

Registered No. OC304607

Pacific Alternative Asset Management Company Europe LLP

**Members' report and Financial Statements
for the year ended 31 December 2017**

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Registered Number: OC304607

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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REGISTERED OFFICE AND PROFESSIONAL ADVISORS

Designated Members

Pacific Alternative Asset Management Company, LLC
Elizaveta Fridman
Stephen Oxley

Auditors

Grant Thornton UK LLP
30 Finsbury Square
London
EC2P 2YU

Bankers

Barclays Bank PLC
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 2017.

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 96% 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 provides manager research and European marketing of PAAMCO LLC funds. PAAMCO Europe also provides services for investment research, trade facilitation and execution, daily trade reconciliation, and other miscellaneous client services and support to PAAMCO LLC. PAAMCO Europe is currently staffed with 13 people. PAAMCO Europe's sole client is the parent company which currently manages approximately \$8.9 billion in discretionary assets under management. 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 partnership's performance for the year is contained in the results and distributions section below.

Results and distributions

The results for the year are shown in the profit and loss account on page 10. The partnership's balance sheet as detailed on page 11 shows a satisfactory position with members' interests amounting to \$1,537,931 (2016: \$1,494,091).

Principal risks and uncertainties

The principal risks and uncertainties faced by PAAMCO Europe 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, new regulations may impose undue pressure on the partnership'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.

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Key performance indicators

The LLP 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 results and distributions section above.

Members' profit allocation

Any profits are shared among the members and governed by the Partnership Agreement most recently dated 04 September 2017 with effect from 04 September 2017.

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

The Partnership Agreement dated 04 September 2017 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
Elizaveta Fridman
Stephen Edward Oxley

This Members' Report was approved by the Designated Member on 12 April 2018 and signed on their behalf by:

Elizaveta Fridman



Designated Member

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Members' Responsibilities Statement 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.

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.

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

Opinion

We have audited the financial statements of Pacific Alternative Asset Management Company Europe LLP (the 'limited liability partnership') for the year ended 31 December 2017 which comprise the profit and loss account, the balance sheet, the statement of cash flows and the related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the limited liability partnership's affairs as at 31 December 2017 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the limited liability partnership in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the limited liability partnership's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as applied to limited liability partnerships. Our audit work has been undertaken so that we might state to the limited liability partnership's 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 limited liability partnership and the limited liability partnership's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the members' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the members have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the limited liability partnership's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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Other information

The members are responsible for the other information. The other information comprises the information included in the members report set out on pages 3-6, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of members for the financial statements

As explained more fully in the members' responsibilities statement 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, and for such internal control as the members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the members are responsible for assessing the limited liability partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the members either intend to liquidate the limited liability partnership or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Grant Thornton UK LLP

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

12 April 2018

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Profit and loss account

For the year ended 31 December 2017

		2017	2016
		\$	\$
	Notes		
Turnover	3		
Marketing fees		223,807	434,665
'Cost plus' revenue from controlling party		7,074,792	9,115,717
Other		566,687	272,213
		<u>7,865,286</u>	<u>9,822,595</u>
Expenses			
Administration expenses		(6,048,465)	(8,243,629)
Operating profit	4	<u>1,816,821</u>	<u>1,578,966</u>
Interest receivable		14	45
Profit for the financial year before members' remuneration and profit shares		<u>1,816,835</u>	<u>1,579,011</u>
Members' remuneration charged as an expense		(252,888)	(194,781)
Profit for the financial year available for discretionary division among members	11	<u>1,563,947</u>	<u>1,384,230</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 21 form an integral part of these Financial Statements.

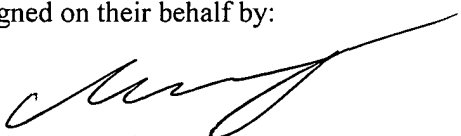
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Balance sheet

as at 31 December 2017

		2017 \$	2016 \$
	Notes		
Fixed Assets			
Tangible fixed assets	7	82,979	88,470
Current Assets			
Debtors and prepayments	8	195,655	457,008
Amounts due from members	11	963,121	2,589,331
Cash		534,859	313,329
		<u>1,693,635</u>	<u>3,569,668</u>
Current Liabilities			
Creditors falling due within one year	9, 13	<u>(238,683)</u>	<u>(1,954,047)</u>
Net Current Assets		1,454,952	1,405,621
NET ASSETS ATTRIBUTABLE TO MEMBERS		<u>1,537,931</u>	<u>1,494,091</u>
REPRESENTED BY:			
Loans and other debts due to members within one year:			
Members' capital classified as a liability	11	342,855	342,855
Other amounts	11	621,054	456,620
		<u>963,909</u>	<u>799,475</u>
Members' other interests:			
Members' other interests – other reserves classified as equity	11	574,022	694,616
		<u>1,537,931</u>	<u>1,494,091</u>
TOTAL MEMBERS' INTERESTS:			
Loans and other debts due to members		963,909	799,475
Members' other interests	11	574,022	694,616
Amounts due from members	11	<u>(963,121)</u>	<u>(2,589,331)</u>
		<u>574,810</u>	<u>(1,095,240)</u>

The financial statements were approved by the Designated members on 12 April 2018 and signed on their behalf by:



Elizaveta Fridman
Designated Member

The notes on pages 12 to 21 form an integral part of these Financial Statements.

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Statement of cash flows

for the year ended 31 December 2017

		2017	2016
		\$	\$
	Notes		
Net cash inflow from operating activities	12	1,241,868	2,682,561
Returns on investments and servicing of finance			
Interest received		14	45
Capital expenditure and financial investment			
Payment to acquire tangible fixed assets		(36,967)	(9,616)
Transactions with members			
Drawings		(1,078,379)	(2,683,006)
Increase / (Decrease) in cash		<u>126,536</u>	<u>(10,016)</u>

Reconciliation of net cash flow to movement in net funds

	2017	2016
	\$	\$
Decrease in cash in the period	126,536	(10,016)
Translation difference	94,994	(23,579)
Net funds at start of period	313,329	346,924
Net funds at 31 December	<u>534,859</u>	<u>313,329</u>

The notes on pages 12 to 21 form an integral part of these Financial Statements.

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Notes to the Financial Statements

for the year ended 31 December 2017

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention, and in accordance with applicable accounting standards including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, 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 2017

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 102. 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 2017

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. Key judgements

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods. No key judgements, estimates or assumptions have been identified.

3. Turnover

Turnover, which is stated net of Value Added Tax, is derived from several sources:

- research services, trading, internal audit and internal control services provided to PAAMCO, LLC charged on a 'cost plus' basis,

- marketing fees earned on all fees received by PAAMCO, LLC from clients solicited by LLP at twenty percent of fees received by PAAMCO LLC for the period 1 January, 2017 through 30 September, 2017 and on 'cost plus' basis for period 1 October, 2017 through 31 December, 2017,

- supplemental fees earned from PAAMCO, LLC

- cost sharing revenue received from Prisma Capital Partners, LP ("Prisma") on a cost plus basis

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Notes to the Financial Statements

for the year ended 31 December 2017

4. Operating profit

This is stated after charging:

	2017	2016
	\$	\$
Depreciation	42,457	72,476
Foreign exchange differences	(94,994)	23,579
Auditors' remuneration:		
Audit fee	20,003	20,002
FCA compliance fees	7,768	9,999
Tax services	7,172	6,673
Operating lease rentals	689,773	521,398

5. Employees

Average monthly number of employees in the year was 13 (2016: 13)

Staff costs:

	2017	2016
	\$	\$
Wages and salaries	2,160,453	1,766,145
Pensions	51,766	40,311
National insurance and social security costs	288,485	214,097
	<u>2,500,704</u>	<u>2,020,553</u>

6. Members and their remuneration

The average number of members during the year was 3 (2016: 2).

The profit (including remuneration), that is attributable to the member with the largest entitlement to profit (including remuneration), is \$819,452 (2016: \$910,790). The average profit (including remuneration) per member is \$605,612 (2016: \$789,505).

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Notes to the Financial Statements

for the year ended 31 December 2017

7. Tangible fixed assets

	Computer Equipment \$	Office Equipment, Fixtures and Fittings \$	Leasehold Improvements \$	Total \$
Cost:				
Brought forward	68,110	275,765	454,826	798,701
Additions	7,927	15,472	13,568	36,967
Disposals	(11,930)	(2,444)	-	(14,374)
At 31 December 2017	<u>64,107</u>	<u>288,793</u>	<u>468,394</u>	<u>821,294</u>
Accumulated depreciation:				
Brought forward	49,360	263,994	396,878	710,232
Charge for the period	6,222	5,923	30,312	42,457
Elimination on Disposal	(11,930)	(2,444)	-	(14,374)
At 31 December 2016	<u>43,652</u>	<u>267,473</u>	<u>427,190</u>	<u>738,315</u>
Net book value:				
At 31 December 2016	<u>18,750</u>	<u>11,771</u>	<u>57,949</u>	<u>88,470</u>
At 31 December 2017	<u>20,455</u>	<u>21,320</u>	<u>41,204</u>	<u>82,979</u>

8. Debtors

Amounts falling due in less than one year

	2017 \$	2016 \$
Accounts receivable	8,318	76
VAT	24,099	77,149
Other debtors	1,942	2,405
Prepayments and accrued income	<u>161,296</u>	<u>377,378</u>
	<u>195,655</u>	<u>457,008</u>

There are no balances included that are due greater than one year (2016: nil).

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Notes to the Financial Statements

for the year ended 31 December 2017

9. Creditors

Amounts falling due within one year

	2017	2016
	\$	\$
Trade creditors	89,422	47,101
Amounts due to group undertakings	-	1,563,514
Accruals and deferred rent liability	149,261	235,386
Post-retirement payments to be made to former members	-	108,046
	<u>238,683</u>	<u>1,954,047</u>

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

	2017	2016
	\$	\$
Owed to members – falling due within one year	<u>583,163</u>	<u>456,620</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 2017

11. 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 2017	Members' Total Interests 2016
	\$	\$	\$	\$	\$
Amounts due to members	-	-	456,620	-	-
Amounts due from members	-	-	(2,589,331)	-	-
At 31 December 2016	694,616	342,855	(2,132,711)	(1,095,240)	(1,167,963)
Payment of 2016 profit to retiring member	-	-	-	-	(3,329)
Balance after adjusting for retiring member	694,616	342,855	(2,132,711)	(1,095,240)	(1,171,292)
Members' remuneration charged as an expense	-	-	252,888	252,888	194,781
Profit for financial year available for discretionary division among members	1,563,947	-	-	1,563,947	1,384,230
Members' interests after profit for the year	2,258,563	342,855	(1,879,823)	721,596	407,719
Other divisions of profits	(1,684,541)	-	1,684,541	-	-
Drawings	-	-	(1,078,379)	(1,078,379)	(2,683,006)
Other movements	-	-	931,594	931,594	1,180,047
At 31 December 2017	574,022	342,855	(342,067)	574,810	(1,095,240)
Amounts due to members	-	-	621,054	-	-
Amounts due from members	-	-	(963,121)	-	-
At 31 December 2017	-	-	(342,067)	-	-

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

	2017	2016
	\$	\$
Profit before discretionary division	1,563,947	1,384,230
Interest receivable	(14)	(45)
Members' remuneration charged as an expense	252,888	194,781
Loss on foreign exchange	(94,994)	23,579
Depreciation charge	42,457	72,476
Decrease in debtors	1,192,949	1,217,745
Decrease in creditors	(1,715,365)	(210,205)
Net cash inflow from operating activities	1,241,868	2,682,561

13. Related parties

For the period 1 January, 2017 through 31 May, 2017, the ultimate controlling party was PAAMCO, LLC incorporated in the United States of America. On 1 June, 2017, KKR & Co. L.P and PAAMCO LLC completed a business combination of PAAMCO, LLC and Prisma to create PAAMCO Prisma Holdings, LLC ("PAAMCO Prisma"). As of 1 June, 2017, PAAMCO Prisma became the ultimate controlling party for the LLP. PAAMCO Prisma is incorporated in the United States of America. Prisma reimburses the LLP for certain office space expenses.

On 19 June, 2017 and effective as of 14 August, 2017, the LLP entered into a Sub-Outsourcing Agreement with PAAMCO, LLC, to provide internal audit and internal control services to PAAMCO Miren Portfoy Yonetimi A.S., a subsidiary of PAAMCO, LLC. The services are charged to PAAMCO, LLC on a 'cost plus' basis.

The LLP charged PAAMCO, LLC \$7,865,287 (2016: \$9,822,595) during the period for research, trading, internal audit and internal control services (charged on a 'cost plus' basis), marketing fees and supplemental fees. The transactions were conducted on an arm's length basis. At 31 December, 2017 the receivable of \$963,121 (2016: \$2,589,331) was due from PAAMCO, LLC net of the members' interest.

On 18 November, 2015, the LLP entered into an Investment Management Delegation Agreement (IMD Agreement) with PAAMCO LLC to provide services for certain investment management, trading desk and administrative services. At 31 December, 2017, the receivable of \$67,246 related to the IMD Agreement is included in the accompanying balance sheet which consists of cost plus revenue relating to the three entities of \$67,246.

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On 4 September, 2017, PAAMCO, LLC and a LLP member entered into a Deed of Assignment with a new member to transfer and assign all of its rights and interests in \$6,171 and \$686 of its 'B' and 'A' capital, respectively. The B capital to be transferred was re-designated as 'A' capital and along with the other 'A' capital from the other member was assigned to the new member in consideration of \$6,857 from the new member to the existing members.

In addition, on 4 September, 2017, the LLP entered into the Amended and Restated Agreement to the Solicitation and Sub-Advisor Agreement with PAAMCO, LLC. This agreement amends the supplemental fee terms to a percentage of 8.83 percent for LLP and further amends the members' supplemental fee percentage allocations.

14. Financial commitments

As at 31 December 2017 the LLP had annual commitments under non-cancellable operating leases as set out below.

	2017		2016	
	Land & Buildings	Other Items	Land & Buildings	Other Items
	\$	\$	\$	\$
Operating leases which expire:				
Falling due within one year	484,632	13,728	537,535	362
In two to five years	1,938,529	8,138	-	32,597
	<u>2,423,162</u>	<u>21,866</u>	<u>537,535</u>	<u>32,959</u>

15. Foreign currency forward contract

On 5 April, 2017 the LLP entered into a foreign currency forward contract with a delivery date of 13 December, 2017 related to the foreign currency exposure of a foreign currency denominated transaction in December 2017. The forward contract was recognised at fair value in the balance sheet and revalued monthly, with any exchange differences arising being recognised in the profit and loss account.

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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 9.

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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 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 as part of the Firm’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 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 document ("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 minimum capital 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, 2017 is summarised as follows:

	\$
Members' contributed capital	342,855
Other reserves	1,413,029

Total capital	1,755,884
	=====

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, in-line with FCA guidance. As such, Senior Management has determined that the following rules are not proportionate to the Firm and have not implemented these detailed rules:

SYSC 19C.3.44 – Ratios between fixed and variable remuneration;
SYSC 19C.3.47 - Retained shares and other instruments;
SYSC 19C.3.49 - Deferral; and
SYSC 19C.3.51, 19C.3.52 - Performance adjustment.

The Firm's Remuneration Policy has been formally approved and adopted by the Firm's governing body, which has ultimate responsibility for its implementation. There is also 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

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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, 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.

The Firm had a total of four Code Staff during the year-ended 31 December 2017. Three Code Staff were senior management, receiving a total aggregate remuneration of \$1,452,562, made up of salary, discretionary bonuses and entitlements to share of profits. The fourth member of Code Staff, who acted in the capacity of a risk taker for the Firm's direct trading unit, received a total aggregate remuneration of \$256,411. No sign-on or severance payments were made to Code Staff in the year under review.