# Ares Management UK Limited

**Report and Financial Statements**

For the year ended 31 December 2017

Registered no. 08708339

Registered no. 08708339

## Directors

Michael Daniel Weiner
Kevin Early
William Stephen Benjamin
Blair Jacobson
Ujjaval Yogesh Desai (resigned 30 September 2017)
Gregory Alan Margolies (resigned 30 September 2017)
Robert Kipp DeVeer III (resigned 30 September 2017)

## Secretary

TMF Corporate Administration Services Limited
6 St Andrew Street
5th Floor
London
EC4A 3AE

## Auditor

Ernst & Young LLP
25 Churchill Place
London
E14 5EY

## Bankers

JPMorgan Chase Bank N.A
25 Bank Street
London
E14 5JP

## Solicitors

Travers Smith
10 Snow Hill
London
EC1A 2AL

## Registered Office

6 St Andrew Street
5th Floor
London
EC4A 3AE

Registered no. 08708339

# Directors' report

The directors present their report and financial statements of Ares Management UK Limited (the "Company") for the year ended 31 December 2017.

## Principal activity

The principal activity of the Company during the year ended 31 December 2017 was to provide advisory and investment management services. The Company was incorporated on 27 September 2013 and is a wholly owned subsidiary of Ares Management LLC ("Ares Management"). The Company is authorised by the Financial Conduct Authority to perform investment management activity that is subject to licensing requirements in the United Kingdom.

On 22 July 2014 the investment management of all the Alternative Investment Funds previously managed by Ares Management Limited, an affiliate of the Company, were transferred to Ares Management UK Limited.

## Directors

Directors who served during the year and up to the date of this report were:

| | |
|---|---|
| Michael Daniel Weiner | |
| Kevin Early | |
| William Stephen Benjamin | |
| Blair Jacobson | |
| Ujjaval Yogesh Desai | (resigned 30 September 2017) |
| Gregory Alan Margolies | (resigned 30 September 2017) |
| Robert Kipp DeVeer III | (resigned 30 September 2017) |

## Going concern

The Company's activities, together with the factors likely to affect its future development, its financial position and the financial risks are described in the strategic report.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company will continue to receive financial support from its parent. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

As the Company has sufficient financial resources and fee generating Investment Management Agreements, the directors believe that the Company is well placed to manage its business risks successfully.

## Pillar 3 disclosures

The Unaudited Pillar 3 disclosures are appended to the financial statements.

## Disclosure of information to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

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# Directors' report (continued.)

## Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report, the Strategic 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the 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 those 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 United Kingdom Generally Accepted Accounting Practices (United Kingdom Accounting Standards and applicable law) have been followed, subject to any material departures disclosed and explained in the financial statements; and prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Reappointment of auditors

The auditors, Ernst & Young, LLP, have indicated their willingness to continue in office. A resolution concerning their reappointment will be put to the members at the annual general meeting.

By the order of the Board

Kevin W. Early

Kevin Early

Director

Registered no. 08708339

# Strategic report

The directors present their strategic report together with the financial statements of the Company for the year ended 31 December 2017.

## Results and dividends

The profit for the year ended 31 December 2017 is £2,401,334 (2016: £4,516,033 ). The directors do not recommend a dividend be paid for the year (2016: nil).

## Review of the business

The key financial and other performance indicators during the year were as follows:

| | *2017* | *2016* |
|---|---|---|
| | *£000* | *£000* |
| Turnover | 27,509 | 23,688 |
| Profit after tax | 2,401 | 4,516 |
| Shareholders' funds | 13,931 | 11,536 |
| Current assets as % of current liabilities | 133% | 202% |
| Average number of employees | 0 | 0 |

As at 31 December 2017, acts as investment manager of the following funds.

Ares Capital Europe, L.P.

Ares Capital Europe II (E), L.P.

Ares Capital Europe II (D), L.P.

ACE II Master Fund, L.P.

ACE ESSLP Holdco Cayman, L.P.

Ares Capital Europe III (E), L.P.

Ares Capital Europe III (D), L.P.

Ares Capital Europe III Master , L.P.

Ares Capital Europe III Acquisition , L.P.

Ares European Real Estate Fund IV, LP

Ares European Real Estate (Cayman) Feeder Fund IV, LP

Ares European Real Estate Management IV, L.P.

Ares European Property Enhancement Partners II, L.P.

## Principal risks and uncertainties

The Company has established an investment committee focused on managing the risks, growth and strategy of the Company. The principal risks and uncertainties facing the Company are broadly grouped as competitive, legislative and financial instrument risks.

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# Strategic report (continued)

**Competitive Risks**

The Company is reliant on underwriters being able to raise capital and place tranches of the funds for which the Company acts as investment manager. Sale of these tranches is uncertain and based on financial market conditions and certain performance criteria.

**Legislative Risks**

In the UK and Europe, investment management companies are subject to certain standards. These standards are subject to continuous revision and any new directive may have a material impact on the ability of the Company to provide investment management services at a profit. In addition compliance imposes costs and failure to comply with the standards could materially affect the Company's ability to operate.

**Financial Instrument Risks**

The Company has established a financial management framework whose primary objectives are to protect the Company from events that hinder the achievement of the Company's performance objectives.

The objectives aim to ensure sufficient working capital exists and monitor the management of risk at the funds level.

**Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company aims to mitigate liquidity risk by managing cash generation from operations. The Company also manages liquidity risk via possible additional equity investments from the parent company.

## Future Developments

The Directors do not expect any change in the principal activity of the Company in the foreseeable future.

## Events since the balance sheet date

No significant events had occurred since 31 December, 2017.

By the order of the Board

Kevin Early

Director

Registered no. 08708339

## Independent auditor's report to the member of Ares Management UK Limited

### Opinion

We have audited the financial statements of Ares Management UK Limited for the year ended 31 December 2017 which comprise Profit and Loss Account, the Balance Sheet, Statement of Changes in Equity, Statement of cash flows, and the related notes 1 to 15, 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 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 company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### 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 below. We are independent of the company 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.

### Use of our report

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.

### 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 directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company'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 other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 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
- 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.

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement [set out on page...], the directors 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 directors 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 directors are responsible for 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 the directors either intend to liquidate the company 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 https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Ernst & Young LLP

Ashley Coups (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
25 April 2018

# Profit and loss account

**for the year ended 31 December 2017**

| | Notes | 2017 £000 | 2016 £000 |
|---|---|---|---|
| ***Turnover*** | 3 | 27,509 | 23,688 |
| Administrative Expenses | | (24,509) | (18,598) |
| ***Operating profit*** | 4 | 3,000 | 5,090 |
| Interest income and similar charges | | 29 | - |
| Interest payable and similar charges | | - | (4) |
| ***Profit on ordinary activities before taxation*** | | 3,029 | 5,086 |
| Tax on profit on ordinary activities | 7 | (628) | (569) |
| ***Profit on ordinary activities after taxation*** | | 2,401 | 4,517 |

All items dealt with in arriving at the profit for the year ended 31 December 2017 related to continuing operations.

## Statement of comprehensive income for the year ended 31 December 2017

There are no other gains and losses for the year other than those shown above and therefore no separate statement of comprehensive income has been presented.

The notes on pages 12 to 18 form an integral part of these financial statements.

# Statement of changes in equity

**for the year ended 31 December 2017**

| | *Share Capital* *£000* | *Profit and loss account* *£000* | *Total Shareholders' funds* *£000* |
|---|---|---|---|
| At 1 January 2016 | 4,500 | 2,513 | 7,013 |
| Profit for the year | - | 4,517 | 4,517 |
| At 31 December 2016 | 4,500 | 7,030 | 11,530 |
| Profit for the year | - | 2,401 | 2,401 |
| At 31 December 2017 | 4,500 | 9,431 | 13,931 |

The notes on pages 12 to 18 form an integral part of these financial statements.

# Balance sheet
**at 31 December 2017**

| | Notes | 2017 £000 | 2016 £000 |
|---|---|---|---|
| ***Fixed assets*** | | | |
| Intangible assets | 8 | 141 | 381 |
| ***Current assets*** | | | |
| Debtors | 9 | 49,936 | 11,334 |
| Cash and cash equivalents | | 5,198 | 10,722 |
| ***Total current assets*** | | 55,134 | 22,056 |
| ***Creditors:*** amounts falling due within one year | 10 | (41,344) | (10,907) |
| ***Net current assets*** | | 13,790 | 11,149 |
| ***Total assets less current liabilities*** | | 13,931 | 11,530 |
| ***Net assets*** | | 13,931 | 11,530 |
| ***Capital and reserves*** | | | |
| Called up share capital | 11 | 4,500 | 4,500 |
| Profit and loss account | | 9,431 | 7,030 |
| ***Shareholders' funds*** | | 13,931 | 11,530 |

The notes on pages 12 to 18 form an integral part of these financial statements.

The financial statements on pages 8 to 18 were approved and authorised on 24 April 2018 for issue on behalf of the directors.

Kevin Early

Director

# Cash flow statement
**for the year ended 31 December 2017**

| | Note | 2017 £000 | 2016 £000 |
|---|---|---|---|
| ***Cash generated from operating activities*** | 12 (a) | (4,984) | (15,460) |
| Interest paid | | - | (4) |
| Tax paid | | (569) | - |
| ***Net cash generated from operating activities*** | | (5,553) | (15,464) |
| ***Investing activities*** | | | |
| Interest received | | 29 | - |
| ***Net cash inflow from investing activities*** | | 29 | - |
| ***Decrease in cash and cash equivalents*** | | (5,524) | (15,464) |
| ***Cash and cash equivalents at 1 January*** | | 10,722 | 26,186 |
| ***Cash and cash equivalents at 31 December*** | 12 (b) | 5,198 | 10,722 |

There were no cash flows from investing or financing activities.

The notes on pages 12 to 18 form part of these financial statements.

# Notes to the financial statements

**at 31 December 2017**

## 1. Accounting Policies

### Organisation and business

The Company commenced operations on 22 July 2014 and is a wholly owned subsidiary of Ares Management LLC ("Ares Management"), a United States based company. Ares Management is the parent company of various operating subsidiaries which include the Company. The operating subsidiaries are generally either investment managers and /or general partners of various investment funds (the "Ares Funds"). These subsidiaries provide investment management services to the Ares Funds in exchange for investment management fees.

### Basis of preparation

The financial statements are prepared in compliance with FRS 102 on a going concern basis, under the historical cost convention and are prepared in accordance with the Companies Act 2006. The accounting practices have been applied consistently by the Company. The financial statements have been prepared in the British pound sterling (£) which is also the functional currency.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies selected for use by the Company. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

### Intangible assets

Intangible assets acquired separately from a business are capitalised at cost. Subsequent to initial recognition, intangible assets are stated at cost less accumulated amortisation. Amortisation is provided on a straight line basis over the expected useful life of the assets as follows:

Management contracts acquired – four years

The carrying value of the intangible asset is reviewed for impairment at least annually.

### Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in administrative expenses.

### Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short term deposits with an original maturity date of three months or less.

Cash and cash equivalents are measured at fair value, based on the relevant exchange rates at the reporting date.

### Turnover

Turnover is recognised to the extent that the Company obtains the right to consideration in exchange for its performance of services. Turnover is measured at the fair value of the consideration received, excluding discounts, rebates, Value Added Tax ("VAT") and other taxes or duty. The following criteria must also be met before turnover is recognised:

# Notes to the financial statements (continued)

**at 31 December 2017**

## 1. Accounting Policies (continued)

### Turnover (continued)

*Rendering of services*

Revenue from base investment management fees are based on a stated percentage of net asset values for the funds. Non-incentive fees are recognised as revenue in the period that the management services are rendered. Investment management fees are recognised as revenue when collection of such fees is certain following a fund's determination date.

*Incentive Income*

Incentive fees are based on certain specific hurdle rates as defined in the applicable investment management agreements or governing documents. Substantially all incentive fees are earned from affiliated funds of the Company. Incentive fees are recognised when collection is fixed and ascertainable following a fund's determination date and usually coincides with the period in which the Company collects cash or the period immediately preceding cash collection.

*Special fees*

Revenue may also include special fees such as administration fees paid to the Company in connection with the operations of the Company. The nature of these fees is specific to the administrative services provided by the Company. Such fees would be included in turnover in the profit and loss account and are recognised as revenue when earned.

### Provisions for liabilities

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions for the expected costs of maintenance under guarantees are charged against profits when services have been invoiced. The effect of the time value of money is not material; therefore the provisions are not discounted.

### Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are revalued at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

### Taxation

Income tax expense represents the sum of the current tax and deferred tax.

The charge for current tax is based on the result for the year adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Current and deferred tax is recognised in the same component of the profit and loss account, other comprehensive income or equity as the transaction or event that resulted in the tax expenses or income.

Deferred tax assets are recognised to the extent that they are regarded as recoverable which is to the extent that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

# Notes to the financial statements (continued)

**at 31 December 2017**

## 2. Critical accounting estimates and judgements

In preparing the financial statements, management is required to make estimates and assumptions which affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates, together with past performance and expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

**Estimated impairment of intangible assets**

The entity annually reviews whether the intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. Management uses its judgement to consider if the expected useful life of the assets has decreased.

## 3. Turnover

Turnover principally represents the amounts derived from the provision of investment management services, stated net of Value Added Tax. For the year ended 31 December 2017, investment management fees earned were £27,308,299 (2016: £21,482,640). Other turnover, which is primarily comprised of foreign exchange gains, was £201,150 (2016: £2,205,394).

## 4. Operating profit

Operating profit is stated after charging:

| | *2017* | *2016* |
|---|---|---|
| | *£000* | *£000* |
| Amortisation of intangible assets (see note 8) | 240 | 301 |
| Impairment of intangible assets | - | 101 |
| Foreign exchange gain | 201 | 2,205 |
| Auditor remuneration (see note 5) | 19 | 18 |

## 5. Auditors' Remuneration

The remuneration of the auditors is further analysed as follows:

| | *2017* | *2016* |
|---|---|---|
| | *£000* | *£000* |
| Audit of the financial statements | 19 | 18 |
| | 19 | 18 |

# Notes to the financial statements (continued)

**at 31 December 2017**

## 5. Directors' emoluments

None of the directors received any compensation for services rendered as directors of the Company for the period ended 31 December 2017 (2016: nil).

## 6. Staff costs

The Company has no employees.

## 7. Tax on profit on ordinary activities

(a) Tax charge for the period.

| | *2017* | *2016* |
|---|---|---|
| | *£000* | *£000* |
| UK Corporation tax on profit for the year | 628 | 569 |
| Total current tax for the year | 628 | 569 |

(b) Factors affecting the charge for the year

| | *2017* | *2016* |
|---|---|---|
| | *£000* | *£000* |
| Profit on ordinary activities before taxation | 3,029 | 5,086 |
| Corporation tax at 19.25% (2016 - 20.00%) | 583 | 1,017 |
| Expenses not deductible for tax purposes | 45 | 80 |
| Utilised tax losses | - | (528) |
| Total tax charge for the year | 628 | 569 |

# Notes to the financial statements (continued)
**at 31 December 2017**

## 8. Intangible assets

| | *Total* |
|---|---|
| | *£000* |
| Cost: | |
| At 1 January 2017 | 1,225 |
| Disposal | (246) |
| At 31 December 2017 | 979 |
| Amortisation and impairment: | |
| At 1 January 2017 | (844) |
| Amortisation charge | (240) |
| Disposal | 246 |
| At 31 December 2017 | (838) |
| Net realisable value at 31 December 2017 | 141 |
| Net realisable value at 31 December 2016 | 381 |

On 22 July 2014 the Company acquired the investment management contracts of several alternative investment funds from AML. The total purchase price was recorded as an intangible asset and is being amortised over four years which is the length of the contracts.

## 9. Debtors

| | *2017* | *2016* |
|---|---|---|
| | *£000* | *£000* |
| Management fee receivable | 5,602 | 10,633 |
| Amounts due from affiliated parties | 44,213 | 487 |
| Prepayments | 120 | 116 |
| VAT | 1 | 93 |
| Other debtors | - | 5 |
| | 49,936 | 11,334 |

# Notes to the financial statements (continued)

**at 31 December 2017**

## 10. Creditors: amounts falling due within one period

| | 2017 | 2016 |
|---|---|---|
| | £000 | £000 |
| Amounts due to affiliated parties | 39,881 | 9,077 |
| Accruals | 634 | 899 |
| Deferred revenue | 201 | 362 |
| Corporation tax payable | 628 | 569 |
| | 41,344 | 10,907 |

## 11. Share capital

| | 2017 | 2016 |
|---|---|---|
| | £000 | £000 |
| *Allotted, called up and fully paid* | | |
| Ordinary shares £1 each | 4,500 | 4,500 |

## 12. Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash outflow from operating activities:

| | 2017 | 2016 |
|---|---|---|
| | £000 | £000 |
| Operating profit | 3,000 | 5,089 |
| Amortisation and impairment of intangible assets | 240 | 402 |
| Increase in debtors | (38,602) | (8,238) |
| Increase / (decrease) in creditors | 30,378 | (12,713) |
| Cash generated from operations | (4,984) | (15,460) |

(b) Cash and cash equivalents

Cash and cash equivalents are fully comprised of current accounts.

# Notes to the financial statements (continued)

**at 31 December 2017**

## 13. Related party transactions

During the year ended 31 December 2017, the Company entered into certain related party transactions with Ares Management Limited and Ares Management LLC. The summary of these transactions is disclosed as follows:

| Affiliated Party | Relationship | Transaction Type | Amount |
|---|---|---|---|
| | | | £000 |
| Ares Management Limited | Affiliate | Cost Recharge | (22,373) |
| Ares Management LLC | Parent | Transfer Pricing | (11,810) |

As at 31 December 2017, the Company owed £39,880,688 (2016: £9,076,614) to its affiliates and was due £44,212,880 (2016: £487,096) from its affiliates. As at 31 December 2017, the Company was owed £5,602,960 (2016: £10,634,177) from the funds it manages.

## 14. Financial commitments

At 31 December 2017, the Company had nil commitments (2016:nil).

## 15. Ultimate parent undertaking

The Company is immediately controlled by Ares Management LLC, a company incorporated in the United States of America and ultimately controlled by Ares Management LP. Copies of the financial statements are available from Ares Management LP 2000 Avenue of the Stars, 12th Floor, Los Angeles, California, 90067, USA.

# Appendix I

# (Unaudited)

# Ares Management UK Limited

# Pillar 3 Disclosure

## Introduction

Ares Management UK Limited ("the Firm" or "AMUKL") as a Collective Portfolio Management Investment Firm ("CPMI") is subject both to the EU's Alternative Investment Funds Directive Levels 1 and 2 ("AIFMD") and Capital Requirements Directive 2006 ("CRD") ,the FCA's General Prudential Sourcebook ("GENPRU"), the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") and the Interim Prudential sourcebook for Investment Businesses ("IPRU-INV"). As AMUKL makes Pillar 3 disclosures annually at its accounting reference date (31st December) as an appendix to its annual audited financial statements, this Pillar 3 disclosure is being made in accordance with the CRD and the relevant FCA rules.

The CRD established a regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investments firms must maintain. The CRD represented the European Union's application of the Basel Capital Accord and in the United Kingdom CRD was originally implemented by the Financial Services Authority ("FSA") through the GENPRU and BIPRU. As of 1 April 2013 the FSA was disbanded and replaced by two regulatory bodies: the Financial Conduct Authority ("FCA") and the Prudential Regulatory Authority ("PRA"). AMUKL is regulated by the FCA.

The CRD framework comprises three 'Pillars':

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

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

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

AMUKL is permitted to omit required disclosures if it believes that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information.

In addition, required disclosures may be omitted where the Firm believes that the information is regarded as proprietary or confidential. In AMUKL's view, proprietary information is that which, if it were shared, would undermine the Firm's competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties.

The Firm has not omitted disclosures on the grounds that it is immaterial, proprietary or confidential other than where noted in this document.

### Scope and Application of the Requirements

AMUKL is incorporated in England and Wales. It is subject to minimum regulatory capital requirements set by the FCA. The Firm has no trading book exposures. The Firm is not a member of an EEA group and so is not required to prepare consolidated reporting for prudential purposes.

The Firm is wholly owned by Ares Management LLC (the "Parent"), a US-based investment management company which in turn is owned by Ares Management LP. It was authorised as a CPMI firm by the FCA on 22 July 2014, and its principal business activity is the provision of investment management services to alternative investment funds ("AIFs").

### Governance Framework and Risk Management

The Firm has in place a Board of Directors (the "Board") which is responsible for determining its business strategy and risk appetite, together with designing and implementing a risk management framework that recognises the risks that the business faces, determines how those risks may be mitigated, and assesses the ongoing management of those risks. The Board meets at least annually, and more often as required, to discuss current projections for profitability and capital management, business planning, and risk management. The Board manages the Firm's risks through a framework of policies and procedures having regard to relevant laws, standards, principles and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required. The Firm manages only AIFs and considers the robust, effective structure of systems and controls it has in place appropriate to the size, nature and complexity of its business.

The Firm's Board and senior management team has accepted collective responsibility for compliance. The Firm's Compliance Officer along with the Parent's Chief Compliance Officer and his team in Los Angeles is responsible for compliance oversight. In addition, the Firm also utilises the services of external consultants, who provide advice and assistance on a range of regulatory matters and also undertake regular monitoring and produce reports summarising work performed and recommendations for improvements.

The Board has identified market, credit, business and operational risks as the main areas of risk to which the Firm is exposed. The adequacy of the Firm's regulatory capital in relation to these and other less significant risks is assessed through its Internal Capital Adequacy Assessment Process ("ICAAP"). The Board reviews and approves the ICAAP on an annual basis and uses it as an important part of the Firm's business planning and capital management.

### Regulatory Capital

The Firm is a private limited company and its capital arrangements are established in its Articles of Association. All of its capital is tier 1 with deductions against it for intangible assets.

| *Capital summary as at 31 December 2017:* | *£000* |
|---|---|
| Ordinary share capital | 4,500 |
| Retained profit | 9,431 |
| Total tier 1 capital before deductions | 13,931 |
| Deduct intangible assets | (141) |
| Total capital resources | 13,790 |

The Firm is small with a simple operational infrastructure. Its market risk is limited to foreign exchange risk on its cash, accounts receivable in foreign currency. The Firm follows the standardised approach to market risk. It has adopted the Simplified standard and not the Internal Ratings Based approach to credit risk. The Firm is subject to the Fixed Overhead Requirement and is not required to calculate an operational risk capital charge though it considers this as part of its process to identify the level of risk based capital required.

As noted the Firm is classified as a CPMI firm and as such its Pillar 1 capital requirement is an initial capital requirement of €125k and an ongoing capital resource requirement which comprises the greater of:-

i. the funds under management requirement (the sum of the Firm's base own funds requirements of €125k plus 0.02% of the amount by which the Firm's funds under management (related to AIFs) exceeding €250m) ("FUMR"); and
ii. the own funds based on fixed overheads requirement ("FOR"); plus

Whichever is the applicable:

i. the professional negligence capital requirement of 0.01% of AUM("additional own funds requirement");( The Firm has opted for this) or
ii. the professional indemnity insurance ("PII") capital requirement.

As the FUMR based on the 31 December 2016 AUM and financials is £1,435k, the implied total AIFMD capital requirement is £4,286k being the sum of the 2016 FOR (£3,601k) and 0.01% of Assets (£684k) under Management. The leaves a surplus of £9,504k.

As a CPMI firm, the Firm must also maintain capital resources in excess of the variable capital requirement (being the higher of its fixed overhead requirement ("FOR") and the sum of the credit risk and market risk capital requirements) as they relate to the Firm's non-AIF business. However as the Firm currently does not have any non AIF business the credit and market risk requirements do not apply.

The Firm's ICAAP assesses the amount of capital required to mitigate the risks to which it is exposed over a three year time horizon. The 2017 ICAAP considers the impact of future business plans as well as potential adverse scenarios (such as market downturns or significant operational errors) on the capital resources of the Firm, to ensure regulatory capital requirements are met at all times.

In addition, the Firm has considered the effect of a significant drop in management and performance fee income caused by poor investment performance or other reputational damage / loss and has assessed whether additional capital is required to withstand a 1 in 25 year type adverse scenario. The Firm also calculates realistic wind-up costs and is comfortable that regulatory capital held would allow it to wind up in an orderly fashion.

Based on the risk assessment and stress testing described above the Firm's management concluded that additional Pillar 2 capital was not required for 2017. All of the significant risks identified in the Pillar 2 review were more than adequately covered by the Pillar 1 regulatory capital requirement. The ICAAP also showed that the Firm was compliant with the FCA's 'overall financial adequacy rule' and the 'overall pillar 2 rule' contained in GENPRU and BIPRU.

### Remuneration Code

The Firm is required to comply with the remuneration rules as set out in Article 14 of the alternative investment fund managers directive ("AIFMD") and SYSC 19B of the FCA Handbook (the "AIFM Remuneration Code"), as well as SYSC 19C (the "BIPRU Remuneration Code"). Although the Firm has directors (who are not remunerated by the Firm), it has no employees. However as it uses the services of employees of Ares Management Limited the Firm has assessed the remuneration structure for its directors and indirect employees in line with the FCA AIFM Remuneration Code and has adopted policies and procedures designed to ensure that risk is monitored and mitigated in line with the AIFM Remuneration Code.

The Remuneration Codes can (subject to certain conditions being met) be applied in a proportionate way. As such senior management has determined that it is not proportionate for the Firm to apply the following detailed rules in setting the Firm's Remuneration Policy:

- SYSC 19B 1.17 – Retained units, shares and other instruments;
- SYSC 19B.1.18 – Deferral; and
- SYSC 19B.1.19, 19B 1.20 – Performance adjustment

The Board, in accordance with the Parent's firm-wide compensation guidelines determines the Firm's remuneration policy on at least an annual basis. AMUKL's annual review of bonuses and performance related remuneration assesses the overall profits of the Firm and the business division along with the individual's financial and non-financial performance.

### Remuneration Code Staff Remuneration by Business Area (BIPRU 11.5.18(6))

| Business Area | Total Remuneration y/e 31/12/17 |
|---|---|
| Investment Management Services | £30,433,974 |

### Aggregate Quantitative Remuneration by Senior Management and other Remuneration Code Staff (BIPRU 11.5.18(7))

| Type of Remuneration Code Staff | Total Remuneration |
|---|---|
| Senior Management (SIF) | £4,724,266 |
| Other Remuneration Code Staff | £25,709,708 |
| **Totals** | £30,433,974 |