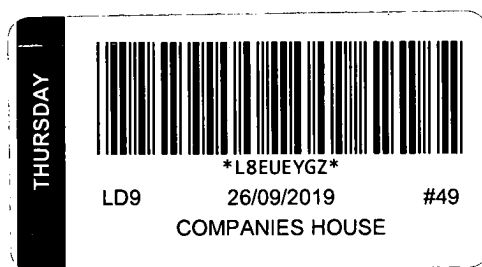


CAPSTONE INVESTMENT ADVISORS (UK), LLP
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018



CAPSTONE INVESTMENT ADVISORS (UK), LLP

LIMITED LIABILITY PARTNERSHIP INFORMATION

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 Bank of America 2 King Edward Street London EC1A 1HQ

CAPSTONE INVESTMENT ADVISORS (UK), LLP

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CAPSTONE INVESTMENT ADVISORS (UK), LLP

MEMBERS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The members present their Annual Report and financial statements for the year ended 31 December 2018.

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

Policy on members' drawings and capital

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

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

Members' interests

During the year discretionary profits of £2,175,786 were allocated to members.

Auditors

The auditors, Frank Hirth & Co LLP, are deemed to be reappointed under section 487(2) of the Companies Act 2006.

CAPSTONE INVESTMENT ADVISORS (UK), LLP

MEMBERS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

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 (as applied by The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008) 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. Under company law (as applied by The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008) 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 have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the limited liability partnership will continue in business.

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

Statement of disclosure to auditors

Each of the members in office at the date of approval of this annual report confirms that:

- so far as the members are aware, there is no relevant audit information of which the limited liability partnership's auditors are unaware, and
- the members have taken all the steps that they ought to have taken as members in order to make themselves aware of any relevant audit information and to establish that the limited liability partnership's auditors are aware of that information.

Approved by the members on 5 March 2019 and signed on behalf by:



Capstone Investment Advisors, LLC
Designated Member

CAPSTONE INVESTMENT ADVISORS (UK), LLP

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of Capstone Investment Advisors (UK), LLP (the 'limited liability partnership') for the year ended 31 December 2018 which comprise the statement of comprehensive income, the balance sheet, the reconciliation of members' interests, the statement of cashflows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the limited liability partnership's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's *responsibilities for the audit of the financial statements* section of our report. We are independent of the limited liability partnership in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

The members are responsible for the other information. The other information comprises the information included in the members' report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

CAPSTONE INVESTMENT ADVISORS (UK), LLP

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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.

Responsibilities of members

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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.

A handwritten signature in dark ink, appearing to read "AA Grieve".

Andrew Grieve FCA (Senior Statutory Auditor)
for and on behalf of Frank Hirth & Co LLP

5 March 2019

Chartered Certified Accountants
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 2018

	Notes	2018 £	2017 £
Turnover	3	8,455,071	9,619,472
Cost of sales		(1,019,926)	(600,377)
Gross profit		<u>7,435,145</u>	<u>9,019,095</u>
Administrative expenses		(4,136,361)	(3,996,990)
Profit for the financial year before members' remuneration and profit shares		<u>3,298,784</u>	<u>5,022,105</u>
Profit for the financial year before members' remuneration and profit shares		3,298,784	5,022,105
Members' remuneration charged as an expense	7	(1,122,998)	(892,024)
Profit for the financial year available for discretionary division among members		<u>2,175,786</u>	<u>4,130,081</u>
Total comprehensive income for the year		<u>2,175,786</u>	<u>4,130,081</u>

CAPSTONE INVESTMENT ADVISORS (UK), LLP

BALANCE SHEET

AS AT 31 DECEMBER 2018

	Notes	2018 £	£	2017 £	£
Fixed assets					
Tangible assets	8		757,230		913,581
Current assets					
Debtors	9	5,717,302		5,836,873	
Cash at bank and in hand		1,732,837		4,001,086	
		<u>7,450,139</u>		<u>9,837,959</u>	
Creditors: amounts falling due within one year	10	<u>(1,335,250)</u>		<u>(1,222,871)</u>	
Net current assets			6,114,889		8,615,088
Total assets less current liabilities			<u>6,872,119</u>		<u>9,528,669</u>
Represented by:					
Loans and other debts due to members within one year					
Amounts due in respect of profits			959,629		3,626,179
Members' other interests					
Members' capital classified as equity			5,912,490		5,902,490
			<u>6,872,119</u>		<u>9,528,669</u>
Total members' interests					
Amounts due from members			(5,169,500)		(5,421,384)
Loans and other debts due to members			959,629		3,626,179
Members' other interests			5,912,490		5,902,490
			<u>1,702,619</u>		<u>4,107,305</u>

The financial statements were approved by the members and authorised for issue on 5 March 2019 and are signed on their behalf by:


Capstone Investment Advisors, LLC
Designated member

Limited Liability Partnership Registration No. OC330201

CAPSTONE INVESTMENT ADVISORS (UK), LLP

RECONCILIATION OF MEMBERS' INTERESTS FOR THE YEAR ENDED 31 DECEMBER 2018

Current financial year	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 (classified as equity)	Other reserves	Total	Other amounts	Total	Total 2018
	£	£	£	£	£	£
Amounts due to members				3,626,179		
Amounts due from members				(5,421,364)		
Members' interests at 1 January 2018	5,902,490	-	5,902,490	(1,795,185)	(1,795,185)	4,107,305
Members' remuneration charged as an expense, including employment costs and retirement benefit costs	-	-	-	1,122,998	1,122,998	1,122,998
Profit for the financial year available for discretionary division among members	-	2,175,786	2,175,786	-	-	2,175,786
Members' interests after profit and remuneration for the year	5,902,490	2,175,786	8,078,276	(672,187)	(672,187)	7,406,089
Allocation of profit for the financial year	-	(2,175,786)	(2,175,786)	2,175,786	2,175,786	-
Introduced by members	10,000	-	10,000	-	-	10,000
Drawings	-	-	-	(5,508,572)	(5,508,572)	(5,508,572)
Other movements - net funds withdrawn	-	-	-	(204,898)	(204,898)	(204,898)
Members' interests at 31 December 2018	5,912,490	-	5,912,490	(4,209,871)	(4,209,871)	1,702,619
Amounts due to members				959,629		
Amounts due from members, included in debtors				(5,169,500)		
				(4,209,871)		

CAPSTONE INVESTMENT ADVISORS (UK), LLP

RECONCILIATION OF MEMBERS' INTERESTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Prior financial year

	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 (classified as equity)	Other reserves	Total	Other amounts	Total	Total 2017
	£	£	£	£	£	£
Amounts due to members				11,618,340		
Amounts due from members				(4,664,181)		
Members' interests at 1 January 2017	5,892,490	-	5,892,490	6,954,159	6,954,159	12,846,649
Members' remuneration charged as an expense, including employment costs and retirement benefit costs	-	-	-	892,024	892,024	892,024
Profit for the financial year available for discretionary division among members	-	4,130,081	4,130,081	-	-	4,130,081
Members' interests after profit and remuneration for the year	5,892,490	4,130,081	10,022,571	7,846,183	7,846,183	17,868,754
Allocation of profit for the financial year	-	(4,130,081)	(4,130,081)	4,130,081	4,130,081	-
Introduced by members	10,000	-	10,000	-	-	10,000
Drawings	-	-	-	(12,584,131)	(12,584,131)	(12,584,131)
Other movements - net funds injected	-	-	-	(1,187,318)	(1,187,318)	(1,187,318)
Members' interests at 31 December 2017	5,902,490	-	5,902,490	(1,795,185)	(1,795,185)	4,107,305
Amounts due to members				3,626,179		
Amounts due from members, included in debtors				(5,421,364)		
				(1,795,185)		

CAPSTONE INVESTMENT ADVISORS (UK), LLP

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £	£	2017 £	£
Cash flows from operating activities					
Cash generated from operations	17	3,435,221		4,258,683	
Net cash used in investing activities			-		-
Financing activities					
Capital introduced by members (classified as debt or equity)		10,000		10,000	
Payments to members that represent a return on amounts subscribed or otherwise contributed		(5,713,470)		(13,771,449)	
Net cash used in financing activities		(5,703,470)		(13,761,449)	
Net decrease in cash and cash equivalents		(2,268,249)		(9,502,766)	
Cash and cash equivalents at beginning of year		4,001,086		13,503,852	
Cash and cash equivalents at end of year		1,732,837		4,001,086	

CAPSTONE INVESTMENT ADVISORS (UK), LLP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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' 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 January 2017, 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. Undivided 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 2018

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 7 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 at bank and in hand

Cash at bank and in hand are basic financial assets and 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 received.

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 2018

1 Accounting policies (Continued)

1.11 Retirement benefits and post retirement payments to members

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

1.12 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:

	2018 £	2017 £
Turnover analysed by class of business		
Income from the rendering of services	8,455,071	9,619,472
	<u> </u>	<u> </u>
	2018 £	2017 £
Turnover analysed by geographical market		
United States of America	8,455,071	9,619,472
	<u> </u>	<u> </u>

CAPSTONE INVESTMENT ADVISORS (UK), LLP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

4 Operating profit

	2018	2017
	£	£
Operating profit for the year is stated after charging/(crediting):		
Exchange (gains)/losses	(6,192)	6,581
Depreciation of owned tangible fixed assets	156,351	157,957
Operating lease charges	599,491	599,491
	<u>599,491</u>	<u>599,491</u>

5 Auditor's remuneration

	2018	2017
	£	£
Fees payable to the LLP's auditors and associates:		
For audit services		
Audit of the financial statements of the LLP	29,800	31,000
	<u>29,800</u>	<u>31,000</u>
For other services		
Taxation compliance services	25,787	20,037
All other non-audit services	413	813
	<u>26,200</u>	<u>20,850</u>

6 Employees

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

	2018	2017
	Number	Number
Advisory	5	4
Administration	20	16
	<u>25</u>	<u>20</u>

Their aggregate remuneration comprised:

	2018	2017
	£	£
Wages and salaries	2,826,200	2,123,779
Social security costs	352,069	248,309
Pension costs	62,224	49,261
	<u>3,240,493</u>	<u>2,421,349</u>

CAPSTONE INVESTMENT ADVISORS (UK), LLP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

7 Members' remuneration

	2018 Number	2017 Number
Average number of members during the year	8	6
	2018 £	2017 £
Profit attributable to the member with the highest entitlement	1,217,597	3,365,107
	2018 £	2017 £
Remuneration under participation rights	1,122,998	892,024

8 Tangible fixed assets

	Short leasehold land and buildings £	Plant and machinery £	Fixtures, fittings and equipment £	Total £
Cost				
At 1 January 2018 and 31 December 2018	915,266	85,392	396,792	1,397,450
Depreciation and impairment				
At 1 January 2018	254,759	78,902	150,208	483,869
Depreciation charged in the year	96,652	3,012	56,687	156,351
At 31 December 2018	351,411	81,914	206,895	640,220
Carrying amount				
At 31 December 2018	563,855	3,478	189,897	757,230
At 31 December 2017	660,507	6,490	246,584	913,581

9 Debtors

	2018 £	2017 £
Amounts falling due within one year:		
Amounts owed by members	5,169,500	5,421,364
Other debtors	236,160	111,939
Prepayments and accrued income	311,642	303,570
	5,717,302	5,836,873

CAPSTONE INVESTMENT ADVISORS (UK), LLP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

10 Creditors: amounts falling due within one year

	2018 £	2017 £
Trade creditors	168,231	37,343
Other taxation and social security	408,155	298,544
Other creditors	23,986	9,120
Accruals and deferred income	734,878	877,864
	<u>1,335,250</u>	<u>1,222,871</u>

11 Retirement benefit schemes

Defined contribution schemes

The limited liability partnership operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme 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 £62,224 (2017 - £49,261).

12 Loans and other debts due to members

	2018 £	2017 £
Analysis of loans		
Amounts falling due within one year	<u>959,629</u>	<u>3,626,179</u>

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

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

13 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:

	2018 £	2017 £
Within one year	568,867	682,640
Between two and five years	-	568,867
	<u>568,867</u>	<u>1,251,507</u>

The property lease commitment is based on the lease term to 30 October 2024 which includes an option to break in 31 October 2019. The lease is presently under negotiation and if the break option was exercised then the lease commitment after that date would cease for that property.

CAPSTONE INVESTMENT ADVISORS (UK), LLP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

14 Related party transactions

At the balance sheet date £130,878 (2017: £35,591) is included in debtors 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.

15 Members' transactions

During the year the limited liability partnership provided management services to Capstone Investment Advisors, LLC totalling £8,455,071 (2017: £9,619,472).

16 Controlling party

The ultimate controlling party is P Britton (2017: P Britton) by virtue of his interest in the designated member, Capstone Investment Advisors, LLC, a company incorporated in the United States of America (2017: Capstone Investment Advisors, LLC).

17 Cash generated from operations	2018 £	2017 £
Profit for the year	3,298,784	5,022,105
Adjustments for:		
Depreciation and impairment of tangible fixed assets	156,351	157,957
Movements in working capital:		
(Increase)/decrease in debtors	(132,293)	309,624
Increase/(decrease) in creditors	112,379	(1,231,003)
Cash generated from operations	3,435,221	4,258,683

Capstone Investment Advisors (UK), LLP

Pillar 3 Risk Disclosure

Year Ended 31 December 2018

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:

- Katrina Paglia (CF10)
- Thomas Stott (CF4, CF11)
- Stephen Watkins (CF28)

Capstone Investment Advisors (UK), LLP
Pillar 3 Risk Disclosure
Year Ended 31 December 2018

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 2018, the Firm on a solo basis held regulatory capital resources of £5,912,490, comprised solely of core Tier 1 capital of members' original capital contributions.

Capstone Investment Advisors (UK), LLP
Pillar 3 Risk Disclosure
Year Ended 31 December 2018

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 2018, the Firm's Pillar 1 capital requirement was £852,000.

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.

Capstone Investment Advisors (UK), LLP
Pillar 3 Risk Disclosure
Year Ended 31 December 2018

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%.

Capstone Investment Advisors (UK), LLP
Pillar 3 Risk Disclosure
Year Ended 31 December 2018

The table below sets forth the Firm's credit exposures and corresponding capital resource requirements as at 31 December 2018:

Solo Basis	Credit Exposure	Risk Weighted Exposure
National Governments	£ nil	£ nil
Tangible fixed assets	£757,230	£757,230
Due from affiliates – within 3 months	£nil	£nil
Due from affiliates – after 3 months	£5,169,500	£5,169,500
Cash at bank	£1,732,837	£346,567
Prepayments	£311,642	£311,642
Other	£236,160	£236,160
	-----	-----
Total	£8,207,369	£6,821,099
	=====	=====
Credit Risk Capital Component (8% of risk weighted exposure)		£545,688

Capstone Investment Advisors (UK), LLP
Pillar 3 Risk Disclosure
Year Ended 31 December 2018

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 2018, 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 £4m.