related then, in addition to the performance of the individual, the LLP will also take into account the performance of the business unit concerned and the overall results of the firm. Performance assessment will not relate solely to financial criteria but will also include compliance with regulatory obligations and adherence to effective

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risk management In keeping with the LLP's long term objectives, the assessment of performance will take into account longer-term performance

During the year-ended 31st December 2011, the LLP had two Code Staff, both of whom are senior management, who received total aggregate remuneration of £2,520,362.64 Their total aggregate remuneration is made up of salary, discretionary bonuses and entitlements to share of profits Note that there was only one business line in the year under review No sign on or severance payments were made to Code Staff in the year under review