
Registered No. OC304607

**Pacific Alternative Asset Management
Company Europe LLP**

**Members' report and Financial Statements
for the year ended 31 December 2014**



Registered Number: OC304607

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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REGISTERED OFFICE AND PROFESSIONAL ADVISORS

Designated Members

Pacific Alternative Asset Management Company, LLC

Stephen Edward Oxley (Resigned 01/04/15)

Elizaveta Fridman

Auditors

Grant Thornton UK LLP

30 Finsbury Square

London

EC2P 2YU

Bankers

Marble Arch Corp Banking Group

P.O. Box 32016

London

NW1 2ZH

Registered Office

25 Victoria Street

London

SW1H 0EX

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Members' report

The members present their annual report together with the financial statements of the partnership for the year ended 31 December 2014.

Business overview and principal activities

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 Securities and Exchange Commission ("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 11 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 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 results and distributions section below.

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 \$342,766 (2013: \$77,945).

Principal risks and uncertainties

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

- market – the risk of loss of European, Middle East and Africa (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 if PAAMCO LLC decides to close PAAMCO Europe for business reasons.

The members are responsible for the overall stewardship of the LLP. 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 members seek to mitigate and manage each of these risks through continual review and policy setting.

Key performance indicators

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

- EMEA assets under management by PAAMCO LLC; and
- profitability – the current year's results are reported in the results and distributions section above.

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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 (Resigned 01/04/15)
Elizaveta Fridman

Auditors

The members confirm that:

- so far as each member is 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 as members in order 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 Member on 20 April 2015 and signed on their behalf by:

Elizaveta Fridman



Designated Member

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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 regulations.

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.

The members are responsible for keeping adequate accounting records that 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 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 jurisdictions.

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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 2014 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 6, 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/auditscopeukprivate.

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 2014 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.



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

21 April 2015

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Profit and loss account

For the year ended 31 December 2014

		2014	2013
		\$	\$
	Notes		
Turnover	2		
Marketing fees		718,284	1,199,489
'Cost plus' revenue from controlling party		7,025,034	6,934,746
Other		1,754,889	2,021,578
		<u>9,498,207</u>	<u>10,155,813</u>
Expenses			
Administration expenses		(5,856,855)	(6,116,742)
Operating profit	3	<u>3,641,352</u>	<u>4,039,071</u>
Interest receivable		35	50
Profit for the financial year before members' remuneration and profit shares		<u>3,641,387</u>	<u>4,039,121</u>
Members' remuneration charged as an expense		(418,095)	(422,302)
Profit for the financial year available for discretionary division among members	10	<u><u>3,223,292</u></u>	<u><u>3,616,819</u></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.

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Balance sheet

as at 31 December 2014

	Notes	2014 \$	2013 \$
Fixed Assets			
Tangible fixed assets	6	211,259	293,255
Current Assets			
Debtors and prepayments	7	554,708	360,855
Cash		472,648	600,590
		<u>1,027,356</u>	<u>961,445</u>
Current Liabilities			
Creditors falling due within one year	8	<u>(863,254)</u>	<u>(1,102,050)</u>
Net Current Assets		164,102	(140,605)
Creditors falling due in more than one year	8	(32,595)	(74,705)
NET ASSETS ATTRIBUTABLE TO MEMBERS		<u>342,766</u>	<u>77,945</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	<u>(95,150)</u>	<u>(311,459)</u>
		247,705	31,396
Members' other interests:			
Members' other interests – other reserves classified as equity	10	95,061	46,549
	10	<u>342,766</u>	<u>77,945</u>
TOTAL MEMBERS' INTERESTS:			
Loans and other debts due to members		247,705	31,396
Members' other interests		95,061	46,549
	10	<u>342,766</u>	<u>77,945</u>

The financial statements were approved by the Designated members on 20 April 2015 and signed on their behalf by:


 Elizaveta Fridman
 Designated Member

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

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Statement of cash flows

for the year ended 31 December 2014

		2014	2013
		\$	\$
	Notes		
Net cash inflow from operating activities	11	3,906,460	3,496,279
Returns on investments and servicing of finance			
Interest received		35	50
Capital expenditure and financial investment			
Payment to acquire tangible fixed assets		(9,186)	(100,321)
Transactions with members			
Drawings		(3,934,211)	(3,388,971)
(Decrease)/increase in cash		<u>(36,902)</u>	<u>7,037</u>

Reconciliation of net cash flow to movement in net funds

	2014	2013
	\$	\$
(Decrease)/increase in cash in the period	(36,902)	7,037
Translation difference	(91,040)	44,571
Net funds at start of period	600,590	548,982
Net funds at 31 December	<u>472,648</u>	<u>600,590</u>

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

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Notes to the Financial Statements

for the year ended 31 December 2014

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.

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

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 2014

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 2014

Going concern

The partnership's business activities, together with the factors likely to affect its future development, principal risks and financial risk management are set out in the Members' Report on page 4.

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 three 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, and supplemental fees earned from PAAMCO, LLC. Marketing fees are recognised on a receivable basis. All revenue is derived from continuing activities in the United Kingdom.

3. Operating profit

This is stated after charging:

	2014	2013
	\$	\$
Depreciation	91,182	134,552
Foreign exchange differences	91,040	(44,571)
Auditors' remuneration:		
Audit fee	29,918	27,720
Tax services	7,406	7,031
Operating lease rentals	424,409	455,611

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Notes to the Financial Statements

for the year ended 31 December 2014

4. Employees

Average monthly number of employees in the year was 11 (2013: 13)

Staff costs:

	2014	2013
	\$	\$
Wages and salaries	2,849,308	2,410,969
Pensions	83,281	57,524
National insurance and social security costs	304,751	299,190
	<u>3,237,340</u>	<u>2,767,683</u>

5. Members and their remuneration

The average number of members during the year was 3 (2013: 3).

The profit (including remuneration), that is attributable to the member with the largest entitlement to profit (including remuneration), is \$2,368,891 (2013: \$2,718,937). The average profit (including remuneration) per member is \$1,213,796 (2013: \$1,346,374).

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Notes to the Financial Statements

for the year ended 31 December 2014

6. Tangible fixed assets

	Computer Equipment \$	Office Equipment, Fixtures and Fittings \$	Leasehold Improvements \$	Total \$
Cost:				
Brought forward	84,733	267,150	444,382	796,265
Additions	1,198	3,411	4,577	9,186
Disposals	(21,449)	-	-	(21,449)
At 31 December 2014	<u>64,482</u>	<u>270,561</u>	<u>448,959</u>	<u>784,002</u>
Accumulated depreciation:				
Brought forward	57,637	218,660	226,713	503,010
Charge for the period	12,644	23,998	54,540	91,182
Elimination on Disposal	(21,449)	-	-	(21,449)
At 31 December 2014	<u>48,832</u>	<u>242,658</u>	<u>281,253</u>	<u>572,743</u>
Net book value:				
At 31 December 2013	<u>27,096</u>	<u>48,490</u>	<u>217,669</u>	<u>293,255</u>
At 31 December 2014	<u>15,650</u>	<u>27,903</u>	<u>167,706</u>	<u>211,259</u>

7. Debtors

Amounts falling due in less than one year

	2014 \$	2013 \$
VAT	68,020	56,777
Other debtors	185,829	5,326
Prepayments and accrued income	300,859	298,752
	<u>554,708</u>	<u>360,855</u>

There are no balances included that are due greater than one year (2013: nil).

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Notes to the Financial Statements

for the year ended 31 December 2014

8. Creditors

Amounts falling due within one year

	2014	2013
	\$	\$
Trade creditors	95,693	12,820
Accruals and deferred rent liability	534,920	733,447
Retiring member	232,641	355,783
	<u>863,254</u>	<u>1,102,050</u>

Amounts falling due in more than one year

	2014	2013
	\$	\$
Deferred rent liability	32,595	40,969
Retiring member	-	33,736
	<u>32,595</u>	<u>74,705</u>

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

	2014	2013
	\$	\$
Owed by members – falling due within one year	<u>95,150</u>	<u>311,459</u>

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

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Notes to the Financial Statements

for the year ended 31 December 2014

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 2014	Members' Total Interests 2013
	\$	\$	\$	\$	\$
At 31 December 2013	46,549	342,855	(311,459)	77,945	532,541
Payment of 2012 profit to retiring member	-	-	-	-	(1,564)
Transferred to creditors for retiring member	-	-	-	-	(383,429)
Balance after adjusting for retiring member	46,549	342,855	(311,459)	77,945	147,548
Members' remuneration charged as an expense	-	-	418,095	418,095	422,302
Profit for financial year available for discretionary division among members	3,223,292	-	-	3,223,292	3,616,819
Members' interests after profit for the year	3,269,841	342,855	106,636	3,719,332	4,186,669
Other divisions of profits	(3,174,780)	-	3,174,780	-	-
Drawings	-	-	(3,934,211)	(3,934,211)	(3,388,971)
Other movements	-	-	557,645	557,645	(719,753)
At 31 December 2014	95,061	342,855	(95,150)	342,766	77,945

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Notes to the Financial Statements for the year ended 31 December 2014

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

	2014	2013
	\$	\$
Operating profit	3,641,352	4,039,071
Gain on foreign exchange	91,040	(44,571)
Depreciation charge	91,183	134,552
Decrease/(Increase) in debtors	363,793	(664,739)
(Decrease)/Increase in creditors	(280,908)	31,966
Net cash inflow from operating activities	<u>3,906,460</u>	<u>3,496,279</u>

12. Related parties

The ultimate controlling party is PAAMCO, LLC incorporated in the United States of America. The LLP charged PAAMCO, LLC \$9,498,207 (2013: \$10,113,605) 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 \$1,381,632 (2013: \$1,982,162) was due from PAAMCO, LLC net of the members' interest.

A separation of employment agreement entered into in 2014 has \$235,246 due in 2015 which has been included in current liabilities in the accompanying balance sheet.

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 2014, the prior Member's trail off profit payable of \$232,641 is included in the accompanying balance sheet.

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13. Financial commitments

As at 31 December 2014 the LLP had annual commitments under non-cancellable operating leases as set out below.

	2014		2013	
	Land & Buildings	Other Items	Land & Buildings	Other Items
	\$	\$	\$	\$
Operating leases which expire:				
Falling due within one year	-	3,365	-	-
In two to five years	497,316	10,406	528,120	18,025
	<u>497,316</u>	<u>14,444</u>	<u>528,120</u>	<u>18,025</u>

14. Subsequent event

On and effective 1 January, 2015, PAAMCO, LLC entered into a Deed of Assignment with a member to transfer and assign all of its rights and interests in \$833 of its "B Capital", to be redesignated as "A Capital" and then be assigned to the member in consideration of \$833 from the member to PAAMCO, LLC.

In addition, on and effective 1 January, 2015, the LLP entered into the Fifth 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 8.12 percent for the supplemental fee and further amend the member percentage allocations.

On 20 March, 2015, PAAMCO LLC entered into a Deed of Assignment with a member to transfer and assign all of its rights and interests in \$330 of its "B Capital", to be redesignated as "A Capital" and then be assigned to the member in consideration of \$330 from the member to PAAMCO, LLC.

In addition, on 1 March, 2015, the LLP entered into the Sixth 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 8.22 percent for the supplemental fee and further amend the member percentage allocations.

On March 19, 2015 and effective 1 April, 2015, PAAMCO LLC entered into a Deed of Assignment with a member to transfer and assign all of the member's rights and interests in \$17,468 of its "A Capital", to be redesignated as "B Capital" and then be assigned to PAAMCO in consideration of \$17,468 from PAAMCO, LLC to the member.

In addition, on March 19, 2015 and effective 1 April, 2015, the LLP entered into the Seventh 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 2.85 percent for the supplemental fee and further amend the member percentage allocations.

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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 7 and 8.

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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

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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 December 31, 2014 is summarised as follows:

	\$
Members' contributed capital	342,855
Other reserves	2,193,518

Total capital	2,536,373
	=====

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 31st December 2014, the Firm had three Code Staff, all of whom are senior management, who received total aggregate remuneration of \$3,815,365. 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.