

Barings (U.K.) Limited

Registration Number: 03005774

**Directors' Report and Financial Statements
For The Year Ended
31 December 2019**

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Barings (U.K.) Limited

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Barings (U.K.) Limited

Company Information

Directors

J T Swayne
R J Kent
A C Sutherland (appointed 26th April 2019)
S M Francis (appointed 24th September 2019)
T M Finke (resigned 26th April 2019)
E A Ward Chicares (resigned 26th April 2019)
P J Thompson (resigned 31st October 2019)

Secretary

N E Evans

Company Registration Number

03005774

Auditor

KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

Registered Office

20 Old Bailey
London
EC4M 7BF

Barings (U.K.) Limited

Strategic Report

In accordance with Section 414A(1) of the Companies Acts 2006, the directors have prepared a Strategic Report which includes a review of the business of Barings (U.K.) Limited (the "Company") and future developments, a description of the principal risks and uncertainties facing Barings Guernsey Limited and its subsidiary companies (the "Group") and key performance indicators.

Business Review

In 2018 the Group commenced a corporate reorganisation to rationalise its existing structure and ensure that it could meet the needs of all its clients post Brexit ("the Reorganisation").

As part of the Reorganisation, it was determined that the Company should focus exclusively on the management of Collateralised Loan Obligations ("CLOs"), which have historically formed the core of its investment management activities. Non-CLO fund management contracts have been transferred to other Group entities during 2018 and 2019. The transfers have resulted in a fall in assets under management ("AUM"), revenue and profitability as detailed in the key performance indicators below.

On 1 July 2018, as part of the Reorganisation, the Company's staff transferred to a Group company that services all UK entities. The Company's staff had serviced other Group entities and the Company had recharged their costs, which was recorded as other operating income. The transfer therefore has caused other operating income and administrative expenses to fall in 2019, compared to 2018, respectively £21.6m and £21.3m.

In 2019 the Company launched one new CLO and at the year end a further CLO was at the warehouse stage. The AUM of these CLOs as at 31 December 2019 was respectively £344m and £127m.

The Company is seeking to grow its assets under management, revenues and profits by delivering superior investment performance over the market cycle, by expanding its distribution capabilities and achieving revenue and cost synergies across the Group.

Principal risks and uncertainties

The principal risk types faced by the Company are in relation to financial instruments, whether held directly on the balance sheet or indirectly through client mandates, and are as follows:

i) Strategic risks

The most significant strategic risks facing the Company are a decline in business due either to:

- External factors, such as a credit risk, market risk and liquidity risk; or
- Internal factors, for example a substantial period of poor investment management performance.

ii) Operational risks

- Operational risk: see the Directors' Report for details.

Key Performance Indicators

The key performance indicators ('KPIs') are reported to management and monitored at the Group level on a monthly basis. The following KPIs relate to the Company only:

	2019 £'000	2018 £'000		Change %
Total Revenue	24,591	56,716	▼	57%
Operating Profit	4,813	15,661	▼	69%
Profit before taxation	8,301	14,819	▼	44%
Net assets	66,337	59,550	▲	11%
	£ b	£ b		
Assets under management	3.7	4.4	▼	16%

Barings (U.K.) Limited

Strategic Report (continued)

Employees

The Company has no employees in 2019 (see note 6 for information concerning staff numbers in 2018).

Environment

The Company is a professional and environmentally conscious organisation, which acknowledges the impact that its operations may potentially have on the environment. The clear objective of the Company is to minimise any impact on the environment by:

- Preventing pollution, reducing waste and ensuring that wherever practical, measures are implemented to protect and preserve natural habitats, flora and fauna;
- Considering the effects that its operations may have on the local community;
- Taking action to eliminate or reduce, as far as practicable, any potentially adverse environmental impacts;
- Promoting environmental awareness amongst its suppliers, contractors and partners by implementation of operational procedures;
- Seeking to work in partnership with the community by behaving in a considerate and socially responsible manner; and
- Ensuring effective and expedient incident control, investigation and reporting.

The Company complies with the duties placed upon it within the requirements of Statutory Legislation, whilst at all times complying with, as a matter of best practice, the requirements and duties set out within Approved Guidance as issued by the Environment Agency and other organisations. The Company takes all practical steps to ensure that potential hazards and risks to the environment are identified and that suitable and effective prevent and control measures are implemented. The Directors have overall responsibility for all environmental matters.

Responsibilities of Directors' Under Section 172 of the Companies Act 2006 ("Sn 172")

The directors are committed to holding themselves to the highest possible standards of conduct, and implicit in this is the recognition and understanding that the Company has a responsibility to a wide range of stakeholders, including but not limited to the following:

- The Company's customers - the firm is dedicated to meeting the evolving investment and capital needs of its customers and servicing them to the best of its ability;
- The Company's shareholders - as a wholly owned, indirect subsidiary of MassMutual, the Company does not have to manage potential conflicts that may otherwise arise between different shareholders. The Group tries to manage the business for the long term benefit of MassMutual, as evidenced by the investment made in the organisation's Irish platform as described in detail below;
- The Group's employees - the firm places a high priority in ensuring all members of staff are treated fairly and are provided with appropriate support and training to develop in their roles and maximise their full potential;
- The Company's suppliers - Barings is committed to paying its suppliers on time and resolving any issues that may arise on a fair and equitable basis. The Group has established systems and controls to ensure slavery and human trafficking are not taking place within its supply chains;
- The environment - the measures taken by the Company to minimise its impact on the environment are stated earlier in this report; and
- The various local communities in which the Group operates - in addition to providing financial support to a number of local charities, Barings offers volunteering days to staff so that they can become personally involved in the work these charities perform within the community.

Britain Exiting from the EU ("Brexit")

Overview

The UK left the EU on 31 January 2020, immediately entering into a transition or implementation period (the "Implementation Period"). During the Implementation Period, a standstill is in place, whereby pre-Brexit trading arrangements between the EU27 and the UK continue. The purpose of the Implementation Period is to allow time for a new deal on the future relationship between the EU and UK to be negotiated. During the Implementation Period, the UK remains in the EU27's Customs Union and Single Market, but outside its political institutions. The Implementation Period will expire at the end of 2020, although the withdrawal agreement contains provisions enabling it to be amended for up to two years. Negotiations between the UK and the EU27 regarding the future relationship are due to begin in the second quarter of 2020. It is unclear what arrangements will apply with respect to financial services after the Implementation Period. However, Barings' working assumption is that such arrangements will not be less advantageous than those contemplated in relation to a "no deal" Brexit before the withdrawal agreement was concluded.

Barings (U.K.) Limited

Strategic Report (continued)

Overview (continued)

The day-to-day business of Barings is expected to continue substantially as at the present time and in particular it is envisaged that client portfolios will continue to be managed as they are currently. Barings as a whole remains fully committed to its global strategy through which c. US\$338 billion is managed for clients globally (as at 31 December 2019) providing institutional quality investment capabilities in fixed income, equities, multi-asset, real assets, real estate and alternatives. Brexit does not change the firm's focus of creating and sustaining a unified global footprint for future growth. Barings remains committed to its global asset management franchise, which includes its business infrastructure in the UK. Notwithstanding the continuation of day-to-day business however, Barings is aware of the potential challenges posed by Brexit. Many of these result from the anticipated loss after Brexit by Barings' UK asset managers of the cross-border aspects of their regulatory permissions, to the extent that such permissions are derived from EU law (in particular MiFID II, UCITS and AIFMD). The principal aspects of Barings' business facing Brexit related challenges are as follows:

- The distribution of Barings' UK domiciled products into EU27
- The distribution of Barings' EU27 domiciled products into the UK
- The marketing of Barings' investment services into EU27
- Delegation of discretionary portfolio management to Barings' UK asset managers
- Retention of (and access to) talent within EU27

Barings' Brexit Plan

Barings' aims to mitigate the loss of the EU passporting rights held by its UK regulated entities by maintaining regulatory continuity through its existing Irish asset management subsidiary, Baring International Fund Managers (Ireland) Limited ("BIFMI"). This entity is regulated by the Central Bank of Ireland (the "CBI") and is authorised as a UCITS Management Company/AIFM with a MiFID top-up (a Mega Manco). BIFMI manages a variety of products, including Barings' Irish UCITS range, its Qualifying Investor Alternative Investment Funds (QIAIFs) and a Lux-RAIF platform. BIFMI is being used to protect our investors and the wider Barings group against potential regulatory or other market access barriers related to Brexit. During 2018, Barings proactively extended BIFMI's regulatory permissions by way of a MiFID top-up to enable BIFMI to take on separate accounts and enable it to act as Barings' sales hub into EU27. BIFMI received its MiFID top-up authorisation on 21 December 2018. In conjunction with its MiFID top-up application, Barings opened an office in Dublin, which is now fully operational with thirteen full time employees. Barings' Irish office is functionally integrated with the Barings team globally.

BIFMI now manages all of Barings' Irish UCITS funds and all of Barings' EU27 AIFs. As a consequence, Barings will be able to use BIFMI's existing marketing permissions to continue to market those products into EU27, unaffected by Brexit. The depositaries/custodians and administrators of such funds are also EU27 entities. After Brexit, Barings' EU27 platforms will continue to delegate portfolio management to its UK asset management entities.

Barings believes that a diverse workforce is a key contributor to the firm's success. It continues to monitor the immigration situation regarding its employees who are EU27 nationals. During the implementation period, freedom of movement rules continue to apply. From 2021 the UK intends to introduce an Australian points-based system for all migrants, details of which are expected shortly. In the meantime, the UK government has set up a scheme enabling EU27 nationals in the UK to apply for "Settled Status" or "Pre-Settled Status" to secure their residency rights in the UK prior to the end of the implementation period. Barings is committed to supporting its EU27 employees in this regard.

To facilitate distribution of its EU27 funds into the UK after Brexit, Barings has entered them into the FCA's Temporary Permissions Regime ("TPR"). On 30 January 2020, the TPR notification window closed. Products in the TPR may continue to be distributed in the UK. Notwithstanding the closure of the window, new UCITS may be entered into the TPR to the extent the relevant umbrella has an existing sub-fund in the TPR. Other products which have not been entered into the TPR on or prior to 30 January 2020 may be marketed to institutional investors via the UK's National Private Placement regime (NPPR). Following analysis of the investor base, Barings created "mirror" funds on its Irish UCITS platform for certain of its UK unit trusts (namely, Barings German Growth Trust and Barings Europe Select Trust). The "mirror" funds have substantially the same investment guidelines as the corresponding UK unit trusts. "Mirror" funds also exist on the Barings Irish UCITS platform for certain other Barings UK unit trusts (including Barings Eastern Trust and Barings European Growth Trust).

Impact of Brexit on the Company

Although the Company's performance is closely linked to that of the Barings franchise as a whole, the Company is essentially a CLO manager only and so Brexit presents the Company with certain risks and challenges that are to some extent specific to its own operations.

Barings (U.K.) Limited

Strategic Report (continued)

Impact of Brexit on the Company (continued)

As all of the Company's existing CLO vehicles are domiciled in either The Netherlands or Ireland, the main Brexit risk faced by the Company is that the regulatory permissions it requires to manage some of the investments within these vehicles may cease to apply following the Implementation Period. In particular:

- CLO vehicles domiciled in Ireland are managed through the safe harbour exemption for third country firms, which is available provided certain conditions are satisfied;
- in respect of the CLO vehicles domiciled in The Netherlands, while the Company's permissions to manage some of the investments within these vehicles will apply during the Implementation Period, it is currently unclear if the exemption from Dutch licensing requirements for providing investment services which the Company was previously intending to rely upon will be available at the end of the Implementation Period. The Company is monitoring the situation, which is expected to become clearer later in 2020, with the fallback position involving a delegation of certain functions to Barings LLC (the Company's indirect parent).

A secondary risk relates to the capacity in which the Company discharges its risk retention obligations. In particular:

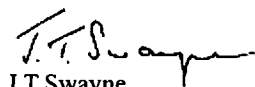
- the majority of the CLOs which were issued before the Securitisation Regulation came into force are structured as "sponsor" deals, which require the Company to be a MiFID investment firm. While the Company will remain a MiFID investment firm during the Implementation Period, it is likely that it will cease to be one following the expiry of the Implementation Period. In this regard, it should be noted that the regulatory requirement does not directly apply to the Company, with its contractual obligations being mitigated by fall-away language and cure rights;
- the CLOs issued after the Securitisation Regulation came into force - other than Barings Euro CLO 2020-1 DAC which is being structured as an "originator manager" deal and so unaffected by Brexit - apply a different definition of "sponsor", which is not tied to the Company being a MiFID investment firm. As such, the Company does not believe that these deals will be impacted by Brexit, but continues to monitor the regulatory backdrop.

For these reasons, the Directors believe that there should be no immediate threat to the Company's ability to continue to trade as a going concern as a consequence of Brexit.

Conclusion

Barings remains committed to protecting its clients and global franchise from any adverse impact from Brexit. Barings believes that the implementation of its Brexit strategy achieves those objectives. As noted above, the relationship between the UK and the EU after the end of the Implementation Period remains subject to negotiation. Barings therefore continues to monitor developments and will make such adjustments to its Brexit strategy as may prove necessary or desirable from time to time.

By order of the Board



J T Swayne
20 Old Bailey
London
EC4M 7BF
Director

20 April 2020

Barings (U.K.) Limited

Directors' Report

The directors present the annual strategic report, directors' report and financial statements of Baring (U.K.) Limited (the "Company"), registration number 03005774, for the year ended 31 December 2019.

The Company has chosen to set out information relating to the Business Review and future developments, key performance indicators, principle risks and uncertainties, environmental policies and responsibilities under s172 of the Companies Act 2006 within the Strategic Report.

Principal Activities

The principal activity of the Company is, and will continue to be, the provision of investment management services. The Company is registered with the Financial Conduct Authority ("FCA").

Going Concern

At 31 December 2019 the Company had net assets of £66.3m (2018: £59.6m) and net current liabilities of £101m (2018: £98.9m). Included within current liabilities is a loan from Barings LLC, the Company's indirect parent, of £136.6m (2018: £129.7m). The terms of the loan allow for the lender to call for immediate payment on demand. The Company has however received assurances from Barings LLC that should immediate repayment of the loan be required, it will make such alternative funds available to the Company as may be required to allow it to continue as a going concern for a minimum of twelve months from the date of these accounts. The Board of Directors believes the Company has sufficient financial resources to be able to continue in operational existence for the foreseeable future.

The Board has considered the impact of the COVID-19 global pandemic, which has resulted in unprecedented risks and significant levels of volatility and reduced asset prices in global equity and bond markets. The main risk resulting from COVID-19 for the Company is the impact on the valuation of assets under management and the associated effect on revenues. The Board has considered the overall COVID-19 impact on the Company across a range of forecast scenarios and does not consider there to be any significant impact on the going concern basis of preparation that has been adopted in preparing the annual financial statements.

Risk management

The Group manages its risks on a group-wide basis and in accordance with a risk framework approved by the Risk, Regulatory & Audit Oversight Committee ("RR&AOC"). The RR&AOC, which derives its delegated authorities from the Company's Board, is responsible for the design and implementation of the Group's risk management processes and controls.

The Organisational Risk function, reporting to the Chief Risk Officer - Europe, supports the RR&AOC in the identification, assessment, management and monitoring of risks within the Group's global operations.

The principal risk types are set out in the Strategic report. The Group's approach to managing each of these risks is set out below:

i) Strategic risks

The Group manages these risks by offering a widely distributed range of products, both by asset class and geographical spread, by changing or adapting its product offering to meet market conditions and needs, and by monitoring and reviewing investment performance on a regular ongoing basis.

ii) Operational risks

The Group manages its operational risks, including strategic, business, reputational and regulatory risks, under the umbrella of 'organisational risk'. To ensure that these risks are effectively and consistently managed, the Group has implemented a framework of processes which are set out in the Group's Organisational Risk Management Policy. This includes processes for:

- Reporting and analysis of loss events and near misses;
- Periodic risk assessments;
- Analysis of key risk indicators.

The Group manages the business through a committee structure. The principal committee is the European Management Team ("EMT") and it is responsible for the effective management and co-ordination of the Group's business and organisational affairs. Members of the EMT and senior line managers are responsible for ensuring that effective risk management exists within their areas. Local line management is responsible for the day-to-day management of risks and for the effective operation of risk controls where appropriate.

Barings (U.K.) Limited

Directors' Report (continued)

ii) Operational risks (continued)

The EMT and senior line managers regularly consider the most significant organisational risks facing the Group. These risks are identified, assessed, monitored and reported from a top-down perspective. The potential for the occurrence of a risk event is assessed in conjunction with the analysis of internal and external data.

The analysis of emerging risks, industry trends and other environmental factors is also considered to facilitate proactive, forward-looking risk identification. Particularly for strategic risks, management expertise and experience is as important as empirical data in identifying and assessing risk. The Group's Significant Risk Profile is defined by the EMT and senior line managers. The Significant Risk Profile is reviewed at each EMT meeting and formally assessed by an annual full top-down review and update.

Capital Requirements Directive ("Pillar 3") Disclosures

The Company is authorised and regulated by the Financial Conduct Authority ("FCA"). The European Union Capital Requirements Directive ("CRD") established a regulatory capital framework based upon the provisions of Basel II. This was implemented in the UK through FCA Rules and Guidance (in particular through the Prudential Sourcebooks).

This framework consists of three "pillars":

- Pillar 1 sets out the minimum capital requirements that firms are required to meet the credit, market and operational risks;
- Pillar 2 requires firms to calculate whether additional capital must be held against capital risks not covered by Pillar 1; and
- Pillar 3 requires firms to publish certain details of their capital, risks and risk management processes.

The Company is therefore required under Pillar 3 of the CRD to set out the information in respect of its risk exposures, risk management structure, internal capital adequacy assessment process ("ICAAP"), and the level of regulatory resources and requirements. FCA Rules and Guidance for Pillar 3 require that a firm must disclose the relevant information unless the information is believed to be immaterial, proprietary or confidential. The disclosures set out below are made in respect of the Company to set out the key risks facing it and how it manages those risks and how it has satisfied itself that it has sufficient capital in respect of these risks.

Risk Assessment Processes

The Company manages its risk through a framework of policies and rules in accordance with relevant laws, regulation and principles, including FCA principles and rules. The Company has in place an Internal Capital Adequacy Assessment Process ("ICAAP") which identifies and measures the risks which the Company is facing and which evaluates such risks against the level of internal capital in relation to the Company's risk profile. The ICAAP is reviewed annually and the capital calculation revised to incorporate the latest year's results into the following year's capital base. The capital requirements and the terms of the ICAAP are agreed at board level.

Senior management is committed to review the Company's risk profile quarterly and documenting any changes to the profiles at these dates. Any significant changes to the risk profiles will require the capital base to be reassessed in advance of the annual review of the ICAAP. The Company's internal controls aim to:

- Create effective and efficient operations;
- Ensure adequate control of risks;
- Create a structure of adequate management;
- Validate the reliability of all financial and non-financial information reported both internally and externally; and
- Comply with relevant laws and other regulations as well as internal policies and procedures.

Embedded within these controls is the risk monitoring requirement which ensures that the ICAAP provides information that remains in line with the Company's risk profile and its risk preferences.

The risk mapping process aims to be as detailed as is relevant for an organisation such as the Company. The potential risks which the Company could face have been classified by type and key risks identified in each of the relevant categories. The calculations of risk requirements are based upon scenario stress testing undertaken and reflect calculations based upon expected profitability changes caused by significant changes to the stability of the business.

Barings (U.K.) Limited

Directors' Report (continued)

ICAAP adoption process

The Company's internal approach to assessing capital adequacy is to identify and evaluate significant risks to which it is exposed, consider the impact of internal controls and estimate the effect on retained profit of crystallisation of each risk. The maximum quantified retained profit impact for each risk category is aggregated to generate the total internal capital requirement, which is then subjected to stress testing to verify its adequacy to support the business and to allow it to meet its capital requirements in all reasonably foreseeable circumstances.

The ICAAP is presented to the Board of Directors for review, challenge and adoption. The Board will undertake the same process should any material business change or risk trigger the preparation of a new ICAAP outside of the formal process.

Capital Requirement

The Company's capital resources are comprised of called up share capital, and audited retained profits. These components are as described and their main features set out in the notes to the financial statements.

The Pillar 2 (ICAAP) calculated requirement of £7.23 million is lower than the Pillar 1 (Credit and Market Risk) requirement; and therefore the Pillar 1 requirement of £28.9 million is deemed to be an adequate reflection of the Company's capital requirement as of 31 December 2019.

The Company's capital resources and capital requirement, computed in accordance with the CRD, are summarised as follows:

	2019 £'000	2018 £'000
Share Capital	560	560
Profit and Loss account	65,777	58,990
Tier one capital resources	66,337	59,550
Tier two and three's capital resources	-	-
Total capital resources	66,337	59,550
Pillar 1 - Credit and Market Risk	28,880	26,641
Pillar 2 - Capital requirement	7,230	4,267
Overall Capital Requirement	28,880	26,641
Surplus	37,456	32,909
Capital Resource Ratio	230%	224%

Remuneration disclosure

All Barings' staff in the UK are employed by Baring Investment Services Limited ("BISL"). BISL shares staff with other Barings legal entities in the UK, including the Company.

Remuneration oversight

BISL's remuneration arrangements encompass fixed and discretionary elements including discretionary bonuses in accordance with agreed arrangements. BISL has appointed two committees which take remuneration decisions, namely the Remuneration Committee and the Senior Compensation Committee.

The Remuneration Committee is responsible for the setting, implementation and ongoing review of Barings' remuneration policy and the approval of employee annual promotions and compensation awards.

Barings (U.K.) Limited

Directors' Report (continued)

Remuneration oversight (continued)

The Senior Compensation Committee is responsible for the approval of compensation for the employees who are on the Barings Executive Leadership Team ("ELT") and also the compensation of the twenty-five employees of the Barings Global Group with the greatest total compensation within a calendar year (excluding ELT members).

External advice on Barings' remuneration policy has been provided by Travers Smith LLP.

Link between pay and performance

BISL's compensation structures are designed to support and further the Group's business strategy, objectives, values and long-term interests. Compensation packages aim to facilitate the retention of existing employees and attract high caliber new employees in order to achieve the best results for the Group and its clients.

Compensation arrangements for BISL's employees comprise some or all of the following components:

1. Fixed salary
2. Short term incentive scheme ("STI")
3. Long term incentive scheme ("LTI")
4. Share of carried interest in certain funds

BISL's remuneration arrangements are designed to align the interests of staff with the Group's profits and with the performance of the assets that it manages for its clients. The key principle of STI and LTI is that they are linked to the performance of the individual and to the Group. Individual performance is assessed by reference to personal objectives set in the previous year (including both financial and non-financial criteria), the views of line and senior management and compliance behaviour. The total amount of variable remuneration available for STI and LTI in any given performance year is based on the profits of the Group. The amount paid out in respect of carried interest is based on performance of assets managed by the Group.

Aggregate remuneration of code staff providing services to the Company

	2019	2018
	£000	£000
Total fixed remuneration	4,070	4,280
Total variable remuneration	15,391	16,134
Total remuneration	19,461	20,414

The remuneration disclosed above includes:

- Annual base salaries as at 31 December 2019 (or termination date for leavers)
- STI bonus awards for the 2019 performance year
- Deferred awards (LTI and carried interest) for the 2019 performance year based on the value at award date
- Any other awards provided for new joiners or leavers

Code staff are those members of staff whose actions have a material impact on the risk profile of the Company. All code staff are considered to be senior managers and they all work in investment management.

Dividends

The directors did not declare a 2019 interim dividend on ordinary shares for the Company during the year (2018: £100,000). The directors do not recommend the payment of a final dividend (2018: £nil).

Directors

The directors shown on page 2 held office throughout the year, except as follows:

A C Sutherland (appointed 26 April 2019)
S M Francis (appointed 24 September 2019)
T M Finke (resigned 26 April 2019)
E A Ward Chicares (resigned 26 April 2019)
P J Thompson (resigned 31 October 2019)

Insurance for directors

Barings LLC has purchased directors' and officers' insurance in respect of directors of all Group subsidiaries.

Barings (U.K.) Limited

Directors' Report (continued)

Donations

Donations to charity and community projects made by the Company during the year were £nil (2018: £20,000). No political contributions were made by the Company (2018: £nil).

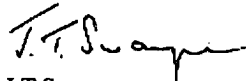
Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487(2) of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board



J T Swayne
Director
20 Old Bailey,
London,
EC4M 7BF

20 April 2020

Barings (U.K.) Limited

Statement of Directors' Responsibilities in respect of the Strategic Report, Directors' Report and the Financial Statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

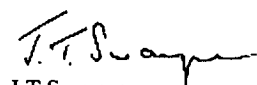
Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors 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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

By order of the Board



J T Swayne
Director
20 Old Bailey
London
EC4M 7BF

20 April 2020

Independent Auditor's Report to the Members of Barings (U.K.) Limited

Opinion

We have audited the financial statements of Barings (U.K.) Limited ("the Company") for the year ended 31 December 2019 which comprise the Profit and Loss Account and Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

Other information

The directors are responsible for the other information, which comprises the strategic report and the directors' report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the other information;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Independent Auditor's Report to the Members of Barings (U.K.) Limited (continued)

Directors' responsibilities

As explained more fully in their statement set out on page 12, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company'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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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

Sinead O'Reilly

**Sinead O'Reilly (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants

15 Canada Square

London

E14 5GL

23 April 2020

Barings (U.K.) Limited

Profit and Loss Account and Other Comprehensive Income

for the year ended 31st December 2019

	Note	2019 £	2018 £
Turnover	2	20,243,424	30,739,053
Other operating income	3	4,347,996	25,976,647
Total Revenue		24,591,420	56,715,700
Administrative expenses		(19,778,835)	(41,054,894)
Operating profit		4,812,585	15,660,806
Interest receivable and similar income	7	16,564,159	4,789,123
Interest payable and similar charges	8	(13,075,453)	(5,631,293)
Profit on ordinary activities before taxation		8,301,291	14,818,636
Tax on profit on ordinary activities	9	(1,514,935)	(3,017,007)
Profit for the financial year		6,786,356	11,801,629
Other Comprehensive Income		—	—
Total Comprehensive income for the financial year		6,786,356	11,801,629

The notes on pages 19 to 28 form part of these financial statements.

All results arise from continuing operations.

Barings (U.K.) Limited

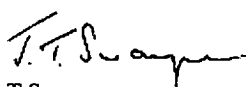
Balance Sheet

as at 31 December 2019

	Note	2019 £	2018 £
Fixed assets			
Investments	10	167,518,542	157,479,695
Non-current assets			
Deferred tax asset	11	121,266	1,244,012
Current assets			
Debtors	12	6,799,073	26,038,368
Investments and other financial assets	10	6,616,598	5,341,683
Cash and cash equivalents	13	29,777,064	30,247,012
		<u>43,192,735</u>	<u>61,627,063</u>
Current liabilities			
Creditors: amounts falling due within one year	14	(144,189,191)	(159,969,330)
Other financial liabilities	15	(6,828)	(531,272)
		<u>(144,196,019)</u>	<u>(160,500,602)</u>
Net current liabilities		<u>(101,003,284)</u>	<u>(98,873,539)</u>
Total assets less current liabilities		<u>66,636,524</u>	<u>59,850,168</u>
Creditors: amounts falling due after one year	14	(300,000)	(300,000)
Total net assets		<u>66,336,524</u>	<u>59,550,168</u>
Capital and reserves			
Called up share capital	17	560,001	560,001
Profit and loss account		65,776,523	58,990,167
Shareholders' funds		<u>66,336,524</u>	<u>59,550,168</u>

The notes on pages 19 to 28 form part of these financial statements

The financial statements were approved by the Board of Directors and signed on its behalf by:



J T Swayne

Director

20 April 2020

Company Registration Number: 03005774

Barings (U.K.) Limited

Statement of Changes in Equity

	Called up share capital	Profit and loss account	Total equity
	£	£	£
For the year ended 31 December 2018			
Balance at 1 January 2018	560,001	47,288,538	47,848,539
Total comprehensive income for the year	—	11,801,629	11,801,629
Dividends	—	(100,000)	(100,000)
Balance at 31 December 2018	<u>560,001</u>	<u>58,990,167</u>	<u>59,550,168</u>
For the year ended 31 December 2019			
Balance at 1 January 2019	560,001	58,990,167	59,550,168
Total comprehensive income for the year	—	6,786,356	6,786,356
Balance at 31 December 2019	<u>560,001</u>	<u>65,776,523</u>	<u>66,336,524</u>

The notes on pages 19 to 28 form part of these financial statements.

Barings (U.K.) Limited

Cash Flow Statement

for the year ended 31 December 2019

	2019	2018
	£	£
<i>Cash flow from operating activities</i>		
Profit before tax	8,301,291	14,818,636
<i>Adjustments for :</i>		
Depreciation	—	309,602
Interest receivable and similar income	(16,564,159)	(4,789,123)
Interest payable and similar charges	13,075,453	5,631,293
Movement in provisions	(585,000)	—
Decrease in debtors	19,489,701	2,009,784
Decrease in other creditors and accrued expenses	(23,070,396)	(15,832,138)
Provision utilised	(3,000)	—
Taxation paid	616,559	(3,002,847)
Net cash from/(used in) operating activities	<u>1,260,449</u>	<u>(854,793)</u>
<i>Cash flows from investing activities</i>		
Interest received	5,534,273	4,295,509
Investments purchased	(33,712,646)	(58,389,156)
Investments sold	12,436,761	—
Realised hedging gain on derivatives	1,413,685	286,940
Net cash used in investing activities	<u>(14,327,927)</u>	<u>(53,806,707)</u>
<i>Cash flows from financing activities</i>		
Increase in intercompany loan	15,175,186	49,535,584
Dividends paid to ordinary shareholders	—	(100,000)
Interest paid	(1,362,770)	(1,059,687)
Interest paid on shares classified as liabilities	(18,000)	(18,000)
Net cash from financing activities	<u>13,794,416</u>	<u>48,357,897</u>
Net increase/(decrease) in cash and cash equivalents	726,938	(6,303,603)
Cash and cash equivalents at the start of the year	30,247,012	37,771,276
Exchange losses on cash and cash equivalents	(1,196,886)	(1,220,661)
Cash and cash equivalents at the end of the year	<u>29,777,064</u>	<u>30,247,012</u>

The notes on pages 19 to 28 form part of these financial statements.

Barings (U.K.) Limited

Notes to the Financial Statements

1. Accounting policies

Basis of preparation

Barings (U.K.) Limited (the “Company”) is a company limited by shares and incorporated and domiciled in the UK.

The financial statements were prepared in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (“FRS 102”).

The financial statements are prepared in pounds sterling, which is the functional currency of the Company.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Foreign currencies

Transactions effected in foreign currencies are translated into pounds sterling using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated, using the contracted rate or the rate of exchange ruling at the balance sheet date, and the gains or losses on translation are included in the profit and loss account.

Measurement convention

The financial statements are prepared on the historical cost basis except for financial instruments, which are stated at their fair value and are classified at fair value through profit and loss.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. In addition the Directors' Report states how the Company manages its risks. The details of its financial instruments are described in note 10.

The ultimate responsibility for managing capital lies with the Board. The Company has net current liabilities of £101m (2018: £98.9m), but has received assurances from Barings LLC that should immediate repayment of the loan be required it will make such alternative funds available to the Company as may be required to allow it to continue as a going concern for a minimum of twelve months from the date of the approval of these accounts.

The Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Board has considered the impact of the COVID-19 global pandemic, which has resulted in unprecedented risks and significant levels of volatility and reduced asset prices in global equity and bond markets. The main risk resulting from COVID-19 for the Company is the impact on the valuation of assets under management and the associated effect on revenues. The Board has considered the overall COVID-19 impact on the Company across a range of forecast scenarios and does not consider there to be any significant impact on the going concern basis of accounting in preparing the financial statements.

Basic financial instruments

Trade and other debtors are recognised on the balance sheet, when the Company becomes a party to the contractual provisions of the instrument, at the transaction price less the attributable transaction costs.

Trade and other creditors are recognised initially at the transaction price plus the attributable transaction costs.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Company has also transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when the liability is discharged.

Other financial instruments

Derivative financial instruments and holdings in mutual funds are designated as at fair value through profit or loss and are measured at subsequent reporting dates at fair value. Where securities are designated at fair value through profit or loss, gains and losses arising from changes in fair value are included in the profit or loss for the accounting period. The Company determines the classification of its financial instruments on initial recognition.

Barings (U.K.) Limited

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

Other financial instruments (continued)

The Company uses derivative financial instruments to hedge against foreign exchange risk. Derivative financial instruments are classified as held for trading and carried at fair value as assets or liabilities. Fair values for forward exchange deals are based upon closing rates adjusted for future interest rate differentials. Changes in fair value are recognised in the profit and loss account.

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of assets and liabilities traded in an active market is based on quoted market prices at the close of trading on the reporting date. For quoted financial assets the valuation is based on the closing bid price; for quoted liabilities the closing asking price is applied.

Where financial instruments are not traded in an active market, the fair value is determined using valuation techniques. The valuation techniques used are dependent on the level of data, the circumstances and the availability of observable inputs for each such financial instrument but may include comparable recent arm's length transactions, discounted cash flow analysis and option pricing models.

Investments

Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to the initial recognition, investments that can be measured reliably are measured at fair value with changes recognised in the profit and loss account. The valuation of investments is categorised by levels. Details of the levels and the inputs that determine the levels are disclosed in note 16.

Cash and cash equivalents

Cash is represented by cash in hand and investments in money market mutual funds repayable without penalty on notice of no more than 24 hours.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are redeemable on demand and form an integral part of the Company's cash management.

Preference shares

In accordance with FRS 102 Section 11, preference shares have been classified as non-current liabilities, as the Company has a liability to pay a 6% per annum dividend. These shares have been recorded at fair value on inception. The dividend payments are recognised as a finance cost and included as part of interest payable and similar charges.

Turnover

Management fee income based on funds under management is accounted for on an accruals basis over the period of management. Performance fees are recognised when they crystallise. Turnover is shown net of any value added tax and discounts.

Interest Receivable and Interest Payable

Interest receivable and similar income includes net gains on derivative instruments and net foreign exchange gains that are recognised in the profit and loss account (see foreign currencies accounting policy). Interest payable and similar expense comprises net losses on derivative instruments and net foreign exchange losses. Interest income and interest expense are recognised in profit and loss as they accrue.

Taxation

Tax on the profit and loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Barings (U.K.) Limited

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

Taxation (continued)

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax, or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or relieved on differences between the amount at which an asset or liability is recognised in the Company and the corresponding amount that can be deducted or assessed for tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the statement of financial position date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

2. Turnover

	2019 £	2018 £
Management fee income	18,181,935	23,080,051
Performance fee income	2,061,489	7,659,002
	<u>20,243,424</u>	<u>30,739,053</u>

3. Other operating income

	2019 £	2018 £
Recovery of costs incurred on behalf of Group undertakings	4,347,996	25,976,647
	<u>4,347,996</u>	<u>25,976,647</u>

For the first six months of 2018, the Company employed its own staff and recharged the costs of any staff that serviced other entities. On the 1st July 2018, as part of the reorganisation of the Group, all staff moved to a service company (BISL). As a consequence, the costs incurred by the Company fell and the amounts reclaimed from other entities decreased.

4. Auditor's remuneration

	2019 £	2018 £
Auditor's remuneration:		
- audit of financial statements of the Company	35,200	36,000
- audit related assurance services	20,000	20,000

Barings (U.K.) Limited

Notes to the Financial Statements (continued)

5. Remuneration of Directors

	2019	2018
	£	£
Directors' emoluments	631,994	158,305
Amounts receivable under long- term incentive schemes	135,151	30,029
Company contributions to money purchase pension schemes	5,925	2,500
	2019	2018
	£	£
Highest paid director		
Directors' emoluments	166,228	75,305
Amounts receivable under long- term incentive schemes	74,074	21,500

6. Staff numbers and costs

	2019	2018
	Number of employees	
The average number of persons employed by the Company (including directors) during the year	—	64

The aggregate payroll costs of these persons were as follows:

	2019	2018
	£	£
Wages and salaries	—	18,889,320
Social security costs	—	3,274,742
Contributions to defined contribution plan	—	568,237
	—	22,732,299

As part of the reorganisation of the structure of the Group, on 1st July 2018 all employees of the Company become legally employed by BISL and thus their costs (including pension costs) were expensed in BISL. BISL reclaimed the staff costs from the Company by means of a recharge, which is included in administrative expenses.

7. Interest receivable and similar income

	2019	2018
	£	£
Interest receivable	6,242,324	4,295,509
Gain on financial assets measured at fair value through profit and loss	442,034	—
Gain on derivative	2,771,010	493,614
Net foreign exchange gains	7,108,791	—
	16,564,159	4,789,123

Barings (U.K.) Limited

Notes to the Financial Statements (continued)

8. Interest payable and similar charges

	2019	2018
	£	£
Interest expense	1,408,200	1,077,687
Loss on financial assets measured at fair value through profit and loss	11,667,253	2,570,238
Loss on derivative	—	724,027
Net foreign exchange losses	—	1,259,341
	<u>13,075,453</u>	<u>5,631,293</u>

9. Taxation

a. Total tax expense recognised in the profit and loss account, other comprehensive income and equity.

	2019	2018
	£	£
<i>Current tax</i>		
UK corporation tax on income for the period	1,452,258	2,917,190
Adjustments in respect of prior periods	(50,617)	168,478
Total current tax	<u>1,401,641</u>	<u>3,085,668</u>
<i>Deferred tax (see note 11)</i>		
<i>Origination and reversal of timing differences:</i>		
Current year	112,680	(34,112)
Prior year	614	(176,890)
Impact of change in tax rate on opening balances	—	142,341
Total deferred tax	<u>113,294</u>	<u>(68,661)</u>
Total tax expense	<u>1,514,935</u>	<u>3,017,007</u>

All of the tax expense is recognised in the profit and loss account.

b. Reconciliation of the effective tax rate

The tax expense for the year is lower (2018: higher) than the standard rate of corporation tax in the UK of 19% (2018: 19%).

	2019	2018
	£	£
Profit for the year excluding taxation	<u>8,301,291</u>	14,818,636
Tax using the UK corporation tax rate of 19% (2018: 19%)	<u>1,577,245</u>	2,815,541
Effects of:		
Expenses not deductible for tax purposes	950	63,524
Effect of measurement of deferred tax at future rate of UK corporation tax	(13,257)	146,354
Adjustments to tax expense in respect of previous periods	(50,003)	(8,412)
Total tax expense included in profit for the year	<u>1,514,935</u>	<u>3,017,007</u>

Barings (U.K.) Limited

Notes to the Financial Statements (continued)

9. Taxation (continued)

c. Factors that may affect future, current and total tax charges

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset/(liability) as at 31 December 2019 has been calculated based on this rate. In the 11 March 2020 Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. This will have a consequential effect on the Company's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the tax expense in the profit and loss would have reduced and the deferred tax asset would have increased by £14,267.

10. Fixed and current investments and other financial assets

	2019	2018
	£	£
Fixed asset investments		
Financial assets designated as fair value through profit and loss	167,518,542	157,479,695
	<u>167,518,542</u>	<u>157,479,695</u>
Current investments and other financial assets		
Investments in mutual funds	5,769,797	5,327,763
Forward foreign exchange contracts	846,801	13,920
	<u>6,616,598</u>	<u>5,341,683</u>

The following tables show the fair value hierarchy for fixed and current asset investments and other financial assets:

As at 31 December 2018	Level 1	Level 2	Level 3
	£	£	£
Investments in mutual funds	5,327,763	—	—
Investments in debt securities	—	157,479,695	—
Forward foreign exchange contracts	—	13,920	—
As at 31 December 2019	Level 1	Level 2	Level 3
	£	£	£
Investments in mutual funds	5,769,797	—	—
Investments in debt securities	—	151,170,835	16,347,707
Forward foreign exchange contracts	—	846,801	—

11. Deferred tax asset

	2019	2018
	£	£
<i>Deferred tax assets are attributable to the following:</i>		
Differences between accumulated depreciation and capital allowances	62,956	75,676
Other timing differences	58,310	1,168,336
	<u>121,266</u>	<u>1,244,012</u>

Barings (U.K.) Limited

Notes to the Financial Statements (continued)

12. Debtors

	2019	2018
	£	£
Fee debtors	3,817,870	167,318
Amounts owed by MassMutual group undertakings	863,458	19,795,781
Other debtors	1,523,026	2,131,125
Prepayments and accrued income	594,719	3,944,144
	<u>6,799,073</u>	<u>26,038,368</u>

All debtors are due within one year.

13. Cash and cash equivalents

	2019	2018
	£	£
Cash at bank and in hand	17,006,033	30,247,012
Money market mutual funds	12,771,031	—
	<u>29,777,064</u>	<u>30,247,012</u>

14. Creditors

	2019	2018
	£	£
Current		
Amounts owed to MassMutual group undertakings	5,041,908	28,288,229
Accruals and deferred income	791,777	656,763
Other creditors including taxation and social security	1,452,258	412,021
Lease provision	343,000	931,000
Loan from Barings LLC	136,560,248	129,681,317
	<u>144,189,191</u>	<u>159,969,330</u>

The Company has made a provision at the end of year of £343,000 (2018: £931,000) in respect of the costs that will be incurred to reinstate its previous premises to its required status.

On 20 August 2014, a loan facility agreement was entered into between Barings LLC ("the Lender") and the Company ("the Borrower") which gave the Borrower the right to request loans in aggregate principal amounts not to exceed the maximum facility amount of US\$100m. The maximum facility amount was increased to US\$250m on 17 December 2018. On 15 November 2018, the loan was amended to allow the lender to call for immediate repayment on demand. Accordingly, and notwithstanding the fact that the facility maturity date is 31 December 2022, the loan has been classified as a creditor payable within one year.

In total, nine Euro denominated loans have been advanced to the Company from the facility with the following interest rates:

Barings (U.K.) Limited

Notes to the Financial Statements (continued)

14. Creditors (continued)

Interest Rate	Loan €	Year advanced
EURIBOR plus 1.70% per annum	17,000,000	2019
EURIBOR plus 1.80% per annum	16,700,000	2018
EURIBOR plus 1.30% per annum	16,400,000	2018
EURIBOR plus 1.10% per annum	21,000,000	2018
EURIBOR plus 1.30% per annum	18,400,000	2017
EURIBOR plus 1.80% per annum	16,500,000	2016
EURIBOR plus 1.20% per annum	16,600,000	2015
EURIBOR plus 1.30% per annum	22,500,000	2014
EURIBOR plus 1.40% per annum	16,163,950	2014
	2019	2018
Non-current	£	£
Preference shares classified as liabilities	300,000	300,000
	<u>300,000</u>	<u>300,000</u>

15. Other financial liabilities

	2019	2018
	£	£
Other financial liabilities		
Financial liabilities held for trading (including derivatives)	6,828	531,272
	<u>6,828</u>	<u>531,272</u>

16. Financial instruments

a) Carrying amount of financial instruments

The carrying amount of the financial assets and liabilities include:

	2019	2018
	£	£
Assets measured at fair value through profit and loss	174,135,140	162,821,378
Liabilities measured at fair value through profit and loss	6,828	531,272

b) Financial instruments measured at fair value

Financial instruments at fair value are shown in note 10. The valuation of investments has been categorised by levels. Level 1 is the quoted market price. Level 2 is where instruments do not have a regular market price, but their fair value can be determined based upon data values or market price. Level 3 is where a fair value cannot be found by using readily observable inputs or measures. The values for investments, not held in the CLO warehouses, have been determined by a third party firm providing specialist pricing services and corroborated through broker quotes. The Company held an investment in a CLO warehouse at 31 December 2019. The input used to value the warehouse investment was that the CLO priced prior to the year end, which meant that the warehouse investors were virtually certain to receive back their principal.

Barings (U.K.) Limited

Notes to the Financial Statements (continued)

16. Financial instruments (continued)

b) Financial instruments measured at fair value (continued)

Forward foreign exchange contracts (level 2) are measured at the profit or loss that would be realised if the open positions were closed out at the year end with the counterparty.

Financial risk management

The Company's activities expose it to a variety of financial risks arising from the management of below-investment grade corporate credit funds. These risks could result in a reduction of the profits available for distribution.

These risks include market price, foreign currency exchange rate, liquidity risk, and credit.

The Company's approach to managing risk is set out in the Directors' Report.

Market price and foreign currency exchange rate risk

The Company is exposed to market and foreign currency risk in the investments recorded in note 10 which comprise:

- investments in CLO's (required by EU Securitization Regulation (2019))
- investments in mutual funds to hedge potential liabilities
- forward foreign exchange contracts

and in addition the management fees earned are based upon values of assets managed which will be impacted by movements in the markets.

All positions are monitored by the Company, on an active basis, in its capacity as the Manager.

The Company is exposed to the Euro due to the investments being Euro denominated. The exchange risk has been mitigated due to the investments having been largely financed by a Euro denominated loan (note 14). The residual balance sheet foreign exchange exposure caused by the investment has been hedged with forward foreign exchange contracts.

A 5% decrease in the value of Pound Sterling would change the value of the forward foreign exchange contracts outstanding at the year-end (a 5% increase would have the opposite impact) by the following amounts. Any gain/loss on the contracts, as detailed in the above paragraph, would be offset by a loss/gain on the investment.

	2019	2018
	£	£
Forward foreign exchange contracts:		
Euro	1,789,111	1,139,334
	<u>1,789,111</u>	<u>1,139,334</u>

Liquidity risk

The Company ensures that adequate levels of liquidity are maintained well in excess of its current and total liabilities.

Credit risk

Credit risk is created if one party to a financial instrument causes a financial loss for another party by failing to discharge an obligation. The Company seeks to mitigate the risk by diversifying its cash holding across multiple financial institutions.

Barings (U.K.) Limited

Notes to the Financial Statements (continued)

17. Share capital

	2019	2018
	£	£
Allocated, called up and fully paid:		
1 Preferred Ordinary share of £1 each	1	1
560,000 Ordinary shares of £1 each	560,000	560,000
Balance as at 31 December	560,001	560,001

18. Immediate and ultimate parent company

The Company's parent company is Barings Guernsey Limited and ultimate parent company is Massachusetts Mutual Life Insurance Company. The ultimate controlling party is Massachusetts Mutual Life Insurance Company.

The largest group in which the results of the Company are consolidated is that headed by Massachusetts Mutual Life Insurance Company. The consolidated financial statements of Massachusetts Mutual Life Insurance Company can be found on their website.

The Company's immediate parent company, Barings Guernsey Limited, does not prepare consolidated financial statements.

19. Related Party disclosure

As the Company is a wholly owned subsidiary of Massachusetts Mutual Life Insurance Company which prepares consolidated financial statements, the Company has taken advantage of the exemption contained in paragraph 33.1A of FRS 102 and has therefore not separately disclosed transactions or balances with entities which form part of the Massachusetts Mutual Life Insurance Group.

The Company during the year provided investment management services to 10 CLOs (2018: 8 CLO's). The Company received management fees as set out in the agreements with those CLOs. The total amounts received and receivable from the CLOs in respect of fees, that is included in note 2, was £16,279,343 (2018: £12,626,115). As at 31 December, the amount of fees due from the CLOs, that are included in note 12, was £4,319,334 (2018: £3,173,604). The CLOs pay their fees quarterly in advance and as at 31 December deferred income of £559,312 (2018: £nil) was included in creditors in note 14.

The Company receives interest on the fixed asset investments that it has in the CLOs. The total interest received and receivable from the CLOs, included in note 7, was £6,115,159 (2018: £4,202,938). As at 31 December, the interest receivable from the CLOs, included in note 12, was £689,012 (2018: £411,176).

20. Contingent liabilities and commitments

The Company operates in regulated markets and its activities are overseen by a number of financial regulators. The Company may be subject to review by these regulators, however, the directors are not able to determine the likelihood, timing or potential impact of any such review.

21. Subsequent events

The spread of COVID-19 around the world in the first quarter of 2020 has caused significant volatility in global markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.K. and international economies and, as such, the Company is actively monitoring the extent of the impact to its operations, financial accounting and reporting. There was no impact to the Company's annual accounts as of 31 December 2019. There are no other subsequent events that have occurred up until the date that the financial statements were available to be issued that the Company believes necessitates disclosure or adjustment.