

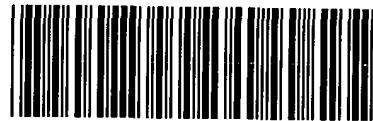
**Limited Liability Partnership Registration No. OC330201 (England and Wales)**

**CAPSTONE INVESTMENT ADVISORS (UK) LLP**

**ANNUAL REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

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# CAPSTONE INVESTMENT ADVISORS (UK) LLP

## LIMITED LIABILITY PARTNERSHIP INFORMATION

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<b>Designated members</b>	P Britton Capstone Investment Advisors LLC
<b>Limited liability partnership number</b>	OC330201
<b>Registered office</b>	4th Floor 21 Great Winchester Street London EC2N 2JA
<b>Auditors</b>	Frank Hirth & Co LLP 1st Floor 236 Gray's Inn Road London WC1X 8HB
<b>Bankers</b>	Barclays Bank PLC London Corporate Service Centre PO Box 46116 London EC4N 8WB  JPMorgan Chase Bank, N.A. - London Branch Registered Branch Office 25 Bank Street London United Kingdom E14 5JP

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# **CAPSTONE INVESTMENT ADVISORS (UK) LLP**

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# **CAPSTONE INVESTMENT ADVISORS (UK) LLP**

## **MEMBERS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

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The members present their report and financial statements for the year ended 31 December 2014.

### **Principal activities and review of the business**

The principal activity of Capstone Investment Advisors (UK) LLP ('the limited liability partnership') is to establish investment management relationships and to provide investment management services. The limited liability partnership is regulated by the Financial Conduct Authority as a BIPRU firm.

### **Fair review of the business**

Capstone Investment Advisors (UK) LLP ('the limited liability partnership') is regulated by the Financial Conduct Authority as a BIPRU firm.

The designated members were pleased with the performance of the limited liability partnership. A number of positive developments in the business contributed to the improvement in the financial position of the limited liability partnership at the year end. The members foresee revenue and profit growth in the subsequent years.

The limited liability partnership operates a treasury function, which is responsible for managing the liquidity, interest and foreign currency risks associated with the limited liability partnership's activities. The limited liability partnership's financial risk management objectives are therefore to minimise the key financial risks through having clearly defined terms of business with counterparties and stringent credit control over transactions with them, whilst regularly monitoring cash flow and management accounts to ensure the limited liability partnership maintains adequate working capital. The limited liability partnership manages its cash and borrowing requirements in order to ensure the limited liability partnership has sufficient liquid resources to meet the operating needs of the business.

The limited liability partnership's principal foreign currency exposures arise from its revenue-sharing relationship with its US-based parent, and with overseas vendors who may require payment in currencies other than the base currency. The limited liability partnership policy permits but does not demand that these exposures may be hedged in order to fix the cost in sterling.

All securities investing and trading activities risk the loss of capital. The limited liability partnership operates strict risk management controls including regular risk meetings to mitigate that risk. However, as with all industry sectors, general economic conditions and competitor activity may have an adverse effect on the limited liability partnership's results.

As a provider of service, the limited liability partnership is dependent on its human resources. By concentrating time and financial resources on recruitment, training and development programs, the members hope to minimise the risk of excessive staff movements and loss of key personnel.

The limited liability partnership relies heavily on the supply of information technology development and support from its parent company; any delays or interruptions in software development could unfavourably affect its performance.

### **Designated members**

The following designated members have held office since 1 January 2014:

P Britton  
Capstone Investment Advisors LLC

# **CAPSTONE INVESTMENT ADVISORS (UK) LLP**

## **MEMBERS' REPORT (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

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### **Policy on members' drawings and capital**

The members' drawing policy allows each member to draw a proportion of their profit share, subject to the cash requirements of the business.

A member's capital requirement is linked to their share of profit and the financing requirement of the limited liability partnership. There is no opportunity for appreciation of the capital subscribed. Just as incoming members introduce their capital at "par", so members are repaid their capital at "par".

### **Members' interests**

During the year discretionary profits of £2,812,742 were allocated to members.

### **Statement of members' responsibilities**

The members are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the members to prepare financial statements for each financial year. Under that law the members have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the limited liability partnership and of the profit or loss of the limited liability partnership for that year. 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, and statements of recommended practice have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 limited liability partnership's transactions and disclose with reasonable accuracy at any time the financial position of the limited liability partnership and to enable them to ensure that the financial statements comply with the Companies Act 2006 (as applied by The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008). 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.

On behalf of the members

P Britton  
Designated member

31 March 2015



## **INDEPENDENT AUDITORS' REPORT**

### **TO THE MEMBERS OF CAPSTONE INVESTMENT ADVISORS (UK) LLP**

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We have audited the financial statements of Capstone Investment Advisors (UK) LLP for the year ended 31 December 2014 set out on pages 4 to 15. 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).

#### **Respective responsibilities of the members and auditors**

As explained more fully in the Members' Responsibilities Statement set out on pages 1 - 2, 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 Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the limited liability partnership's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the members; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **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 31 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.

#### **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.

**Nicola Anne Jones FCCA (Senior Statutory Auditor)**  
for and on behalf of Frank Hirth & Co LLP  
**Statutory Auditor**  
London

31 March 2015

1st Floor  
236 Gray's Inn Road  
London  
WC1X 8HB

# CAPSTONE INVESTMENT ADVISORS (UK) LLP

## PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £	2013 £
Turnover	2	10,443,259	8,528,767
Cost of sales		(264,244)	(287,646)
<b>Gross profit</b>		10,179,015	8,241,121
Administrative expenses		(5,940,830)	(1,120,036)
<b>Operating profit</b>	3	4,238,185	7,121,085
Other interest receivable and similar income	4	-	93
<b>Profit for the financial year before members' remuneration and profit shares</b>		4,238,185	7,121,178
<b>Profit for the financial year before members' remuneration and profit shares</b>		4,238,185	7,121,178
Members' remuneration charged as an expense	13	(1,425,443)	(1,236,828)
<b>Retained profit for the financial year available for discretionary division among members</b>		2,812,742	5,884,350

The profit and loss account for the current and comparative periods have been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account for the current and comparative periods.

# CAPSTONE INVESTMENT ADVISORS (UK) LLP

## BALANCE SHEET

AS AT 31 DECEMBER 2014

	Notes	2014 £	£	2013 £	£
<b>Fixed assets</b>					
Tangible assets	5		223,971		100,258
<b>Current assets</b>					
Debtors: amounts falling due within one year	6	7,250,513		8,547,449	
Debtors: amounts falling due after more than one year	6	100,756		100,756	
Cash at bank and in hand		361,437		1,973,786	
		7,712,706		10,621,991	
<b>Creditors: amounts falling due within one year</b>	7	(678,511)		(429,107)	
<b>Net current assets</b>			7,034,195		10,192,884
<b>Total assets less current liabilities</b>			7,258,166		10,293,142
<b>NET ASSETS ATTRIBUTABLE TO MEMBERS</b>			7,258,166		10,293,142
<b>REPRESENTED BY:</b>					
<b>Loans and other debts due to members within one year</b>					
Other amounts	9		1,355,676		4,370,652
			1,355,676		4,370,652
<b>Members' other interests:</b>					
Members' capital	9		5,902,490		5,922,490
			7,258,166		10,293,142
<b>TOTAL MEMBERS' INTERESTS</b>					
Amounts due from members	6	(6,346,209)		(3,745,747)	
Loans and other debts due to members	9	1,355,676		4,370,652	
Members' other interests	9	5,902,490		5,922,490	
			911,957		6,547,395

Approved by the members and authorised for issue on 31 March 2015

P Britton  
Designated member

Limited Liability Partnership Registration No. OC330201 (England and Wales)



# CAPSTONE INVESTMENT ADVISORS (UK) LLP

## CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

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	£	2014 £	£	2013 £
<b>Net cash inflow from operating activities</b>		8,429,867		5,720,522
<b>Capital expenditure</b>				
Payments to acquire tangible assets	(168,593)		(8,649)	
<b>Net cash outflow for capital expenditure</b>		(168,593)		(8,649)
<b>Transactions with members and former members</b>				
Payments to members	(9,893,623)		(8,871,560)	
Contributions by members	20,000		2,834,835	
<b>Net cash outflow for transactions with members and former members</b>		(9,873,623)		(6,036,725)
<b>Net cash outflow before management of liquid resources and financing</b>		(1,612,349)		(324,852)
<b>Decrease in cash in the year</b>		(1,612,349)		(324,852)

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# CAPSTONE INVESTMENT ADVISORS (UK) LLP

## NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

1	Reconciliation of operating profit to net cash outflow from operating activities		2014	2013	
			£	£	
	Operating profit		4,238,185	7,121,085	
	Depreciation of tangible assets		44,880	51,860	
	Decrease/(increase) in debtors		3,897,398	(630,038)	
	Increase/(decrease) in creditors within one year		249,404	(822,385)	
	Net cash inflow from operating activities		8,429,867	5,720,522	
2	Analysis of net funds	1 January 2014	Cash flow	Other non-cash changes	31 December 2014
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	1,973,786	(1,612,349)	-	361,437
	Net funds	1,973,786	(1,612,349)	-	361,437
3	Reconciliation of net cash flow to movement in net funds		2014	2013	
			£	£	
	Decrease in cash in the year		(1,612,349)	(324,852)	
	Movement in net funds in the year		(1,612,349)	(324,852)	
	Opening net funds		1,973,786	2,298,638	
	Closing net funds		361,437	1,973,786	

# CAPSTONE INVESTMENT ADVISORS (UK) LLP

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

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### 1 Accounting policies

#### 1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

#### 1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Limited Liability Partnership Statement of Recommended Practice, which have been applied consistently throughout the year.

#### 1.3 Turnover

Turnover represents the fair value of services provided during the period. Turnover is recognised as contract activity progresses and the right to consideration is earned. Fair value reflects the amount expected to be recoverable and is based on services provided and expenses incurred, but excludes VAT.

#### 1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Leasehold land and buildings	over 7 years on a straight line basis
Plant and machinery	over 5 years at 20% per annum on a straight line basis
Fixtures, fittings and equipment	over 5 years at 20% per annum on a straight line basis

#### 1.5 Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

#### 1.6 Pensions

The limited liability partnership contributes to personal pension schemes of certain individual employees. Contributions payable are charged to the profit and loss account in the year they are payable.

#### 1.7 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

#### 1.8 Members' remuneration and equity

A member's share in the profit or loss for the year is accounted for when profits are allocated. Unallocated profits and losses are included within other reserves. The treatment of members' remuneration in the profit and loss account is determined by reference to the nature of the participation rights that give rise to the remuneration. If the members' remuneration gives rise to a liability it is charged as an expense. Amounts subscribed or otherwise contributed by members are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity capital. Equity capital is any capital that is repayable to the member only at the discretion of the limited liability partnership.

# CAPSTONE INVESTMENT ADVISORS (UK) LLP

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

### 2 Turnover

#### Geographical market

	Turnover 2014 £	2013 £
United States of America	10,443,259	8,416,621
Europe	-	112,146
	<u>10,443,259</u>	<u>8,528,767</u>

### 3 Operating profit

	2014 £	2013 £
Operating profit is stated after charging:		
Depreciation of tangible assets	44,880	51,860
Loss on foreign exchange transactions	91,596	78,912
Operating lease rentals	92,691	128,737
	<u>43,365</u>	<u>40,677</u>

#### Auditors' remuneration

Fees payable to the LLP's auditor for the audit of the LLP's annual accounts	28,500	28,000
Taxation	7,250	2,980
Other services	7,615	9,697
	<u>43,365</u>	<u>40,677</u>

### 4 Investment income

	2014 £	2013 £
Bank interest	-	93
	<u>-</u>	<u>93</u>

# CAPSTONE INVESTMENT ADVISORS (UK) LLP

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

### 5 Tangible fixed assets

	Leasehold land and buildings £	Plant and machinery £	Fixtures, fittings and equipment £	Total £
<b>Cost</b>				
At 1 January 2014	301,720	137,979	36,498	476,197
Additions	164,057	4,536	-	168,593
At 31 December 2014	465,777	142,515	36,498	644,790
<b>Depreciation</b>				
At 1 January 2014	225,277	123,286	27,376	375,939
Charge for the year	33,745	7,225	3,910	44,880
At 31 December 2014	259,022	130,511	31,286	420,819
<b>Net book value</b>				
At 31 December 2014	206,755	12,004	5,212	223,971
At 31 December 2013	76,443	14,693	9,122	100,258

### 6 Debtors

	2014 £	2013 £
Trade debtors	213,893	215,654
Amounts due from members	6,346,209	3,745,747
Other debtors	753,837	4,609,435
Prepayments and accrued income	37,330	77,369
	<u>7,351,269</u>	<u>8,648,205</u>
Amounts falling due after more than one year and included in the debtors above are:		
	2014 £	2013 £
Other debtors	<u>100,756</u>	<u>100,756</u>

# CAPSTONE INVESTMENT ADVISORS (UK) LLP

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

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<b>7</b>	<b>Creditors: amounts falling due within one year</b>	<b>2014</b>	<b>2013</b>
		<b>£</b>	<b>£</b>
	Trade creditors	129,689	27,653
	Other creditors	238,479	225,086
	Accruals and deferred income	310,343	176,368
		<u>678,511</u>	<u>429,107</u>

### **8 Retirement benefits**

#### **Defined contribution scheme**

The limited liability partnership contributes to personal pension schemes of certain individual employees. The assets of the schemes are held separately from those of the limited liability partnership in independently administered funds. There were outstanding contributions totalling £10,644 at the year end (2013: £nil).

	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
Contributions payable by the limited liability partnership for the year	<u>10,644</u>	<u>1,404</u>

# CAPSTONE INVESTMENT ADVISORS (UK) LLP

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

### 9 Members' interests

	Members' other interests		Loans and other debts due to/(from) members		Total	2013
	Members' capital (classified as equity)	Other reserves	Total			
	£	£	£	£	£	£
Amount due to members				4,370,652		
Amount due from members				(3,745,747)		
Members' interests at 1 January 2014	5,922,490	-	5,922,490	624,905	6,547,395	5,462,942
Members' remuneration charged as an expense, including employment costs and retirement benefit costs	-	-	-	1,425,443	1,425,443	1,236,828
Profit for the financial year available for discretionary division among members	-	2,812,742	2,812,742	-	2,812,742	5,884,350
Members' interests after profit for the year	5,922,490	2,812,742	8,735,232	2,050,348	10,785,580	12,584,120
Other divisions of profits	-	(2,812,742)	(2,812,742)	2,812,742	-	-
Introduced by members	-	-	-	-	-	2,834,835
Repayments of capital	(20,000)	-	(20,000)	-	(20,000)	(5,000)
Drawings	-	-	-	(7,248,255)	(7,248,255)	(8,866,560)
Other movements	-	-	-	(2,605,368)	(2,605,368)	-
Members' interests at 31 December 2014	5,902,490	-	5,902,490	(4,990,533)	911,957	6,547,395
Amounts due to members				1,355,676		
Amounts due from members, included in debtors				(6,346,209)		
				(4,990,533)		

Other movements includes trading balances and cash movements with the corporate designated member.

# CAPSTONE INVESTMENT ADVISORS (UK) LLP

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

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10	Loans and other debts due to members	2014 £	2013 £
	Amounts owed to members in respect of profits	1,355,676	4,370,652
		<u>1,355,676</u>	<u>4,370,652</u>

In the event of a winding up the amounts included in "Loans and other debts due to members" will rank equally with unsecured creditors.

### 11 Financial commitments

At 31 December 2014 the limited liability partnership was committed to making the following payments under non-cancellable operating leases in the year 31 December 2015:

	Land and buildings	
	2014 £	2013 £
Operating leases which expire:		
In over five years	390,384	150,195
	<u>390,384</u>	<u>150,195</u>

The annual commitment above includes rent free periods expiring during 2015.

A charge has been registered at Companies House securing the rent deposit of £100,756 (2013: £100,756), included in debtors, which would crystallise should the company breach the terms of the rental agreement.

12	Capital commitments	2014 £	2013 £
	At 31 December 2014 the limited liability partnership had capital commitments as follows:		
	Contracted for but not provided in the financial statements	693,572	-
		<u>693,572</u>	<u>-</u>



# CAPSTONE INVESTMENT ADVISORS (UK) LLP

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

13 Information in relation to members	2014 £	2013 £
Remuneration to members charged as an expense	1,425,443	1,236,828
	<u>1,425,443</u>	<u>1,236,828</u>

	2014 Number	2013 Number
The average number of members during the year was:	10	9
	<u>10</u>	<u>9</u>

	2014 £	2013 £
The share of profit to the member with the largest entitlement was:	1,221,375	1,727,305
	<u>1,221,375</u>	<u>1,727,305</u>

### 14 Transactions with members

During the year the limited liability partnership provided management services to Capstone Investment Advisors LLC totalling £9,986,299 (2013: £7,358,226).

During the year £3,902,314 (2013: £nil) was charged from Capstone Investment Advisors LLC in relation to services provided on mutually managed funds.

### 15 Employees

#### Number of employees

The average monthly number of employees during the year was:

	2014 Number	2013 Number
	15	8
	<u>15</u>	<u>8</u>

#### Employment costs

	£	£
Wages and salaries	1,135,021	547,905
Social security costs	142,289	59,933
Other pension costs	10,644	1,404
	<u>1,287,954</u>	<u>609,242</u>

# **CAPSTONE INVESTMENT ADVISORS (UK) LLP**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

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### **16 Control**

The ultimate controlling party is P Britton (2013: P Britton) by virtue of his interest in the designated member, Capstone Investment Advisors LLC, a company incorporated in the United States of America (2013: Capstone Investment Advisors LLC).

### **17 Related party transactions**

Included in debtors at the year end were amounts due from Capstone Fund Services LLC of £355,955 (2013: £4,478,662), an affiliated company in which P Britton has an interest.

Turnover for the year includes performance fees sharing from Capstone Fund Services LLC of £nil (2013: £1,058,395).

Included in debtors at the year end were amounts due from an affiliated company Capstone Volatility Master (Cayman) Limited of £254,190 (2013: £nil) and in creditors at the year end were amounts due to totalling £226,555 (2013: £215,143), a company in which P Britton has an interest, and is managed by Capstone Investment Advisors, LLC and the limited liability partnership. During the year the limited liability partnership was reimbursed for wages, benefits and other payroll costs of £456,960 (2013: £nil) by Capstone Volatility Master (Cayman) Limited for the provision of IT services.



**Capstone Investment Advisors (UK), LLP**  
**Pillar 3 Disclosure and Policy**

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**(This statement is not part of the audited financial statements and therefore has not been subject to review or audit by the limited liability partnership auditors)**

# Capstone Investment Advisors (UK), LLP

## Pillar 3 Disclosure and Policy

### Introduction

#### *Regulatory Context*

The Pillar 3 disclosure of Capstone Investment Advisors (UK), LLP ("the Firm") is set out below as required by the Financial Conduct Authority (FCA)'s "Prudential Sourcebook for Banks, Building Societies and Investment Firms" (BIPRU), specifically BIPRU 11.3.3 R. This follows the introduction of the Capital Requirements Directive ("CRD") which represents the European Union's application of the Basel Capital Accord. The regulatory aim of the disclosures is to improve market discipline. Defined terms used herein shall have the meaning ascribed to such terms in the FCA Handbook.

The FCA framework consists of three "Pillars":

- Pillar 1 sets out the minimum capital amount that meets the firm's credit, market and operational risk;
- Pillar 2 requires the firm to assess whether its Pillar 1 capital is adequate to meet its risks and is subject to annual review by the FCA; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet our Pillar 3 obligations.

The Firm makes Pillar 3 disclosures annually, via our annual accounts. This disclosure is made for the year ended 31 December 2014.

#### *Verification*

The information contained in this document has not been audited by the Firm's external auditors and does not constitute any form of financial statement and must not be relied upon in making any judgments about the Firm.

#### *Materiality*

The Firm regards information in disclosures as material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If the Firm deems a certain disclosure to be immaterial, it may be omitted from this statement.

# Capstone Investment Advisors (UK), LLP

## Pillar 3 Disclosure and Policy

### *Confidentiality*

The Firm regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm's investments therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

### **Scope and Application of the Requirements**

The Firm is authorised and regulated by the Financial Conduct Authority and as such is subject to minimum regulatory capital requirements. The Firm is categorised as a limited licence firm by the FCA for capital purposes. It is an investment management firm and as such has no trading book exposures.

The Firm is an independent investment manager based in the UK. The Firm, along with Capstone Investment Advisors, LLC, currently manages two separate trading vehicles and two managed accounts.

### **The Firm**

The Firm has a Management Committee that is responsible for the direction and strategy of the Firm together with assessing the general well-being of the Firm. The Management Committee is made up of five members and generally meets monthly. The Management Committee discusses current projections for profitability, cash flow, regulatory capital management and business planning and risk management. The Management Committee manages the firm's risks through a framework of policy 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, but are reviewed at least annually.

The Management Committee has identified the material risks of the Firm as the following:

- Market Risk;
- Operational Risk; and
- Reputational Risk.

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The Firm has assessed these material risks in its ICAAP and set out appropriate actions to manage them.

In addition to these material risks, the Management Committee has considered the following risks:

- Liquidity Risk – The Firm carries no principal positions. Pursuant to the liquidity standards set out in BIPRU 12, the Firm has implemented a Liquidity Policy to ensure that it maintains liquidity resources which are adequate, both to amount and quality, so that there is no significant risk that its liabilities cannot be met as they fall due.
- Securitisation Risk - The Firm is not involved in any securitisation arrangements;
- Insurance Risk – The Firm maintains property, business interruption, D&O and key man insurance;
- Pension obligation risk – All employee pensions are defined contribution;
- Concentration risk - No concentrations exist; and
- Interest rate risk – The Firm is cash positive and is not reliant upon (and does take into account in budgets) interest income, nor does it hold any floating rate debt.

Annually the Management Committee formally reviews the risks, controls and other risk mitigation arrangements and assesses their effectiveness. Where the Management Committee identifies material risks, it considers the financial impact of these risks as part of the Firm's business planning and capital management and determines whether the amount of regulatory capital is adequate.

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#### Capital resources

The main features of the Firm's Capital Resources at 31 December 2014 are as follows:

Capital Item	£'000s
Tier 1 capital less innovative tier 1 capital	5,902
Tier 2 capital	-
Tier 3 capital	-
Total capital resources, net of deductions	5,902

The Firm's market risk is limited to foreign exchange risk on its accounts receivable in foreign currency, and credit risk from management and performance fees receivable from the funds under its management. The Firm follows the standardised approach to market risk and the simplified standard approach to credit risk. The Firm is subject to the Fixed Overhead Requirement and is not required to calculate an operational risk capital charge, though it considers this as part of its process to identify the level of risk-based capital required.

As discussed above the Firm is a limited licence firm and as such its capital requirements are the greater of:

- Its base capital requirement of €50,000; or
- The sum of its market and credit risk requirements; or
- Its Fixed Overhead Requirement.

We have not identified credit risk exposure classes or the minimum capital requirements for market risk as we believe that they are immaterial.

It is the Firm's experience that the Fixed Overhead Requirement establishes its capital requirements and hence market and credit risks are considered not to be material.

### **Remuneration**

The Firm has adopted a remuneration policy that complies with the requirements of chapter 19A of the FCA's Senior Management Arrangements, Systems and Controls Sourcebook (SYSC), as interpreted in accordance with the FCA's guidance publication entitled "General Guidance on Proportionality: The Remuneration Code (SYSC 19A) & Pillar 3 Disclosures on Remuneration (BIPRU 11)" and subsequent items of guidance issued by the FCA, including its document entitled "Frequently Asked Questions on the Remuneration Code". As a BIPRU limited licence firm which has no other BIPRU firms within its corporate group, the Firm falls within proportionality level 3.

The Firm's Compensation Committee, which is comprised of senior management, is responsible for determining the Firm's Remuneration Policy Statement (the "Policy"). The Policy is reviewed annually to ensure that it continues to adhere to its objective of dis-incentivising inappropriate risk taking and enables a clear alignment of interests to be maintained between investors in client funds and stakeholders in the firm. Other control functions, such as Risk, Compliance and HR, contribute to this review. Remuneration is linked to both financial and non-financial performance, and may include a direct participation in the Firm's investment funds subject to multiple year lock-up periods as a long-term incentive.

The Firm only has one "business area", which is its investment management business. Most of the Firm's Code Staff fall into the "senior management" category of Code Staff (rather than the "risk taker" category) for the purposes of the Remuneration Code. During the 2014 reporting year, the Firm's Code Staff totalled Five, of which One were in a "Significant Influence Function" and Six were in a "Control Function".

The aggregate "remuneration" (as defined in the FCA Rules) awarded to the Firm's Code Staff during the financial year ending on 31 December 2014 was £3.7m.