

EnⓉrustPermal

ENTRUSTPERMAL LTD.

Annual Report for the year ended 31 March 2018

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Registered number: 03535219



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## Strategic report

### Strategic report for the year ended 31 March 2018

The directors present their strategic report on EnTrustPermal Ltd. ("the Company") for the year ended 31 March 2018.

#### Review of the business

As a leading global alternative asset manager, EnTrustPermal group has the talent, scale and resources to bring clients meaningful innovation in a dynamic industry. With histories dating back to 1997 and 1973 respectively, EnTrust and Permal combined their deep industry knowledge and expertise in May 2016 to lead the way forward in alternative investing, creating EnTrustPermal.

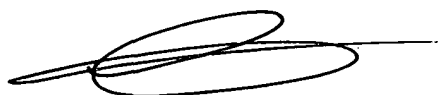
The Company's turnover from management and incentive fees for the year was \$63.3 million (*2017: \$103.7 million*). The Company's profit before interest and taxation amounted to \$7.7 million for the year (*2017: \$1.9 million loss*). The prior year loss before interest and taxation was primarily due to one-off restructuring costs as part of the EnTrust and Permal merger.

At 31 March 2018, unearned incentive fee revenue in respect of performance periods ending after 31 March 2018 amounted to \$2 million (*2017: \$1.3 million*). As required under United Kingdom Generally Accepted Accounting Practice ("UK GAAP"), this income has not been included in these financial statements as it is not yet due to the Company.

The directors believe the primary challenges of the Company are, and will continue to be, maintaining the value proposition of alternative investments, competition in the space, increasing regulatory requirements, and the impact of rising costs. The directors believe that by staying relevant through constant development, bespoke investment solutions, creation of onshore alongside offshore options, and through intelligent cost management, the Company will be well placed to mitigate these challenges.

The directors are considering the nature and extent of risks and uncertainties arising from the result of the UK referendum to leave the European Union and the impact on the future performance and position of the business.

On behalf of the Board



M. McDonough  
Director  
23 July 2018

## Directors' report

### Directors' report for the year ended 31 March 2018

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2018.

### Future developments

The EnTrustPermal Group, with 11 offices globally, will continue to offer investment solutions through customised portfolios, co-investments, direct investments and established funds across alternative strategies including diversified, strategy focused and opportunistic. At the core of the firm's culture is a strong emphasis on personal service, a high level of communication, extensive due diligence and proprietary risk management.

### Dividends

The Company paid no dividends during the year (2017: \$266 million). The directors recommend that no final dividend be paid in respect of the fiscal year (2017: Nil).

### Political donations and political expenditure

No donations were made to EU or non-EU political parties by the Company and its subsidiaries.

### Financial instruments

Risk is inherent in the business and activities of the Company. The Company's approach to risk management involves the identification and assessment of the risks, to which the Company is exposed, and monitoring and managing such risks. The Company has identified different risks that could impact directly or indirectly on the Company's financial position. The Company aims to mitigate the impact of each of the risks noted below by implementing control policies and procedures.

- **Credit risk** is the risk that a counterparty will be unable or unwilling to meet a commitment in full when due. Financial assets which potentially subject the Company to concentrations of credit risk consist principally of money market funds, bank balances, amounts due from EnTrustPermal sponsored funds and amounts due from group undertakings.

The table below shows the credit ratings of the bank balances at the balance sheet date.

	2018	2017
Financial institutions with external credit rating (Standard & Poor's)	\$'000	\$'000
A	566	4,915
AA-	152	-
Not rated	2	-
	720	4,915

For the amounts due from group undertakings and EnTrustPermal funds, the directors consider the credit risk to be low as the group undertakings and EnTrustPermal funds are financially viable and monthly settlement of receivables are closely monitored.

The Company limits its exposure to credit risk by transacting most of its contractual commitment activities with banks and counterparties which the directors believe to have acceptable credit ratings and which the Company considers to be well established.

- **Market risk** is the risk that arises from fluctuation in values of investment assets due to changes in market prices or exchange rates. The Company's indirect market risk typically arises from the use of EnTrustPermal Group cash to seed new investment funds sponsored or managed by the Company. The Company's reduction in fee revenues is an indirect market risk, which may result from adverse performance in investment portfolios. Direct market risk is mitigated by limiting and diversifying seed investments. Indirect market risk is mitigated by providing a wide selection of diversified investment products with performance that is not correlated.

## Directors' report

### Directors' report for the year ended 31 March 2018 (continued)

#### Financial Instruments

- **Operational risk** is the risk of loss resulting from inadequate or failed processes, people and systems from external events. Due to the importance of maintaining effective operational controls in respect of its business activities, the Company will only regard "low degree" as an acceptable level of post control operational risk.
- **Interest rate risk** is the risk that arises from fluctuation in values of assets and liabilities from changes in interest rates. The Company's indirect interest rate risk is mainly related to clients' investment portfolio exposure to fixed income securities. To mitigate interest rate risk, the Company and the EnTrustPermal Group has a disciplined and rigorous investment selection process, including an Investment Committee that unanimously approves all investments and a Risk Management Team that scrutinises investment returns and consequent risk by quantitative and qualitative analysis. The Company's activities that relate directly to interest rate risk include inter-company loans and cash management exposure. The Company keeps its excess cash at banks and receives a floating rate of interest on these deposits. The directors of the Company do not consider it necessary to actively manage interest rate risk, apart from placing excess cash in banks with a market interest rate.
- **Currency risk** is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's business is impacted through its exposure to non-U.S. Dollar denominated income, expense, assets and liabilities. The currency exposure is monitored and is actively managed when required.
- **Liquidity risk** is the risk that the Company will encounter difficulty in meeting obligations with financial liabilities. It is the Company's policy to have enough cash on hand to meet its current obligations.

#### Pillar 3 disclosures

In accordance with the rules of the Financial Conduct Authority ("FCA"), the Company as part of the EnTrustPermal Group has published information on its risk management objectives and policies, remuneration disclosure policy and on its regulatory requirements and resources ("Pillar 3 disclosures"). This information is available on the group's website [www.entrustpermal.com](http://www.entrustpermal.com).

#### Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

O. Kodmani  
F. Becquaert  
M. McDonough

None of the above directors had any disclosable interest in the share capital of the Company during the year.

#### Qualifying third-party and pension scheme indemnity provisions

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last fiscal year and is currently in force. The Company also purchased and maintained throughout the fiscal year Directors' and Officers' liability insurance in respect of itself and its Directors.

#### Branches outside the UK

The Company closed its branch in Dubai in March 2018 (opened June 2005) and the DFSA license was revoked on 29 March 2018.

## Directors' report

### Directors' report for the year ended 31 March 2018 (continued)

#### Statement of directors' responsibilities

The directors are responsible for preparing the strategic report and 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 fiscal year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102, the Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102) 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 these financial statements, the directors 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 United Kingdom Accounting Standards, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of 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 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.

In accordance with Companies Act 2006, Section 418, the report must contain a statement to the effect that, in the case of each of the persons who are directors at the time when the report is approved, the following applies:

- as far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make him/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

#### Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General meeting.

On behalf of the Board



M. McDonough  
Director  
23 July 2018

## **Independent auditors' report to the members of EnTrustPermal Ltd**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion, EnTrustPermal Ltd.'s financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Statement of Financial Position; the Income Statement, the Statement of Changes in Equity; and the notes to the financial statements, which include a description of the significant accounting policies.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

#### **Conclusions relating to going concern**

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

- 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

#### **Reporting on other information**

The other information comprises all the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

## **Independent auditors' report to the members of EnTrustPermal Ltd (continued)**

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

### **Strategic Report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

## **Responsibilities for the financial statements and the audit**

### **Responsibilities of the directors for the financial statements**

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

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.

### **Auditors' 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 auditors' 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 FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### **Use of this report**

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



## **Independent auditors' report to the members of EnTrustPermal Ltd (continued)**

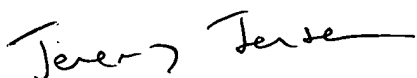
### **Other required reporting**

#### **Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Jeremy Jensen (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
23 July 2018

# ENTRUSTPERMAL LTD.

*(All amounts in US\$ thousands unless otherwise stated)*

## Income statement

	Note	For Year ended 31 March	
		2018	2017
<b>Revenue</b>	3f, 5	<b>72,187</b>	115,248
Cost of sales		<b>(30,167)</b>	(71,919)
<b>Gross profit</b>		<b>42,020</b>	43,329
Administrative expenses	6	<b>(34,412)</b>	(45,288)
Other operating income	7	<b>23</b>	28
<b>Operating profit/(loss)</b>		<b>7,631</b>	(1,931)
Income from other fixed asset investments	10	<b>106</b>	-
<b>Profit/(loss) before interest and taxation</b>		<b>7,737</b>	(1,931)
Finance income	11	<b>391</b>	201
Finance costs	11	<b>(4)</b>	(26)
<b>Profit/(loss) before taxation</b>		<b>8,124</b>	(1,756)
Tax on profit/(loss)	12	<b>(2,377)</b>	(68)
<b>Profit/(loss) for the financial year</b>		<b>5,747</b>	(1,824)

The notes on pages 13 to 25 are an integral part of these financial statements.

# ENTRUSTPERMAL LTD.

(All amounts in US\$ thousands unless otherwise stated)

## Statement of financial position

As at 31 March

	Note	2018	2017
<b>Fixed assets</b>			
Intangible assets	13	326	1,051
Tangible assets	14	333	490
Investments	15	1,143	2,148
		<b>1,802</b>	<b>3,689</b>
<b>Current assets</b>			
Trade receivables	16	60,857	45,243
Cash and cash equivalents		720	4,915
		<b>61,577</b>	<b>50,158</b>
<b>Creditors: amounts falling due within one year</b>	17	<b>(25,922)</b>	<b>(22,979)</b>
<b>Net current assets</b>		<b>35,655</b>	<b>27,179</b>
<b>Total assets less current liabilities</b>		<b>37,457</b>	<b>30,868</b>
<b>Net assets</b>		<b>37,457</b>	<b>30,868</b>
<b>Equity</b>			
Called up share capital	18	13,544	13,544
Other reserves		-	-
Retained earnings		23,913	17,324
<b>Total equity</b>		<b>37,457</b>	<b>30,868</b>

The financial statements on pages 10 to 25 were authorised for issue by the board of directors on 23 July 2018 and were signed on its behalf.



M. McDonough  
Director

EnTrustPermal Ltd.  
Registered no. 03535219

The notes on pages 13 to 25 are an integral part of these financial statements.

(All amounts in US\$ thousands unless otherwise stated)

**Statement of changes in equity for the year ended 31 March 2018**

	Called up share capital	Share premium account	Other reserves*	Retained earnings	Total Equity
<b>Balance as at 31 March 2016</b>	<b>13,544</b>	-	<b>25,038</b>	<b>258,438</b>	<b>297,020</b>
Balance as at 1 April 2016	13,544	-	25,038	258,438	297,020
Loss for the fiscal year	-	-	-	(1,824)	(1,824)
Bonus issue of shares	-	-	-	25,038	25,038
Capital reduction	-	-	(25,038)	-	(25,038)
Equity settled stock options	-	-	-	1,684	1,684
Dividends	-	-	-	(266,012)	(266,012)
Total transactions with owners, recognised directly in equity	-	-	(25,038)	(241,114)	(266,152)
<b>Balance as at 31 March 2017</b>	<b>13,544</b>	-	-	<b>17,324</b>	<b>30,868</b>
Balance as at 1 April 2017	13,544	-	-	17,324	30,868
Profit for the fiscal year	-	-	-	5,747	5,747
Bonus issue of shares	-	-	-	-	-
Capital reduction	-	-	-	-	-
Equity settled stock options	-	-	-	842	842
Dividends	-	-	-	-	-
Total transactions with owners, recognised directly in equity	-	-	-	6,589	6,589
<b>Balance as at 31 March 2018</b>	<b>13,544</b>	-	-	<b>23,913</b>	<b>37,457</b>

(\*) Other reserves consist of:

- Common control reserve; and
- Capital contribution reserve

The notes on pages 13 to 25 are an integral part of these financial statements.

*(All amounts in US\$ thousands unless otherwise stated)*

**Notes to the financial statements for the year ended 31 March 2018**

**1. General information**

The principal activities of EnTrustPermal Ltd. (the “Company”) are the provision of investment management services and the distribution of funds operated by the EnTrustPermal Group. There has been no change in the principal activities of the Company during the year or those of the Company’s wholly owned subsidiaries.

The Company is incorporated and domiciled in the UK. The address of its registered office is 12 St. James’s Square, London, SW1Y 4LB.

The Company is authorised and regulated by the FCA to conduct investment business as a BIPRU limited licence firm and is registered as an alternative investment fund manager (“AIFM”) under the Alternative Investment Fund Managers Directive (“AIFMD”). The Company is authorised by the Central Bank of Ireland as a Service Provider to Funds and as an AIFM operating in Ireland on a Cross-Border Basis.

**2. Statement of compliance**

The individual financial statements of EnTrustPermal Ltd have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” (“FRS 102”) and the Companies Act 2006, under the provision of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

**3. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Company has adopted FRS 102 in these financial statements.

**a) Basis of preparation**

These financial statements are prepared on a going concern basis, under the historical cost convention, in accordance with the Companies Act 2006 and applicable Accounting Standards in the United Kingdom, as modified by the revaluation of land and buildings and certain financial assets and liabilities measured at fair value through profit or loss. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

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 Company’s accounting policies. 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 4.

The financial statements are prepared in U.S. Dollars which, in the opinion of the directors, is the currency of the primary economic environment in which the Company operates.

**b) Going concern**

The Company meets its day-to-day working capital requirements through its bank facilities. The current economic conditions continue to create uncertainty over (a) the level of demand for the Company’s products; and (b) the availability of bank finance for the foreseeable future. The Company’s forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current facilities. 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 therefore continues to adopt the going concern basis in preparing its financial statements.

*(All amounts in US\$ thousands unless otherwise stated)*

**Notes to the financial statements for the year ended 31 March 2018 (continued)**

**3. Summary of significant accounting policies (continued)**

c) Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemption. The Company has taken advantage of the following exemptions for qualifying entities:

- The Company has taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a statement of cash flows, on the basis that it is a qualifying entity and its ultimate parent company, Legg Mason Inc., includes the Company's cash flows in its own consolidated financial statements.
- According FRS 102 paragraph 26.18(b), the Company qualifies for an exemption to disclose certain requirements of Section 26 in respect of share based payments provided that (i) for a subsidiary the share based payment concerns equity instruments of another group entity; or (ii) for an ultimate parent the share based payment concerns its own equity instruments and its separate financial statements are presented alongside the consolidated financial statements of the group; and in both cases the equivalent disclosures are included in the consolidated financial statements of Legg Mason Inc. in which the entity is consolidated.
- The Company has qualified for an exemption of non-disclosure of key management personnel compensation in total in accordance with FRS 102 para 33.7.
- The Company is also exempt under the terms of FRS 102 paragraph 33.1(a) from disclosing related party transactions with entities that are part of the Legg Mason Inc. consolidated group.

d) Consolidated financial statements

The Company is a wholly-owned subsidiary of EnTrustPermal LLC incorporated in the United States. EnTrustPermal LLC is a majority-owned subsidiary of EnTrustPermal Group Holdings LLC., incorporated in the United States and is included in the consolidated financial statements of Legg Mason Inc., incorporated in the U.S., which are publicly available. Consequently, under the provisions of section 401 of the Companies Act 2006, the Company is exempt from the requirements to prepare and deliver to the Registrar of Companies consolidated financial statements of the Company and its subsidiaries.

These financial statements are the Company's separate financial statements.

e) Foreign currency

*(i) Functional and presentational currency*

The Company's functional and presentational currency is U.S. Dollar and rounded to thousands.

*(ii) Transactions and balances*

Income and expenditure arising from foreign currency transactions are translated into U.S. Dollars at the average exchange rate in operation during the month in which the transaction occurred.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into U.S. Dollars at the rate of exchange prevailing on that date. The closing rate as at 31 March 2018 was £1:\$1.4225 (2017: £1:\$1.2496). Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

*(All amounts in US\$ thousands unless otherwise stated)*

**Notes to the financial statements for the year ended 31 March 2018 (continued)**

**3. Summary of significant accounting policies (continued)**

**f) Revenue recognition**

**(i) *Revenue***

Revenue consists of five major categories, corresponding to the several types of fees and other revenue received by the Company under its management agreements with the Funds:

- Management fees are based on a percentage of average assets under management, and are calculated monthly and paid monthly or quarterly. Management fee revenue is recognised over the period in which services are performed.
- Performance fees are based on a percentage of the return achieved by the relevant Fund and are calculated monthly and paid quarterly or annually. They are subject to high water mark provisions or hurdle rates. The performance fees are recognised at the end of the performance measurement period when the performance fee crystallises and therefore becomes due to the Company.
- Distribution fees are based on a percentage of average assets under management, and are calculated monthly and paid monthly or quarterly. Distribution fee revenue is recognised over the period in which services are performed.
- Shareholder service fees are based on a percentage of average assets under management, and are calculated monthly and paid monthly or quarterly. Shareholder service fee revenue is recognised over the period in which services are performed.
- Other revenue consists of either non-recurring fees paid by the Funds, other revenue unconnected with the Company's management agreements and intercompany revenue from the Company's subsidiaries. This revenue is recognised over the period in which the services are performed.

**(i) *Rebates***

Rebates represent ongoing payments made to the distributors of the Funds under fee sharing agreements. Such agreements are generally based on a fixed percentage of the assets under management which are attributable to the distributor. They are recognised and presented in the same way as the associated revenue (fixed, performance and other) and are paid on a quarterly basis.

EnTrustPermal offers its employees a discount equivalent to the full management fee and the shareholder service fee of the Fund. The discount is paid to the employee as a rebate. During the year the Company did not pay any rebates to employees and directors of the EnTrustPermal Group (2017: \$22,712).

**g) Exceptional items**

The Company classifies charges or credits that have a material impact on the Company's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the Company.

**h) Employee benefits**

The Company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined benefit and defined contribution pension plans.

**(i) *Short term benefits***

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

**(ii) *Pensions***

The Company operates a Group Personal Pension scheme and continues to charge contributions to the profit and loss account when payable.

(All amounts in US\$ thousands unless otherwise stated)

**Notes to the financial statements for the year ended 31 March 2018 (continued)**

**3. Summary of significant accounting policies (continued)**

**h) Employee benefits**

*(iii) Share-based payments*

Under the deferred compensation plan, the Company's ultimate parent, Legg Mason Inc. (Parent), awards eligible employees restricted shares in the Parent. The Company has accounted for such share-based payments in line with FRS 20 as equity-settled transactions. The fair value of shares vested and recharged from the Parent has been recorded as an inter-company payable position. The fair value measured is amortised over the period during which employees become unconditionally entitled to the shares with no adjustment for changes in market value of the Parent shares granted.

Legg Mason Inc. issues stock options to directors and key employees. Options under Legg Mason's employee stock plans have been granted at prices not less than 100% of the fair market value at the time of the grant. Options are generally exercisable in equal increments over 3 to 5 years and expire within 5 to 10 years from the date of grant. Options are valued using the Black-Scholes option-pricing model. The Company has accounted for such stock options in line with FRS 20 as equity-settled transactions. The fair value of options recharged from the Parent has been recorded as an inter-company payable position. The fair value measured is amortised over the period during which employees become unconditionally entitled to the options with no adjustment for changes in market value of the Parent options granted.

*(iv) Annual bonus plan*

The company operates an annual bonus plan for employees. An expense is recognised in the profit and loss account when the company has a legal or constructive obligation to make payments under the plan because of past events and a reliable estimate of the obligation can be made.

**i) Taxation**

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account.

Current or deferred taxation assets and liabilities are not discounted.

*(i) Current tax*

Current tax, including UK Corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

*(ii) Deferred tax*

Deferred taxation is provided on all timing differences that have originated but not reversed by the balance sheet date other than those differences regarded as permanent. Deferred tax assets are not recognised to the extent that the transfer of economic benefits is uncertain. Any asset or liability for deferred tax is provided at the average rate of tax expected to apply when the asset or liability crystallises.

**j) Intangible assets**

Software purchased from third parties and internally developed software in respect of major systems is capitalised and stated at cost less accumulated amortisation and any accumulated impairment losses. Software is amortised over its estimated useful life of three years from the date of implementation on a straight-line basis. Other small software costs are written off to profit and loss account as incurred.

Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances. The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.



*(All amounts in US\$ thousands unless otherwise stated)*

**Notes to the financial statements for the year ended 31 March 2018 (continued)**

**3. Summary of significant accounting policies (continued)**

**k) Tangible assets**

Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs and borrowing costs capitalised.

Land is not depreciated. Other tangible assets are depreciated on a straight-line basis over their estimated useful lives at the following annual rates:

Computer equipment	- 33.3%
Office furniture and equipment	- 33.3%
Software	- 33.3%
Internally developed software	- 33.3%
Telephone equipment	- 25.0%
Leasehold fittings	- over the term of the lease or useful economic life

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

**l) Borrowing costs**

Finance costs are expensed in the year they are incurred.

**m) Leased assets**

At inception the Company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

*(i) Operating leased assets*

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Rent payable is charged to expenses on a straight-line basis over the term of the lease. The effects of scheduled and specified rent increases are recognised on a straight-line basis over the term of the lease.

*(ii) Finance leased assets*

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases. The Company does not have any finance leases as of the reporting date.

**n) Impairment of non-financial assets**

At each balance sheet date non-financial assets which are not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit) may be impaired. In case the recoverable amount is lower than the carrying amount of the asset, an impairment loss is recognised in the profit and loss account of that period. Goodwill arises on the acquisition or transfer of EnTrustPermal Group subsidiaries and represents the excess of the consideration over the net fair value of identifiable assets, liabilities and contingent liabilities. Goodwill is amortised over its expected useful life of 10 years. Goodwill impairment reviews are undertaken when events or circumstances indicate a potential impairment.

**o) Investments**

Fixed asset investments relate to the Company's wholly-owned subsidiaries. The holdings are included in the financial statements at cost less any provision for diminution in value. Impairment reviews are undertaken when events or circumstances indicate a potential impairment

*(All amounts in US\$ thousands unless otherwise stated)*

**Notes to the financial statements for the year ended 31 March 2018 (continued)**

**3. Summary of significant accounting policies (continued)**

**p) Cash and cash equivalents**

Cash and cash equivalents include cash in hand, cash at bank and investments in group undertakings which are deemed highly liquid investments with original maturities of 90 days or less. Excess cash is generally invested in institutional money market funds.

**q) Provisions and contingencies**

*(i) Provisions*

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

*(ii) Contingencies*

Contingent liabilities, arising because of past events, are not recognised when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

**r) Financial instruments**

The company has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

*(i) Financial assets*

Basic financial assets, including trade and other receivables, cash and bank balances and investments in commercial paper, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

*(ii) Financial liabilities*

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies and preference shares, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or

*(All amounts in US\$ thousands unless otherwise stated)*

**Notes to the financial statements for the year ended 31 March 2018 (continued)**

**3. Summary of significant accounting policies (continued)**

**r) Financial instruments**

*(ii) Financial liabilities*

all the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate.

The Company does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

*(iii) Offsetting*

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle to liability simultaneously.

*(iv) Creditor payment policy*

It is the policy of the Company to pay all invoices in accordance with contract and payment terms. Unless agreed otherwise, these terms are taken to be 30 days from the date of the invoice. The number of days represented by trade creditors falling due for payment within one year compared to the total amounts invoiced by suppliers during the year is 1 day (2017:1 day).

**s) Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**t) Distributions to equity holders**

Dividends and other distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the Company's shareholders. These amounts are recognised in the statement of changes in equity.

**u) Related party transactions**

The Company discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with members of the same group that are wholly owned.

(All amounts in US\$ thousands unless otherwise stated)

**Notes to the financial statements for the year ended 31 March 2018 (continued)**

**4. Critical accounting judgements and estimation uncertainty**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed and regularly reviewed by the Company.

**5. Revenue**

Analysis of revenue by category:	2018	2017
Management and shareholders' services fees	61,392	109,951
Performance fees	5,385	1,279
Other revenue	5,410	4,018
	<b>72,187</b>	<b>115,248</b>
Analysis of revenue by geography:	2018	2018
Netherlands Antilles	22,410	44,235
British Virgin Islands	19,046	36,213
Europe	19,761	18,435
China	5,079	6,632
United States	-	5
Other	5,891	9,728
	<b>72,187</b>	<b>115,248</b>

**6. Administrative expenses**

Operating profit/(loss) is stated after charging/(crediting):	2018	2017
Salaries	16,525	19,071
Social security costs	2,223	2,103
Pension costs	657	739
Other staff benefits	1,659	2,607
Holiday pay accrual reversal	-	(110)
<b>Staff costs</b>	<b>21,064</b>	<b>24,410</b>
Exchange (gains) / losses	(1,411)	918
Depreciation of tangible fixed assets	169	1,352
Amortisation of intangible fixed assets	780	1,414
Operating lease and related occupancy charges	2,460	3,594
Audit fees payable to the Company's auditor	199	(59)
Other professional fees	6,336	6,681
Other operating expenses	4,815	6,978
	<b>34,412</b>	<b>45,288</b>

In accordance with SI 2008/489 the Company has not disclosed the fees payable to the Company's auditor for 'Other services' as this information is included in the consolidated financial statements of Legg Mason Inc.

(All amounts in US\$ thousands unless otherwise stated)

## Notes to the financial statements for the year ended 31 March 2018 (continued)

### 7. Other operating income

	2018	2017
Sublease rental income	(23)	(28)

Other operating income relates to sublease rent from Western Asset Management Company Ltd. in Dubai.

### 8. Employees and directors

The average monthly number of employees (including directors) during the year was 41 (2017: 54).

Number of employees by department as of 31 March:	2018	2017
Investments	9	10
Sales	8	14
Operations	34	31
	51	55

Directors' emoluments were as follows:	2018	2017
Directors' total remuneration was made up as follows:		
- aggregate value of emoluments	9,075	8,553
- contributions to directors' personal pension schemes	27	26
	9,102	8,579

Highest paid director:		
- total amount of emoluments	4,997	4,856
- contributions to director's personal pension scheme	13	13

Retirement benefits are accruing under a defined contribution pension scheme for two directors (2017: 2). The directors exercised share options during the year (2017: Nil). During the year, Legg Mason restricted stock vested for the directors.

### 9. Share-based payments

The following share-based award program which is settled in equity is in operation by the Company for eligible directors and key employees:

#### Legg Mason Inc. share option plan

Legg Mason Inc. issues stock options to directors and key employees. Options under Legg Mason's employee stock plans have been granted at prices not less than 100% of the fair market value. Options are generally exercisable in equal increments over 3 to 5 years and expire within 5 to 10 years from the date of grant. Options are valued using the Black-Scholes option-pricing model.

Certain directors and employees hold options to subscribe for shares in Legg Mason Inc. at prices ranging from \$27.45 to \$100.77. The total stock option expense for the year ended 31 March 2018 was \$37,361 (2017: \$78,840).

### 10. Income from other fixed asset investments

Dividends received	2018	2017
25 September 2017 – Permal (Singapore) Pte. Ltd - \$0.11 per share	106	-
	106	-

*(All amounts in US\$ thousands unless otherwise stated)***Notes to the financial statements for the year ended 31 March 2018 (continued)****11. Net interest income**

<b>a) Finance income</b>	<b>2018</b>	<b>2017</b>
Bank interest received	59	19
Interest receivable on group undertakings	332	182
	<b>391</b>	<b>201</b>
<b>b) Finance costs</b>		
Interest payable on group undertakings	(4)	(26)

**12. Tax on profit/(loss)**

<b>a) Tax expense included in income statement</b>	<b>2018</b>	<b>2017</b>
Current tax:		
- UK Corporation tax payable for the year	(1,553)	(351)
- Adjustments in respect of prior periods	(549)	-
Total current tax	<b>(2,102)</b>	<b>(351)</b>
Deferred tax:		
- Origination and reversal of timing differences	-	396
- Deferred tax on stock options and restricted shares	(265)	-
- Deferred tax on pensions	(10)	-
- Deferred tax asset on holiday pay accrual reversal	-	23
Total deferred tax	<b>(275)</b>	<b>419</b>
<b>Tax on profit</b>	<b>(2,377)</b>	<b>68</b>

**b) Reconciliation of tax charge**

The tax assessed for the year is higher than (2017: *higher than*) the standard rate of Corporation tax in the United Kingdom of 19% (2017: 20%).

	<b>2018</b>	<b>2017</b>
Profit before taxation	8,124	(1,756)
Profit tax on ordinary activities at 19% (2017: 20%)	1,544	(351)
Effects of:		
- Disallowable expenses	396	-
- S101 CTA 2009 deductions	(367)	-
- Dividends from fixed asset investments	(20)	-
<b>Tax charge for the year</b>	<b>1,553</b>	<b>(351)</b>

**c) Tax rate changes**

The UK Corporation tax rate for the current year is 19% (2017: 20%).

**d) Provision for deferred tax**

	Accelerated capital allowances	Other timing differences	Total
Asset at 1 April 2017 at 17% (2016: 20%)	-	594	594
Deferred tax charge in income statements for year	-	(275)	(275)
<b>Asset at 31 March 2018 at 17% (2017: 17%)</b>	<b>-</b>	<b>319</b>	<b>319</b>

(All amounts in US\$ thousands unless otherwise stated)

# Notes to the financial statements for the year ended 31 March 2018 (continued)

## 13. Intangible assets

	Software
At 1 April 2016	
Cost	10,952
Accumulated amortization	(9,901)
Net book amount	1,051
<b>At 31 March 2017</b>	
Opening net book amount	1,051
Additions	55
Amortisation	(780)
Impairment	-
<b>Closing net book amount</b>	<b>326</b>
<b>At 31 March 2018</b>	
Cost	11,006
Accumulated depreciation	(10,680)
<b>Net book amount</b>	<b>326</b>

## 14. Tangible assets

	Computer equipment	Office furniture & equipment	Telephone equipment	Leasehold fittings	Total
At 1 April 2016					
Cost	2,177	1,683	237	3,308	7,405
Accumulated depreciation	(1,936)	(1,664)	(237)	(3,078)	(6,915)
Net book amount	241	19	-	230	490
<b>At 31 March 2017</b>					
Opening net book amount	241	19	-	230	490
Additions	12	-	-	-	12
Disposals	-	-	-	-	-
Depreciation	(109)	(19)	-	(41)	(169)
<b>Closing net book amount</b>	<b>144</b>	<b>-</b>	<b>-</b>	<b>189</b>	<b>333</b>
<b>At 31 March 2018</b>					
Cost	2,189	1,920	-	3,308	7,417
Accumulated depreciation	(2,045)	(1,920)	-	(3,119)	(7,084)
<b>Net book amount</b>	<b>144</b>	<b>-</b>	<b>-</b>	<b>189</b>	<b>333</b>

(All amounts in US\$ thousands unless otherwise stated)

Notes to the financial statements for the year ended 31 March 2018 (continued)

15. Investments

	2018	2017
<p><u>EnTrustPermal (Hong Kong) Ltd (“PHK”) (incorporated in Hong Kong)</u></p> <p>Address: Suite1202-03/ 12/F, York House, The Landmark, 15 Queens Road Central, Hong Kong.</p> <p>The fixed asset investment represents 100% (2017: 100%) of the issued capital of 5,000,000 (2017: 5,000,000) HKD\$1 ordinary shares in PHK. The principal activity of PHK is the marketing of EnTrustPermal funds.</p>	643	643
<p><u>Permal (Singapore) Pte. Ltd (“PSG”) (incorporated in Singapore)</u></p> <p>Address: 4 Shenton Way #04-01, SGX Centre, Singapore, 068807.</p> <p>The fixed asset investment represents 100% (2017: 100%) of the issued capital of 1,005,001 (2017: 1,005,001) USD\$1 ordinary shares in PSG. The principal activity of PSG is the marketing of the EnTrustPermal funds. PSG was liquidated on 13 December 2017.</p>	-	1,005
<p><u>Permal (Isle of Man) Ltd. (“PIOM”) (incorporated in Isle of Man)</u></p> <p>Address: 60 Circular Road, Douglas Isle of Man, IM1 1SA.</p> <p>The fixed asset investment represents 100% (2017: 100%) of the issued capital of 1 (2017: 1) £1 ordinary share in PIOM. The principal activity of PIOM is an employment company.</p>	-	-
<p><u>EnTrustPermal Business Consulting (Beijing) Company Ltd (“PBG”) (incorporated in China)</u></p> <p>Address: Unit 1903, The Excel Center, No. 6 Wudinghou Road, Xincheng District, Beijing, People's Republic of China.</p> <p>The fixed asset investment represents 100% ownership of PBG (2017: 100%). The principle activity of PBG is the marketing of EnTrustPermal funds.</p>	100	100
<p><u>Permal Investment Consulting (Shanghai) Ltd (“PCN”) (incorporated in China)</u></p> <p>Address: Unit 1903, The Excel Center, No. 6 Wudinghou Road, Xincheng District, Beijing, People's Republic of China.</p> <p>The fixed asset investment represents 100% ownership of PCN (2017: 100%). The principle activity of PCN is the marketing of EnTrustPermal funds.</p>	400	400
	<b>1,143</b>	<b>2,148</b>

The Directors believe that the carrying value of the investments is supported by its underlying net assets.



(All amounts in US\$ thousands unless otherwise stated)

## Notes to the financial statements for the year ended 31 March 2018 (continued)

### 16. Trade receivables

	2018	2017
Due within one year:		
- Trade debtors	7,558	10,862
- Amounts owed by group undertakings	49,515	29,985
- VAT recoverable	505	342
- Other receivables	1,244	2,028
- Corporation tax receivable	-	351
- Prepayments and accrued income	1,716	1,081
	<b>60,538</b>	<b>44,649</b>
Due after more than one year:		
- Deferred tax asset (note 12)	319	594
	<b>60,857</b>	<b>45,243</b>

Amounts owed by group undertakings relate to inter-company loans and accrued interest. The interest rate on the loans is one-month LIBOR +50bp and the interest is received quarterly in arrears.

### 17. Creditors: amounts falling due within one year

	2018	2017
Trade creditors	7,563	12,390
Amounts owed to group undertakings	14,744	7,771
Taxation and social security	1,987	539
Accruals and deferred income	1,628	2,279
	<b>25,922</b>	<b>22,979</b>

### 18. Called up share capital

Ordinary shares of £1 each – Allotted and fully paid	No.	\$'000
At 1 April 2017	7,606,652	13,544
At 31 March 2018	7,606,652	13,544

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

### 19. Parent and ultimate controlling party

The immediate parent undertaking is LM Cayco Ltd. The ultimate parent undertaking and controlling party is Legg Mason Inc. a U.S. asset management group which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of Legg Mason Inc.'s consolidated financial statements can be obtained from 100 International Drive, Baltimore, MD 21202.

### 20. Disposals

#### Liquidation of subsidiaries

Permal (Singapore) Pte. Ltd was liquidated on 13 December 2017.

### 21. Subsidiaries and related undertakings

Please refer to note 15 and note 20. The Company does not have any related undertakings.