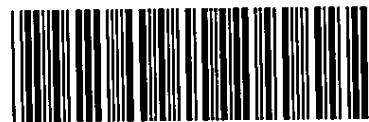


Registered No. OC304607

Pacific Alternative Asset Management Company Europe LLP

**Members' report and Financial Statements
for the year ended 31 December 2013**

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Registered Number OC304607

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

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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

Elizaveta Fridman

Neale Graham Safaty (Resigned 01/01/2013)

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

STRATEGIC REPORT

Business overview

Pacific Alternative Asset Management Company Europe LLP (PAAMCO Europe) was established in 2003. PAAMCO Europe is authorised and regulated by the Financial Conduct Authority, registered with the SEC as a relying advisor and classified as a BIPRU €50,000 limited license firm. PAAMCO Europe is a 92% owned subsidiary of Pacific Alternative Asset Management Company, LLC (PAAMCO LLC) which is headquartered in Irvine, California, USA. PAAMCO LLC is a fund of hedge funds investment manager that constructs, monitors and manages portfolios of hedge funds and provides investment services to institutional investors globally. PAAMCO Europe was created to focus on manager research and European marketing of PAAMCO LLC funds and is currently staffed with 13 people. PAAMCO Europe's sole client is the parent company which currently manages approximately \$9.0 billion in customised portfolios of hedge funds. PAAMCO LLC is registered with the Securities and Exchange Commission ("SEC") and with the Commodities Futures Trading Commission ("CFTC") and is a member of the National Futures Association.

The company's performance for the year is contained in the Members' Report on page 5 which forms part of the Strategic Report.

Principal risks and uncertainties

The principal risks and uncertainties faced by PAAMCO LLP are described below:

- market – the risk of loss of EMEA clients due to movements in financial markets or significant changes in regulatory regimes of countries where PAAMCO Europe conducts marketing activities,
- regulatory – as a regulated business in the UK and US, new regulations may impose undue pressure on the company's infrastructure,
- concentration – with a sole client there could be risk from PAAMCO LLC deciding to close PAAMCO Europe for business reasons.

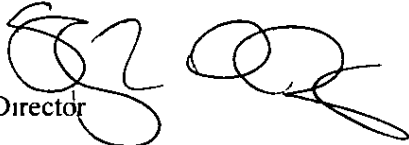
The board of directors is responsible for the overall stewardship of the company. The senior management of PAAMCO Europe are involved in the day to day management of the firm, which includes identifying and responding to risks. The directors seek to mitigate and manage each of these risks through continual review and policy setting.

Key performance indicators

The company uses a number of performance measures to assess its success in meeting its objectives that include:

- EMEA assets under management by PAAMCO LLC, and
- profitability – the current year's results are reported in the Members' Report on page 5.

The Strategic Report was approved by the Board on 17 April 2014 and was signed on its behalf by


Director

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 2013

Results and distributions

The results for the period are shown in the profit and loss account on page 9. The partnership's balance sheet as detailed on page 10 shows a satisfactory position with members' interests amounting to \$77,945 (2012 \$532,541)

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 and 18 July 2013

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

The Partnership Agreement dated 1 August 2003 as amended 28 June 2010 and 18 July 2013 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
Elizaveta Fridman

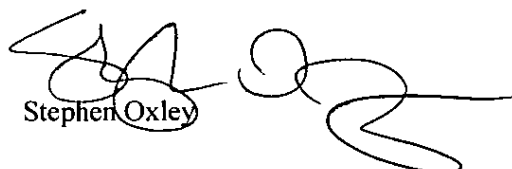
Auditors

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 17 April 2014 and signed on their behalf by


Stephen Oxley

Registered Number OC304607

Statement of Members' responsibilities for the Financial Statements

The members are responsible for preparing the Annual Report and financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice

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). Under company law the Members must not approve the financial statements unless they are satisfied they 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

The members are responsible for keeping adequate accounting records that are sufficient to show and explain the partnership's transactions and disclose with reasonable accuracy at any time the financial position of the limited liability partnership and enable them to ensure that the financial statements comply with the 2008 Regulations. They are also responsible for the systems of internal control and safeguarding the assets of the limited liability partnership, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

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

Registered Number OC304607

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 2013 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 Statement of Members' Responsibilities 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 Financial Reporting Council'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 2013 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Members' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Registered Number OC304607

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

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

17 April 2014

Profit and loss account

For the year ended 31 December 2013

		2013	2012
		\$	\$
	Notes		
Turnover	2		
Marketing fees		1,199,489	1,348,684
'Cost plus' revenue from controlling party		6,934,746	7,499,591
Other		2,021,578	1,202,985
		<u>10,155,813</u>	<u>10,051,260</u>
Expenses			
Administration expenses		(6,116,742)	(5,678,707)
Operating profit	3	<u>4,039,071</u>	<u>4,372,553</u>
Interest receivable		50	53
Profit for the financial year before members' remuneration and profit shares		<u>4,039,121</u>	<u>4,372,606</u>
Members' remuneration charged as an expense		(422,302)	(636,128)
Profit for the financial year available for discretionary division among members	10	<u>3,616,819</u>	<u>3,736,478</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 12 to 20 form an integral part of these Financial Statements

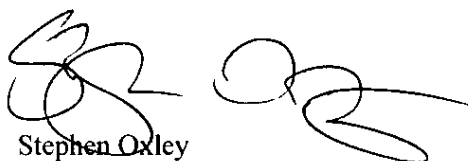
Registered Number OC304607

Balance sheet

as at 31 December 2013

	Notes	2013 \$	2012 \$
Fixed Assets			
Tangible fixed assets	6	293,255	327,486
Current Assets			
Debtors and prepayments	7	360,855	415,870
Cash		600,590	548,982
		<u>961,445</u>	<u>964,852</u>
Current Liabilities			
Creditors falling due within one year	8	(1,102,050)	(619,943)
Net Current Assets		(140,605)	344,909
Creditors falling due in more than one year	8	(74,705)	(139,854)
NET ASSETS ATTRIBUTABLE TO MEMBERS		<u>77,945</u>	<u>532,541</u>
REPRESENTED BY:			
Loans and other debts due to members within one year			
Members' capital classified as a liability		342,855	342,855
Other amounts	9	(311,459)	119,820
		<u>31,396</u>	<u>462,675</u>
Members' other interests			
Members' other interests – other reserves classified as equity	10	46,549	69,866
	10	<u>77,945</u>	<u>532,541</u>
TOTAL MEMBERS' INTERESTS:			
Loans and other debts due to members		31,396	462,675
Members' other interests		46,549	69,866
	10	<u>77,945</u>	<u>532,541</u>

The financial statements were approved by the Designated members on 17 April 2014 and signed on their behalf by



Stephen Oxley

The notes on pages 12 to 20 form an integral part of these Financial Statements

Statement of cash flows
for the year ended 31 December 2013

		2013	2012
		\$	\$
	Notes		
Net cash inflow from operating activities	11	3,496,279	4,172,136
Returns on investments and servicing of finance			
Interest received		50	53
Capital expenditure and financial investment			
Payment to acquire tangible fixed assets		(100,321)	(52,774)
Transactions with members			
Drawings		(3,388,971)	(4,159,706)
Increase/(decrease) in cash		7,037	(40,291)

Reconciliation of net cash flow to movement in net funds

	2013	2012
	\$	\$
Increase/(decrease) in cash in the period	7,037	(40,291)
Translation difference	44,571	(21,583)
Net funds at start of period	548,982	610,856
Net funds at 31 December	600,590	548,982

The notes on pages 12 to 20 form an integral part of these Financial Statements

Notes to the Financial Statements

for the year ended 31 December 2013

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. The financial statements are presented in United States dollars.

Foreign Currency Transactions

The functional currency is the United States dollar as it reflects the primary economic environment in which the entity operates. Transactions in foreign currencies are recorded in the functional currency at the rates ruling at the dates of the transactions. At the end of each reporting year, recorded monetary balances and balances measured at fair value that are denominated in non-functional currencies are reported at the rates ruling at the end of the reporting year and fair value dates respectively. All realised and unrealised exchange adjustment gains and losses are dealt with in profit or loss except when recognized in other comprehensive income.

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 \$82,780, 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.

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Notes to the Financial Statements

for the year ended 31 December 2013

Taxation

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

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'.

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Notes to the Financial Statements

for the year ended 31 December 2013

Going concern

The partnership's business activities, together with the factors likely to affect its future development, principle risks and financial risk management are set out in the Members' Report on page 5

The partnership has considerable financial resources and as a consequence, the partners believe that the partnership is well placed to manage its business risks successfully despite the current uncertain economic outlook

The partners have a reasonable expectation that the partnership has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

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 United Kingdom.

3. Operating profit

This is stated after charging

	2013	2012
	\$	\$
Depreciation	134,552	265,274
Foreign exchange differences	(44,571)	21,583
Auditors' remuneration		
Audit fee	27,720	27,099
Tax services	7,031	7,167
Operating lease rentals	455,611	608,854

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Notes to the Financial Statements

for the year ended 31 December 2013

4. Employees

Average monthly number of employees in the year was 13 (2012 15)

Staff costs

	2013	2012
	\$	\$
Wages and salaries	2,410,969	2,369,665
Pensions	57,524	79,509
National insurance and social security costs	299,190	287,057
	<u>2,767,683</u>	<u>2,736,231</u>

5. Members and their remuneration

The average number of members during the year was 3 (2012 4)

The profit (including remuneration), that is attributable to the member with the largest entitlement to profit (including remuneration), is \$2,718,937 (2012 \$2,096,356) The average profit (including remuneration) per member is \$1,346,374 (2012 \$1,093,152)

Notes to the Financial Statements

for the year ended 31 December 2013

6. Tangible fixed assets

	Computer Equipment \$	Office Equipment, Fixtures and Fittings \$	Leasehold Improvements \$	Total \$
Cost:				
Brought forward	137,601	267,150	789,027	1,193,778
Additions	8,512	-	91,809	100,321
Disposals	(61,380)	-	(436,454)	(497,834)
At 31 December 2013	84,733	267,150	444,382	796,265
Accumulated depreciation:				
Brought forward	105,481	188,471	572,340	866,292
Charge for the period	13,536	30,189	90,827	134,552
Elimination on Disposal	(61,380)	-	(436,454)	(497,834)
At 31 December 2013	57,637	218,660	226,713	503,010
Net book value:				
At 31 December 2012	32,120	78,679	216,687	327,486
At 31 December 2013	27,096	48,490	217,669	293,255

7. Debtors

Amounts falling due in less than one year

	2013 \$	2012 \$
Accounts receivable	-	7,336
VAT	56,777	65,040
Other debtors	5,326	11,173
Prepayments and accrued income	298,752	332,321
	<u>360,855</u>	<u>415,870</u>

There are no balances included that are due greater than one year (2012 \$0)

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Notes to the Financial Statements

for the year ended 31 December 2013

8. Creditors

Amounts falling due within one year

	2013	2012
	\$	\$
Trade creditors	12,820	71,946
Accruals and deferred rental	733,447	500,990
Rent deposit	-	47,007
Retiring member	355,783	-
	<u>1,102,050</u>	<u>619,943</u>

Amounts falling due in more than one year

	2013	2012
	\$	\$
Accrued rent	40,969	139,854
Retiring member	33,736	-
	<u>74,705</u>	<u>139,854</u>

9. Loans and other debts due (from)/to members – other amounts

	2013	2012
	\$	\$
Owed (from)/to members – falling due within one year	<u>(311,459)</u>	<u>119,820</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 2013

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/(from) Members	Members' Total Interests 2013	Members' Total Interests 2012
	\$	\$	\$	\$	\$
At 31 December 2012	69,866	342,855	119,820	532,541	990,172
Payment of 2012 profit to retiring member	-	-	(1,564)	(1,564)	-
2012 supplemental fee adjustment for retiring member	1,304	-	(1,304)	-	-
Transferred to creditors for retiring member	-	-	(383,429)	(383,429)	-
Balance after adjusting for retiring member	71,170	342,855	(266,477)	147,548	990,172
Members' remuneration charged as an expense	-	-	422,302	422,302	636,128
Profit for financial year available for discretionary division among members	3,616,819	-	-	3,616,819	3,736,478
Members' interests after profit for the year	3,687,989	342,855	155,825	4,186,669	5,362,778
Other divisions of profits	(3,641,440)	-	3,641,440	-	-
Drawings	-	-	(3,388,971)	(3,388,971)	(4,159,706)
Other movements	-	-	(719,753)	(719,753)	(670,531)
At 31 December 2013	46,549	342,855	(311,459)	77,945	532,541

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Notes to the Financial Statements for the year ended 31 December 2013

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

	2013	2012
	\$	\$
Operating profit	4,039,071	4,372,553
Gain on foreign exchange	(44,571)	21,583
Depreciation charge	134,552	265,274
(Increase) in debtors	(664,739)	(636,546)
Increase in creditors	31,966	149,272
Net cash inflow from operating activities	<u>3,496,279</u>	<u>4,172,136</u>

12. Related parties

The ultimate controlling party is PAAMCO, LLC incorporated in the United States of America. The LLP charged PAAMCO, LLC \$10,138,903 (2012: \$9,929,116) 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 \$1,982,162 (2012: \$1,325,910) was due from PAAMCO, LLC net of the members' interest.

On 12 December 2012, the LLP entered into a consulting agreement with an entity solely owned by a departing LLP member, to provide consulting services to the LLP. The term of the agreement was from 1 February 2013 through 31 July 2013.

On 1 January 2013, a Member holding a 2.24 percent interest in the LLP resigned as a Member of the LLP. The Member's resignation was a triggering event for PAAMCO, enabling it to exercise its option to purchase the Member's interest in accordance with the LLP Members' Agreement. The resigning Member is entitled to receive the Member's unpaid capital and drawings payable pursuant to the Members' Agreement. In addition, the Member is entitled to receive a trail off profit component pursuant to the Confidentiality, Separation and Consulting Agreement for a period through 31 December 2015. At 31 December 2013, the prior Member's trail off profit payable of \$389,518 is included in the accompanying balance sheet.

Pacific Alternative Asset Management Company Europe LLP

Registered Number OC304607**13. Financial commitments**

As at 31 December 2013 the LLP had annual commitments under non-cancellable operating leases as set out below

	2013		2012	
	Land & Buildings	Other Items	Land & Buildings	Other Items
	\$	\$	\$	\$
Operating leases which expire				
Falling due within one year	-	-	48,099	9,428
In two to five years	528,120	18,025	518,295	8,423
	<u>528,120</u>	<u>18,025</u>	<u>566,394</u>	<u>17,851</u>

14. Foreign currency forward contract

On 7 March 2013 the LLP entered into a foreign currency forward contract with a delivery date of 16 December 2013 related to the foreign currency exposure of a foreign currency denominated transaction in December 2013

**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 7 and 8.**

Registered Number OC304607

Pacific Alternative Asset Management Company Europe LLP

Pillar 3 Disclosure

Introduction

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

The FCA’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 Firm 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 Firm’s underlying risks, risk management controls and capital position

This document is designed to meet the Firm’s Pillar 3 obligations. This Pillar 3 Disclosure is appended to our annual accounts.

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 FCA, the Firm 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 Firm’s annual financial statements.

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

Risk Management

The Firm 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 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 updated as required.

The Principals have identified business risk as the main area of risk to which the Firm is exposed. Annually the Principals formally review the areas of risk to the Firm, identify any new risks that may have arisen and approve the ICAAP. The Principals determine how the risks the Firm 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.

Registered Number OC304607

as part of the Firm's business planning and capital management and conclude whether the amount of regulatory capital is adequate

Capital Resources

The Pillar 1 capital requirement is the greater of the variable capital requirement and the base capital requirement. The Firm's variable capital requirement exceeds the base capital requirement and therefore constitutes the Firm'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 Firm's credit plus market risk is lower than the firm's fixed overheads requirement. Therefore the Firm'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 Pacific Alternative Asset Management Company, LLC, the Firm's parent company, choosing to close down the Firm for business reasons. We estimated the capital required for an orderly wind-up of the company to be below the Firm's requirement under Pillar 1.

The Firm is a Limited Liability Partnership and its capital arrangements are established in its Partnership deed. The Firm's capital position at 31 December 2013 is summarised as follows:

	\$
Members' contributed capital	342,856
Other reserves	2,153,333
Total capital	2,496,189

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

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

Remuneration

The Firm must comply with the FCA'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 Firm is in proportionality Level Three. As such Senior Management has determined that the following rules are not proportionate to the Firm 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

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The Firm's Remuneration Policy has been formally approved and adopted by the Firm'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 Firm 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 Firm 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 risk management. In keeping with the Firm's long term objectives, the assessment of performance will take into account longer-term performance.

During the year-ended 31 December 2013, the Firm had three Code Staff, all of whom are senior management, who received total aggregate remuneration of \$4,272,922. 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.