

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

**CAPSTONE INVESTMENT ADVISORS (UK), LLP**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

TUESDAY



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

## **LIMITED LIABILITY PARTNERSHIP INFORMATION**

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**Designated members** Capstone Investment Advisors, LLC  
T Stott

**Limited liability partnership number** OC330201

**Registered office** 1st Floor  
10 New Burlington Street  
London  
W1S 3BE

**Auditors** Frank Hirth & Co LLP  
1st Floor  
236 Gray's Inn Road  
London  
WC1X 8HB

**Bankers** 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

Bank of America  
2 King Edward Street  
London  
EC1A 1HQ

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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 2016**

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The members present their Annual Report and financial statements for the year ended 31 December 2016.

#### **Principal activities**

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.

#### **Designated members**

The designated members who held office during the year and up to the date of signature of the financial statements were as follows:

Capstone Investment Advisors, LLC

T Stott

(Appointed 14 November 2016)

D Sugasa

(Resigned 14 November 2016)

#### **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 £12,095,499 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 period. In preparing these financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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 and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the limited liability partnership will continue in business.

The members are responsible for keeping adequate accounting records that are sufficient to show and explain the limited liability partnership's transactions and disclose with reasonable accuracy at any time the financial position of the limited liability partnership and enable them to ensure that the financial statements comply with the 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.

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

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

**FOR THE YEAR ENDED 31 DECEMBER 2016**

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On behalf of the members



J Lucas, signing on behalf of  
Capstone Investment Advisors, LLC  
**Designated member**

22 February 2017



## **INDEPENDENT AUDITOR'S 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 2016 set out on pages 5 to 18. 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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 by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. 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.

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

As explained more fully in the Members' Responsibilities Statement set out on page 1, 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 2016 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.



## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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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.

A handwritten signature in black ink, appearing to read "Nicola Jones", with a small flourish at the end.

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

22 February 2017

Statutory Auditors

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

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

## **STATEMENT OF COMPREHENSIVE INCOME (INCLUDING THE PROFIT AND LOSS ACCOUNT)**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

|   | Notes    | 2016<br>£   | 2015<br>£   |
|---|----------|-------------|-------------|
| <b>Turnover</b>   | <b>3</b> | 18,842,788  | 13,381,218  |
| Cost of sales   |          | (1,886,894) | (265,905)   |
| <b>Gross profit</b>   |          | 16,955,894  | 13,115,313  |
| Administrative expenses   |          | (3,843,400) | (5,014,344) |
| <b>Operating profit</b>   | <b>4</b> | 13,112,494  | 8,100,969   |
| <b>Profit for the financial year before members' remuneration and profit shares</b>     |          | 13,112,494  | 8,100,969   |
| Members' remuneration charged as an expense   | <b>8</b> | (1,016,995) | (1,167,695) |
| <b>Profit for the financial year available for discretionary division among members</b> |          | 12,095,499  | 6,933,274   |
| <b>Total comprehensive income for the year</b>  |          | 12,095,499  | 6,933,274   |

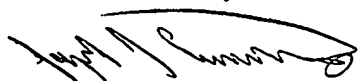
# CAPSTONE INVESTMENT ADVISORS (UK), LLP

## BALANCE SHEET

AS AT 31 DECEMBER 2016

|   | Notes | 2016<br>£          | £                 | 2015<br>£          | £                 |
|---|-------|--------------------|-------------------|--------------------|-------------------|
| <b>Fixed assets</b>                                   |       |                    |                   |                    |                   |
| Tangible assets                                       | 9     |                    | 1,071,538         |                    | 1,088,191         |
| <b>Current assets</b>                                 |       |                    |                   |                    |                   |
| Debtors   | 11    | 5,389,314          |                   | 9,783,534          |                   |
| Cash at bank and in hand                              |       | 13,503,852         |                   | 2,173,657          |                   |
|   |       | <u>18,893,166</u>  |                   | <u>11,957,191</u>  |                   |
| <b>Creditors: amounts falling due within one year</b> | 12    | <u>(2,453,874)</u> |                   | <u>(1,436,504)</u> |                   |
| <b>Net current assets</b>                             |       |                    | 16,439,292        |                    | 10,520,687        |
| <b>Total assets less current liabilities</b>          |       |                    | <u>17,510,830</u> |                    | <u>11,608,878</u> |
| <b>Net assets attributable to members</b>             |       |                    | <u>17,510,830</u> |                    | <u>11,608,878</u> |
| <b>Represented by:</b>                                |       |                    |                   |                    |                   |
| <b>Loans and other debts due to members</b>           | 13    |                    |                   |                    |                   |
| Amounts due in respect of profits                     |       |                    | 11,618,340        |                    | 5,711,388         |
| <b>Members' other interests</b>                       | 13    |                    |                   |                    |                   |
| Members' capital classified as equity                 |       |                    | 5,892,490         |                    | 5,897,490         |
|   |       |                    | <u>17,510,830</u> |                    | <u>11,608,878</u> |
| <b>Total members' interests</b>                       | 13    |                    |                   |                    |                   |
| Amounts due from members                              |       |                    | (4,664,181)       |                    | (8,412,975)       |
| Loans and other debts due to members                  |       |                    | 11,618,340        |                    | 5,711,388         |
| Members' other interests                              |       |                    | 5,892,490         |                    | 5,897,490         |
|   |       |                    | <u>12,846,649</u> |                    | <u>3,195,903</u>  |

The financial statements were approved by the members and authorised for issue on 22 February 2017 and are signed on their behalf by:



J Lucas, signing on behalf of  
Capstone Investment Advisors, LLC  
Designated member

Limited Liability Partnership Registration No. OC330201

# CAPSTONE INVESTMENT ADVISORS (UK), LLP

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

|  | Notes | Members' capital<br>£ | Other reserves<br>£ | Total<br>£   |
|--|-------|-----------------------|---------------------|--------------|
| <b>Balance at 1 January 2015</b>                   |       | 5,902,490             | -                   | 5,902,490    |
| Profit and total comprehensive income for the year |       | -                     | 6,933,274           | 6,933,274    |
| Members' capital introduced                        | 13    | 10,000                | -                   | 10,000       |
| Members' capital redeemed                          | 13    | (15,000)              | -                   | (15,000)     |
| Profit allocations                                 |       | -                     | (6,933,274)         | (6,933,274)  |
| <b>Balance at 31 December 2015</b>                 |       | 5,897,490             | -                   | 5,897,490    |
| Profit and total comprehensive income for the year |       | -                     | 12,095,499          | 12,095,499   |
| Members' capital redeemed                          | 13    | (5,000)               | -                   | (5,000)      |
| Profit allocations                                 |       | -                     | (12,095,499)        | (12,095,499) |
| <b>Balance at 31 December 2016</b>                 |       | 5,892,490             | -                   | 5,892,490    |

# CAPSTONE INVESTMENT ADVISORS (UK), LLP

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

|  | Notes | 2016<br>£   | £ | 2015<br>£   | £ |
|--|-------|-------------|---|-------------|---|
| <b>Cash flows from operating activities</b>  |       |             |   |             |   |
| Cash generated from operations   | 20    | 14,946,113  |   | 8,328,130   |   |
| <b>Investing activities</b>  |       |             |   |             |   |
| Purchase of tangible fixed assets  |       | (154,170)   |   | (1,138,615) |   |
| <b>Net cash used in investing activities</b>   |       | (154,170)   |   | (1,138,615) |   |
| <b>Financing activities</b>  |       |             |   |             |   |
| Capital introduced by members (classified as debt or equity)                               |       | 3,360,897   |   | 10,000      |   |
| Repayment of capital or debt to members  |       | (5,000)     |   | (15,000)    |   |
| Payments to members that represent a return on amounts subscribed or otherwise contributed |       | (6,817,645) |   | (5,372,295) |   |
| <b>Net cash used in financing activities</b>   |       | (3,461,748) |   | (5,377,295) |   |
| <b>Net increase in cash and cash equivalents</b>   |       | 11,330,195  |   | 1,812,220   |   |
| Cash and cash equivalents at beginning of year   |       | 2,173,657   |   | 361,437     |   |
| <b>Cash and cash equivalents at end of year</b>  |       | 13,503,852  |   | 2,173,657   |   |

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

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

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### **1 Accounting policies**

#### **Limited liability partnership information**

Capstone Investment Advisors (UK), LLP is a limited liability partnership incorporated in England and Wales. The registered office is 1st Floor, 10 New Burlington Street, London, W1S 3BE.

The limited liability partnerships's principal activities are disclosed in the Members' Report.

#### **1.1 Accounting convention**

These financial statements have been prepared in accordance with the Statement of Recommended Practice "Accounting by Limited Liability Partnerships" issued in July 2014, together with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the limited liability partnership. Monetary amounts in these financial statements are rounded to the nearest pound.

The financial statements, which are those of Capstone Investment Advisors (UK), LLP as an individual entity, have been prepared on the historical cost convention. The principal accounting policies adopted are set out below.

The financial statements of the limited liability partnership are drawn up to 31 December each year.

#### **1.2 Going concern**

At the time of approving the financial statements, the members have a reasonable expectation that the limited liability partnership has adequate resources to continue in operational existence for at least one year from the signing of these financial statements. Thus the members continue to adopt the going concern basis of accounting in preparing the financial statements.

#### **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 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 section 22 of FRS 102. A member's participation rights including amounts subscribed or otherwise contributed by members, for example members' capital, are classed as liabilities unless the LLP has an unconditional right to refuse payment to members, in which case they are classified as equity.

All amounts due to members that are classified as liabilities are presented within 'Loans and other debts due to members' and, where such an amount relates to current year profits, they are recognised within 'Members' remuneration charged as an expense' in arriving at the relevant year's result. Unallocated amounts that are classified as equity are shown within 'Members' other interests'. Amounts recoverable from members are presented as debtors and shown as amounts due from members within members' interests.

Once an unavoidable obligation has been created in favour of members through allocation of profits or other means, any undrawn profits remaining at the reporting date are shown as 'Loans and other debts due to members' to the extent they exceed debts due from a specific member.

# CAPSTONE INVESTMENT ADVISORS (UK), LLP

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

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### 1 Accounting policies (Continued)

#### 1.5 Tangible fixed assets

Tangible fixed assets are initially measured at cost, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

|                                    |                                       |
|------------------------------------|---------------------------------------|
| Short leasehold land and buildings | over the life of the lease            |
| Plant and machinery                | over 5 years on a straight line basis |
| Fixtures, fittings and equipment   | over 5 years on a straight line basis |

The profit or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is recognised in the profit and loss account.

#### 1.6 Impairment of fixed assets

At each reporting date fixed assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying value. If the estimated recoverable amount is lower, the carrying value is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying value of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

#### 1.7 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

#### 1.8 Debtors and creditors

##### **Debtors**

Short term debtors are measured at transaction price, less any impairment. Loans and other debtors receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

##### **Creditors**

Short term trade creditors and other current creditors payable on demand are measured at the transaction price. Other financial liabilities, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

#### 1.9 Taxation

The taxation payable on the partnership profits is solely the personal liability of the individual members. Consequently, neither partnership taxation nor related deferred taxation arising in respect of the partnership are accounted for in these financial statements.

#### 1.10 Employee benefits

The cost of holiday pay entitlement is recognised in the period in which the employee's services are rendered.

Termination benefits are recognised immediately as an expense when the limited liability partnership is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

# CAPSTONE INVESTMENT ADVISORS (UK), LLP

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

### 1 Accounting policies (Continued)

#### 1.11 Retirement benefits and post retirement payments

The company 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.

#### 1.12 Leases

Rentals payable under operating leases, including any lease incentives received, are charged to the profit and loss account on a straight line basis over the term of the relevant lease.

#### 1.13 Foreign exchange

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 on the date of the transaction. All differences are taken to the profit and loss account.

#### 1.14 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.

### 2 Judgements and key sources of estimation uncertainty

In the application of the limited liability partnership's accounting policies, the members 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.

### 3 Turnover

An analysis of the limited liability partnership's turnover is as follows:

|                                       | 2016<br>£  | 2015<br>£  |
|---------------------------------------|------------|------------|
| <b>Turnover</b>                       |            |            |
| Income from the rendering of services | 18,842,788 | 13,381,218 |

#### Turnover analysed by geographical market

|                          | 2016<br>£  | 2015<br>£  |
|--------------------------|------------|------------|
| United States of America | 18,842,788 | 13,381,218 |

# CAPSTONE INVESTMENT ADVISORS (UK), LLP

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

### 4 Operating profit

|   | 2016    | 2015    |
|---|---------|---------|
|   | £       | £       |
| Operating profit for the year is stated after charging/(crediting): |         |         |
| Exchange losses   | 3,429   | 210,596 |
| Depreciation of owned tangible fixed assets                         | 170,823 | 103,230 |
| Loss on disposal of tangible fixed assets                           | -       | 36,669  |
| Operating lease charges   | 599,491 | 610,991 |

### 5 Auditor's remuneration

|  | 2016   | 2015   |
|--|--------|--------|
|  | £      | £      |
| Fees payable to the LLP's auditors and associates: |        |        |
| <b>For audit services</b>                          |        |        |
| Audit of the LLP's financial statements            | 32,375 | 34,400 |
| <b>For other services</b>                          |        |        |
| Taxation compliance services                       | 11,270 | 18,624 |
| All other non-audit services                       | 830    | 1,430  |
|  | 12,100 | 20,054 |

### 6 Employees

The average number of persons (excluding members) employed by the partnership during the year was:

|                | 2016   | 2015   |
|----------------|--------|--------|
|                | Number | Number |
| Advisory       | 3      | 6      |
| Administration | 21     | 16     |
|                | 24     | 22     |

Staff costs for the above persons:

|                       | 2016      | 2015      |
|-----------------------|-----------|-----------|
|                       | £         | £         |
| Wages and salaries    | 3,348,416 | 2,036,899 |
| Social security costs | 443,208   | 256,501   |
| Pension costs         | 29,143    | 26,598    |
|                       | 3,820,767 | 2,319,998 |

# CAPSTONE INVESTMENT ADVISORS (UK), LLP

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

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### 7 Retirement benefit schemes

#### Defined contribution schemes

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 an independently administered fund.

The charge to profit or loss in respect of defined contribution schemes was £29,143 (2015 - £26,598).

### 8 Members' remuneration

|  | 2016<br>Number   | 2015<br>Number   |
|--|------------------|------------------|
| The average number of members during the year was              | 7                | 9                |
|  | <u>7</u>         | <u>9</u>         |
|  | 2016<br>£        | 2015<br>£        |
| Profit attributable to the member with the highest entitlement | 6,817,977        | 3,518,013        |
|  | <u>6,817,977</u> | <u>3,518,013</u> |
|  | 2016<br>£        | 2015<br>£        |
| Remuneration under participation rights                        | 1,016,995        | 1,167,695        |
|  | <u>1,016,995</u> | <u>1,167,695</u> |

# CAPSTONE INVESTMENT ADVISORS (UK), LLP

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

### 9 Tangible fixed assets

|                                    | Short<br>leasehold land<br>and buildings<br>£ | Plant and<br>machinery<br>£ | Fixtures,<br>fittings and<br>equipment<br>£ | Total<br>£ |
|------------------------------------|---|-----------------------------|---|------------|
| <b>Cost</b>                        |   |                             |   |            |
| At 1 January 2016                  | 895,591                                       | 85,392                      | 262,297                                     | 1,243,280  |
| Additions                          | 19,675  | -                           | 134,495                                     | 154,170    |
| At 31 December 2016                | 915,266                                       | 85,392                      | 396,792                                     | 1,397,450  |
| <b>Depreciation and impairment</b> |   |                             |   |            |
| At 1 January 2016                  | 62,225  | 68,841                      | 24,023                                      | 155,089    |
| Depreciation charged in the year   | 95,881  | 5,445                       | 69,497                                      | 170,823    |
| At 31 December 2016                | 158,106                                       | 74,286                      | 93,520                                      | 325,912    |
| <b>Carrying amount</b>             |   |                             |   |            |
| At 31 December 2016                | 757,160                                       | 11,106                      | 303,272                                     | 1,071,538  |
| At 31 December 2015                | 833,366                                       | 16,551                      | 238,274                                     | 1,088,191  |

### 10 Financial instruments

|   | 2016<br>£ | 2015<br>£ |
|---|-----------|-----------|
| <b>Carrying amount of financial assets</b>      |           |           |
| Debt instruments measured at amortised cost     | 339,415   | 988,484   |
| <b>Carrying amount of financial liabilities</b> |           |           |
| Measured at amortised cost                      | 50,135    | 842,310   |

### 11 Debtors

|   | 2016<br>£ | 2015<br>£ |
|---|-----------|-----------|
| <b>Amounts falling due within one year:</b> |           |           |
| Trade debtors                               | -         | 217,541   |
| Amounts due from members                    | 4,664,181 | 8,412,975 |
| Other debtors                               | 428,279   | 855,303   |
| Prepayments and accrued income              | 296,854   | 297,715   |
|   | 5,389,314 | 9,783,534 |

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

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)** **FOR THE YEAR ENDED 31 DECEMBER 2016**

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### **12 Creditors: amounts falling due within one year**

|                                    | <b>2016</b>      | <b>2015</b>      |
|------------------------------------|------------------|------------------|
|                                    | <b>£</b>         | <b>£</b>         |
| Trade creditors                    | 20,992           | 130,977          |
| Other taxation and social security | 336,072          | -                |
| Other creditors                    | 29,143           | 711,333          |
| Accruals and deferred income       | 2,067,667        | 594,194          |
|                                    | <u>2,453,874</u> | <u>1,436,504</u> |

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

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

**FOR THE YEAR ENDED 31 DECEMBER 2016**

### **13 Reconciliation of members' Interests**

|  | EQUITY                                     |                |              | DEBT  |             | TOTAL              |
|--|--|----------------|--------------|---|-------------|--------------------|
|  | Members' other interests                   |                |              | Loans and other debts due to members less any amounts due from members in debtors |             | MEMBERS' INTERESTS |
|  | Members' capital<br>(classified as equity) | Other reserves | Total        | Other amounts   | Total       | Total 2016         |
|  | £  | £              | £            | £   | £           | £                  |
| Amount due to members  |  |                |              | 5,711,388   |             |                    |
| Amount due from members  |  |                |              | (8,412,975)   |             |                    |
| Members' interests at 1 January 2016   | 5,897,490                                  | -              | 5,897,490    | (2,701,587)   | (2,701,587) | 3,195,903          |
| Members' remuneration charged as an expense, including employment costs and retirement benefit costs | -  | -              | -            | 1,016,995   | 1,016,995   | 1,016,995          |
| Profit for the financial year available for discretionary division among members                     | -  | 12,095,499     | 12,095,499   | -   | -           | 12,095,499         |
| Members' interests after profit and remuneration for the year  | 5,897,490                                  | 12,095,499     | 17,992,989   | (1,684,592)   | (1,684,592) | 16,308,397         |
| Allocation of profit for the financial year  | -  | (12,095,499)   | (12,095,499) | 12,095,499  | 12,095,499  | -                  |
| Repayments of capital  | (5,000)                                    | -              | (5,000)      | -   | -           | (5,000)            |
| Drawings   | -  | -              | -            | (6,817,645)   | (6,817,645) | (6,817,645)        |
| Other movements (net funds injected)   | -  | -              | -            | 3,360,897   | 3,360,897   | 3,360,897          |
| Members' interests at 31 December 2016   | 5,892,490                                  | -              | 5,892,490    | 6,954,159   | 6,954,159   | 12,846,649         |
| Amounts due to members   |  |                |              | 11,618,340  |             |                    |
| Amounts due from members, included in debtors  |  |                |              | (4,664,181)   |             |                    |
|  |  |                |              | 6,954,159   |             |                    |

# CAPSTONE INVESTMENT ADVISORS (UK), LLP

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

### 14 Loans and other debts due to members

|   | 2016<br>£  | 2015<br>£ |
|---|------------|-----------|
| <b>Analysis of loans</b>                                  |            |           |
| Amounts falling due within one year in respect of profits | 11,618,340 | 5,711,388 |

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

Any reduction in members' other interests are subject to approval by the limited liability partnership's managing committee.

### 15 Operating lease commitments

#### Lessee

At the reporting end date the limited liability partnership had outstanding commitments for future minimum lease payments under non-cancellable rental operating leases, which fall due as follows:

|                            | 2016<br>£        | 2015<br>£        |
|----------------------------|------------------|------------------|
| Within one year            | 682,640          | 682,640          |
| Between two and five years | 1,251,507        | 1,934,147        |
|                            | <u>1,934,147</u> | <u>2,616,787</u> |

### 16 Financial commitments, guarantees and contingent liabilities

On 23 July 2015 the limited liability partnership assigned a rental lease expiring 3 February 2019 to a third party tenant. The third party tenant is liable for rental payments of £150,195 per year. Should the third party tenant default on any rental payments, the limited liability partnership would be liable for this debt.

### 17 Related party transactions

At the balance sheet date £337,223 (2015: £761,490) is included in debtors and £Nil (2015: £243,216) is included in creditors in relation to balances owing from companies in which the ultimate controlling party has an interest. These amounts are interest free, unsecured and repayable on demand.

During the year the limited liability partnership was reimbursed £828,941 (2015: £842,672) for employee costs in relation to the provision of IT services from a company in which the ultimate controlling party has an interest.

### 18 Members' transactions

During the year the limited liability partnership provided management services to Capstone Investment Advisors, LLC totaling £17,961,640 (2015: £12,485,802).

During the year £Nil (2015: £845,334) was charged from Capstone Investment Advisors, LLC in relation to services provided on mutually managed funds.

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

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

**FOR THE YEAR ENDED 31 DECEMBER 2016**

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### **19 Controlling party**

The ultimate controlling party is P Britton (2015: P Britton) by virtue of his interest in the designated member, Capstone Investment Advisors, LLC, a company incorporated in the United States of America (2015: Capstone Investment Advisors, LLC).

| <b>20 Cash generated from operations</b>             | <b>2016</b>       | <b>2015</b>      |
|--|-------------------|------------------|
|  | <b>£</b>          | <b>£</b>         |
| Profit for the year                                  | 13,112,494        | 8,100,969        |
| Adjustments for:                                     |                   |                  |
| (Gain)/loss on disposal of tangible fixed assets     | -                 | 36,669           |
| Depreciation and impairment of tangible fixed assets | 170,823           | 103,230          |
| Movements in working capital:                        |                   |                  |
| Decrease/(increase) in debtors                       | 645,426           | (231,003)        |
| Increase in creditors                                | 1,017,370         | 318,265          |
| <b>Cash generated from operations</b>                | <b>14,946,113</b> | <b>8,328,130</b> |

# **Capstone Investment Advisors (UK), LLP**

## **Pillar 3 Risk Disclosure**

### **Year Ended 31 December 2016**

#### ***Introduction***

Capstone Investment Advisors (UK), LLP ("CIA UK" or the Firm) is required by the FCA to disclose information relating to the capital it holds and each material category of risk it faces in order to assist users of its accounts and to encourage market discipline.

The Capital Requirements Directive (CRD) created a revised regulatory capital framework across Europe covering how much capital financial services firms must retain. In the United Kingdom, rules and guidance are provided in the General Prudential Sourcebook (GENPRU) for Banks, Building Societies and Investments Firms (BIPRU).

The FCA framework consists of three "Pillars":

- Pillar 1 sets out the minimum capital requirements that companies need to retain to meet their credit, market and operational risk;
- Pillar 2 requires companies to assess whether their Pillar 1 capital is adequate to meet their risks and is subject to annual review by the FCA;
- Pillar 3 requires companies to develop a set of disclosures which will allow market participants to assess key information about its underlying risks, risk management controls and capital position. These disclosures are seen as complimentary to Pillar 1 and Pillar 2.

Rule 11 of BIPRU sets out the provisions for Pillar 3 disclosure. The rules provide that companies may omit one or more of the required disclosures if such omission is regarded as immaterial. Information is considered material if its omission or misstatement could change or influence the decision of a user relying on the information. In addition, companies may also omit one or more of the required disclosures where such information is regarded as proprietary or confidential. The Firm believes that the disclosure of this document meets its obligation with respect to Pillar 3.

#### ***Firm Overview***

CIA UK is incorporated in the UK and is authorised and regulated by the FCA as an Investment Management Firm. CIA UK's activities give it the BIPRU categorisation of a "Limited Licence" and a "BIPRU" firm.

The Governing Body of CIA UK has the daily management and oversight responsibility. It generally meets quarterly and is composed of:

- Adam Bensley (CF10)
- Thomas Stott (CF4, CF11)
- Kannan Niththyananthan (CF4, CF30)
- John Moffatt (CF4, CF30)

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The Governing Body is responsible for the entire process of risk management, as well as forming its own opinion on the effectiveness of the process. In addition, the Governing Body decides CIA UK's risk appetite or tolerance for risk and ensures that CIA UK has implemented an effective, ongoing process to identify risks, to measure its potential impact and then to ensure that such risks are actively managed. Senior Management is accountable to the Governing Body for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of CIA UK.

***Capital Resources and Requirements***

***Capital Resources***

***Pillar 1***

As at 31 December 2016, the Firm on a solo basis held regulatory capital resources of £5,892,490, comprised solely of core Tier 1 capital of members' original capital contributions.

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**Year Ended 31 December 2016**

The Firm's capital requirements are the greater of:

- Its base capital requirement of €50,000;
- The sum of its market and credit risk requirements; or
- Its fixed overhead requirement (FOR).

As at 31 December 2016, the Firm's Pillar 1 capital requirement was £1,111,220.

***Satisfaction of Capital Requirements***

***Pillar 2***

The Firm has adopted the "Structured" approach to the calculation of its Pillar 2 Minimum Capital Requirement as outlined in the Committee of European Banking Supervisors Paper, 27 March 2006 which takes the higher of Pillar 1 and 2 as the ICAAP capital requirement. It has assessed Business Risks by modeling the effect on its capital planning forecasts and assessed Operational Risk by considering if Pillar 2 capital is required taking into account the adequacy of its mitigation.

Since the Firm's Internal Capital Adequacy Assessment Process (ICAAP or Pillar 2) process has not identified capital to be held *over* and *above* the Pillar 1 requirement, the capital resources detailed above are considered adequate to continue to finance the Firm *over* the next year. No additional capital injections are considered necessary and the Firm expects to continue to be profitable.

***Risk Management***

The Firm has established a risk management process in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. The risk management process is overseen by the Firm's members.

As risks are identified within the business, appropriate controls are put in place to mitigate these and compliance with them is monitored on a regular basis. The frequency of monitoring in respect of each risk area is determined by the significance of the risk. The Firm does not intend to take any risks with its own capital and ensures that risk taken within the portfolios that it provides advice to is closely monitored. The results of the compliance monitoring performed are reported to the partners by the Compliance Officer.

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**Year Ended 31 December 2016**

***Operational Risk***

The Firm places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities in this respect.

The Firm has identified a number of key operational risks. These relate to disruption of the office facilities, system failures, trade failures and failure of third party service providers. Appropriate policies are in place to mitigate against risks, including appropriate insurance policies and business continuity plans.

***Credit Risk***

The main credit risk to which the Firm is exposed is in respect to the failure of its debtors to meet their contractual obligations. The majority of the Firm's receivable is related to investment management activities. The Firm believes its credit risk exposure is limited since the Firm's revenue is ultimately related to management fees received from funds. These management fees are drawn throughout the year from the funds managed. Other credit exposures include bank deposits.

The Firm undertakes periodic impairment reviews of its receivables. All amounts due to the Firm are current and none have been overdue during the year. As such, due to the low risk of non-payment from its counterparties, management is of the opinion that no provision is necessary. A financial asset is overdue when the counterparty has failed to make a payment when contractually due. Impairment is defined as a reduction in the recoverable amount of a fixed asset or goodwill below its carrying amount.

The Firm has adopted the standardised approach to credit risk, and therefore follows the provision within BIPRU 3 standardised credit risk of the FCA handbook. The Firm applies a credit risk capital component of 8% to its non-trading book risk weighted exposure. As the Firm does not make use of an external credit rating agency, it is obligated to use a risk weight of 100% to all non-trading book credit exposures, except cash and cash equivalents which are held by investment grade firms and currently attract a risk weighting of 20%.

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**Pillar 3 Risk Disclosure**  
**Year Ended 31 December 2016**

The table below sets forth the Firm's credit exposures and corresponding capital resource requirements as at 31 December 2016:

| <b>Solo Basis</b>   | <b>Credit<br/>Exposure</b> | <b>Risk<br/>Weighted<br/>Exposure</b> |
|---|----------------------------|---------------------------------------|
| National Governments  | £ nil                      | £ nil                                 |
| Tangible fixed assets   | £1,071,539                 | £1,071,539                            |
| Due from affiliates – within 3 months                               | £nil                       | £nil                                  |
| Due from affiliates – after 3 months                                | £4,664,180                 | £4,664,180                            |
| Cash at bank  | £13,503,852                | £2,700,770                            |
| Prepayments   | £296,854                   | £296,854                              |
| Other   | £428,279                   | £428,279                              |
|   | -----                      | -----                                 |
| Total   | £19,964,704                | £9,161,622                            |
|   | =====                      | =====                                 |
| <b>Credit Risk Capital Component (8% of risk weighted exposure)</b> |                            | <b>£732,930</b>                       |

**Capstone Investment Advisors (UK), LLP**  
**Pillar 3 Risk Disclosure**  
**Year Ended 31 December 2016**

***Market Risk***

Since the Firm holds no trading book positions on its own account, and all advisory fee income is in GBP, the Firm's exposure to foreign currency risk is not significant. Since the settlement of debtor balances take place without undue delay, the timing of the amount becoming payable and subsequently being paid is such that it is not considered to present a material risk to the Firm. The Firm has excluded Market risk on the basis that it is not a material risk to the Firm.

***Remuneration Code***

The Firm has adopted a remuneration policy and procedures that comply with the requirements of chapter 19C 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 19C) & 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, the Firm falls within proportionality level 3. The Firm has concluded, on the basis of its size and the nature, scale and complexity of its legal structure and business that it does not need to appoint a remuneration committee. Instead, the Governing Body sets, and oversees compliance with, the Firm's remuneration policy including reviewing the terms of the policy at least annually.

As at 31 December 2016, the Firm currently sets the variable remuneration of its partners and staff in a manner which takes into account partner and firm performance, by reference to individual performance, performance of the Firm. As permitted for firms falling within proportionality level 3, the Firm takes into account the specific nature of its own activities (including the fee based nature of its revenues) in conducting any ex-ante risk adjustments to awards of variable remuneration and, given the nature of its business, has disapplied the requirement under the Remuneration Code to make ex-post risk adjustments.

The Firm only has one "business area", namely its investment management business. All of the Firm's Code Staff fall into the "senior management" category of Code Staff for the purposes of the Remuneration Code. The aggregate "remuneration" (as defined in the FCA Rules) awarded to the firm's Code Staff during the financial year ending on the accounting reference date was £14.2m.