Sankaty Advisors, Ltd.

Annual Report

for the year ended 31 December 2014

Registered No: 05512934

Directors and Officers
for the year ended 31 December 2014

Directors

Jonathan Lavine
Jeffrey Hawkins

Company Secretary

Jeffrey Hawkins

Registered Office

Devonshire House
Mayfair Place
London W1J 8AJ

Company Registration Number

05512934

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside,
London SE1 2RT

Bankers

Royal Bank of Scotland
62/63 Threadneedle Street
London EC2R 8LA

Annual Report
for the year ended 31 December 2014

Contents

Strategic Report
for the year ended 31 December 2014

The directors present their strategic report on the affairs of Sankaty Advisors, Ltd ("the company") for the year ended 31 December 2014.

Principal activities

The company provides the following services to affiliated entities:

a) facilitate research on the:
   (i) European credit and structured products market
   (ii) European high yield bond market
   (iii) Mezzanine investments
b) advise on debt products in the European markets
c) execute unfilled orders as directed by Sankaty Advisors, LLC
d) marketing of the Sankaty investment vehicles advised by Sankaty Advisors, LLC to investors

During the year the company received FCA approval to manage collateralised loan obligations (CLO's). The company became collateral manager to an Irish Collateralised Loan Obligation issuer (the "Issuer"), Newhaven CLO, Ltd. The company performs certain collateral management and related functions, including without limitation, supervising and directing the investment and reinvestment of the Collateral Obligations, Collateral Enhancement Obligations and Eligible Investments and performing administrative and advisory functions on behalf of the Issuer. The company is required under the terms of its FCA permissions to retain an investment in the debt securities issued by Newhaven CLO, Ltd of not less that 5% of the total par value of the Newhaven CLO, Ltd's debt securities.

Results and dividends
The profit for the financial year before taxation was £1,707,000 (2013 – £1,526,000). The directors do not propose a final dividend for 2014 (2013 – £Nil).

Business review
The business activities during the year to 31 December 2014 was in line with expectation. In 2015, the current arrangement with the parent company relating to the provision of execution-only transaction services is expected to continue. All intercompany balances are reviewed periodically to ensure they are recoverable. The company expects to become collateral manager to certain new CLO Issuer's during 2015. The company monitors the credit quality of the underlying assets of the CLO's and the recoverability of collateral management fees on the CLO securities issued. In addition, the company has certain regulatory capital ratios which are monitored and which address the risks in the business.

Principal risks, uncertainties & governance
The company has a governance structure and risk management framework which is considered appropriate to the size, nature and complexity of the business. The risk management framework is supported by an established risk and control programme, which informs the Board on the risks managed by the business.

Strategic Report
for the year ended 31 December 2014 (continued)

The directors of the company determine its business strategy and risk appetite along with designing and implementing a risk management framework that recognises the risks that the business faces. They also determine how those risks may be mitigated and assess on an ongoing basis the arrangements to manage those risks. The directors manage the company's risks through a framework of policy and procedures having regard to relevant laws, standards, principles and rules with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required.

The key risks that the company is exposed to are as follows:

Market Risk
Market risk encompasses the potential for both losses and gains and includes price risk, currency risk and interest rate risk. The fair value of investments will generally fluctuate with, among other things, changes in prevailing interest rates, general economic conditions, the condition of certain financial markets, developments or trends in any particular industry and the financial condition of the issuer. During periods of limited liquidity and higher price volatility, the Company's ability to dispose of investments at a price and time that the Company deems advantageous may be impaired.

Price Risk
The prices of investments held by the Company may decline in response to certain events, including those directly involving the companies whose debt securities the Company has invested in; conditions affecting the general economy; overall market changes; local, regional or global political, social or economic instability; and currency, interest rate and commodity price fluctuations.

Currency Risk
The Company may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency. Consequently, the Company may be exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the fair value of that portion of the Company's assets or liabilities denominated in currencies other than the functional currency.

Interest Rate Risk
Interest rate risk refers to the risks associated with market changes in interest rates. Interest rate changes may affect the fair value of a debt instrument indirectly and directly. In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree. Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules.

Liquidity Risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. This risk is managed via intercompany balances with the parent company and affiliated undertakings.

Strategic Report
for the year ended 31 December 2014 (continued)

Illiquidity of Investments
The Company invests in debt securities of certain Collateralized Loan Obligation issuers. The investments are subject to regulatory restrictions. The Company may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. Restricted debt securities are generally valued at a price lower than similar securities that are not subject to restrictions on resale.

Structured Investments
The Company invests in subordinated securities of collateralized loan obligations and are either debt or subordinated equity investments. These investments have limited secondary markets and in some instances can have restrictions on transfers. Debt investments are nonrecourse obligations; therefore, the debt is payable solely from the collateral obligations and all other assets pledged. Depending on the structure of the investment and the investment made, the Company's debt investments could be subordinate to other classes of debt. All equity interests are unsecured and subordinate to all classes of debt. Subordinated debt and equity investments represent leveraged investments in underlying assets.

Credit Risk
Credit risk refers to the likelihood that an issuer will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of an issuer are the primary factors influencing credit risk. In addition, subordination, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an instrument and securities which are rated by rating agencies are often reviewed and may be subject to downgrade.

The Company is subject to the credit risk of its custodians, prime brokers and counterparties to the extent they may be unable to fulfill their obligations either to return the Company's securities or to repay amounts owed. Credit risk is measured by the loss the Company would record if its counterparties failed pursuant to terms of their obligations to the Company.

Regulatory risk
The company is regulated by the FCA. The standards imposed by the FCA with which the company must demonstrate compliance, are subject to continuous review. New directives may result in a change of reporting requirements, capital requirements or business processes. Failure to comply with the FCA standards could materially affect the company's ability to operate due to the FCA's ability to impose restrictions on trading activity.

Operational risk
The company is exposed to operational risk through the conduct of its business activities. Operational risk could arise as a result of inadequate or failed internal processes, people or systems, or from external events. Operational risks are monitored and addressed by the Board.

Key Performance Indicators
The company monitors its capital resources and adequacy. Under Pillar 1 of the European Union Capital Requirements Directive the company's capital resources are £5,188,000 (2013: £3,635,000), compared to a minimum capital requirement of £2,144,000 (2013: £1,791,000). Additionally, the company monitors the quality and number of its employees. The average number of employees in the year was 37 (2013: 25).

Strategic Report
for the year ended 31 December 2014 (continued)

Going Concern
The company's business activities, together with the factors likely to affect its financial position, exposure to principal risks and uncertainties and future development are described above.

The company has enough liquid financial resources to discharge liabilities as they fall due. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

On behalf of the Board,

Jonathan Lavine
Director

April 21, 2015

Directors' Report
for the year ended 31 December 2014

The directors present their report and the audited financial statements of the company for the year ended 31 December 2014.

The company has early adopted FRS 102 and the date of transition was January 01, 2014. This is the first year in which the company has presented its results under FRS 102. There have been no recognition or measurement changes to the financial statements as a result of the transition. The adoption of FRS 102 has resulted in some disclosure changes which are applied throughout the financial statements.

Directors

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

Jonathan Lavine
Jeffrey Hawkins

Directors' liabilities

The company has taken out indemnity insurance for the benefit of the Directors in connection with their roles and responsibilities as Director and in accordance with the requirements and limitations of Section 234 of the Companies Act 2006.

Strategic report

The directors have given their review of the business, future developments and assessment of the principal risks and uncertainty in the strategic report.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law 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).

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;

Directors' Report
for the year ended 31 December 2014 (continued)

- 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;

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.

Disclosure of information to Auditors

The directors confirm:

- that so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware. Relevant information is defined as "information needed by the company's auditors in connection with preparing the report", and;
- that each 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. A resolution concerning their reappointment will be proposed at the director's meeting convened to approve the financial statements.

This report was approved by the board of directors on April 21, 2015 and signed on its behalf by:

Jonathan Lavine

Director

Independent auditors' report
to the members of Sankaty Advisors, Ltd

Report on the financial statements

Our opinion

In our opinion Sankaty Advisors, Ltd's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit and cash flows 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.

What we have audited

Sankaty Advisors, Ltd's financial statements comprise:

- the statement of comprehensive income for the year then ended;
- the statement of financial position as at 31 December 2014;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, 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.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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, 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.

We have no exceptions to report arising from this responsibility.

Independent auditors' report
to the members of Sankaty Advisors, Ltd (continued)

Directors' renumeration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Colleen Local
Colleen Local (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
April 21, 2015

Statement of Comprehensive Income
For the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Turnover	2	19,654	17,940
Administrative expenses	3	(17,948)	(16,417)
Other operating charges		(11)	(1)
Operating profit	3	1,695	1,522
Interest receivable and similar income	6	12	4
Profit on ordinary activities before taxation		1,707	1,526
Tax on profit on ordinary activities	7	(370)	(364)
Profit for the financial year		1,337	1,162

All activities derive from continuing operations.

The notes on pages 13 to 21 form an integral part of these financial statements.

Statement of Financial Position
as at 31 December 2014

	Note	2014 £'000	2013 £'000
Fixed assets			
Tangible assets	8	56	95
Financial asset investments	9	13,769	-
Current assets			
Debtors	10	4,967	787
Cash		1,062	3,913
		6,029	4,700
Creditors: Amounts falling due within one year	11	(897)	(1,027)
Net current assets		5,132	3,673
Total assets less current liabilities		18,957	3,768
Net assets		18,957	3,768
Capital and reserves			
Called up share capital	14	14,052	200
Profit and loss account	15	4,905	3,568
Total shareholders' funds	16	18,957	3,768

The notes on pages 13 to 21 form an integral part of these financial statements.

The financial statements on pages 9 to 21 were approved by the board of directors on April 21, 2015 and were signed on its behalf by:

Jonathan Lavine

Director

Statement of Changes in Equity
As at 31 December 2014

	Called up share capital £'000	Profit and loss account £'000	Total £'000
At 1 January 2014	200	3,568	3,768
Profit for the financial year	-	1,337	1,337
Proceeds from shares issued (note 14)	13,852	-	13,852
At 31 December 2014	14,052	4,905	18,957
Comparative information			
At 1 January 2013	200	2,406	2,606
Profit for the financial year	-	1,162	1,162
At 31 December 2013	200	3,568	3,768

The notes on pages 13 to 21 form an integral part of these financial statements.

Statement of Cash Flows
for the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Net cash from operating activities	17	(2,933)	1,183
Cash flows from investing activities			
Purchase of investments		(13,769)	-
Interest received		12	4
Payments to acquire fixed assets		(13)	
Net cash from investing activities		(13,770)	4
Cash flows from financing activities			
Issue of share capital		13,852	-
Net (decrease) / increase in cash		(2,851)	1,187
Reconciliation to net cash			
Net cash at 1 January		3,913	2,726
(Decrease) / increase in net cash		(2,851)	1,187
Net cash at 31 December		1,062	3,913

The notes on pages 13 to 21 form an integral part of these financial statements.

Notes to the Financial Statements
for the year ended 31 December 2014

1. 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 financial statements 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.

The principal accounting policies, which have been applied consistently, are set out below.

Sankaty Advisors, Ltd is a company incorporated and domiciled in the UK. The company's registered office address is Devonshire House, Mayfair Place, London, W1J 8AJ.

This is the first year that the company has presented its results under FRS 102. The last financial statements under the UK GAAP were for the year ended 31 December 2013. The date of transition to FRS 102 was 1 January 2014. There has been no significant impact to the financial statements as a result of the transition.

a) Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention as modified by the revaluation of certain financial assets measured at fair value through profit and loss.

b) Turnover

Turnover represents amounts recoverable from an affiliated company for execution only transaction services. It is measured at the fair value of consideration received or receivable, including expenses and disbursements. Turnover is recognised when the amount can be reliably measured and it is probable that future economic benefits will flow.

c) Cash and cash equivalents

Cash includes cash in hand and deposits held at call with banks, with original maturities of three months or less.

d) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation, and are written off in equal instalments over the estimated useful lives of the assets as follows:

IT hardware and software	3 years
Office equipment	3 years
Furniture and fittings	7 years

e) Foreign exchange

All monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rate prevailing at the balance sheet date. Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of transaction. Gains and losses arising from foreign currency transactions are included in the profit and loss account. The company's functional and presentation currency is the pound sterling (£).

Notes to the Financial Statements
for the year ended 31 December 2014 (continued)

1. Summary of significant accounting policies (continued)

f) Employee benefits
The company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements. The company operates a defined contribution scheme for its employees. Company contributions to the scheme are charged to the statement of comprehensive income as and when they arise.

g) Financial assets
Current financial assets represent investments in securities of collateralised loan obligations (CLO's) managed by the company. The financial assets are classified at inception based on management's intention as at fair value through profit or loss (FVTPL).

Purchases and sales of financial assets are recognised on trade-date. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

The fair values of the investments in CLO's designated at FVTPL are derived from the reported net asset values (NAVs) of the CLO's, which in turn are based upon the fair value of the underlying assets held within the CLO's.

h) Deferred tax
Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

i) 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.

a) Useful economic lives of tangible assets
The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets.

Notes to the Financial Statements for the year ended 31 December 2014 (continued)

1. Summary of significant accounting policies (continued)

b) Fair value of investments not quoted in an active market
The fair values of the CLO's that are not quoted in an active market are determined by using valuation techniques, primarily discounted cash flows and recent comparable transactions. The models used to determine fair values are validated and periodically reviewed by the company in its capacity as Collateral Manager.

In discounted cash flow models, unobservable inputs are the projected cash flows of the relevant underlying loans and the risk premium for liquidity and credit risk that are incorporated into the discount rate.

2. Turnover

Turnover is derived from execution-only transaction and administrative services advisory services provided to affiliated entities, and from collateral management services provided to collateralised loan obligation issuers. It is measured at the fair value of consideration received or receivable, including expenses and disbursements and is derived from the following geographies:

	2014 £'000	2013 £'000
Europe	213	-
USA	19,441	17,940
Total	19,654	17,940

3. Operating profit

	2014 £'000	2013 £'000
Operating profit is stated after crediting:		
Administration fee – receivable from Sankaty Advisors, LLC	19,654	17,940
Operating profit is stated after charging:		
Wages and salaries	(10,996)	(9,657)
Social security costs	(1,563)	(1,346)
Other pension costs	(349)	(23)
Staff costs	(12,908)	(11,026)
Costs recharge – due from Sankaty Advisors, LLC	895	248
Costs recharge – payable to Bain Capital Europe, LLP	(2,014)	(2,018)
Costs recharge – payable to Bain Capital, Ltd	(1,535)	(502)
Services provided by the company's auditor:		
Fees payable for the audit	(34)	(24)
Fees payable for other services – tax compliance & other	(22)	(24)

The costs recharged from Sankaty Advisors LLC are in respect of general operating and administration expense payments made on behalf of Sankaty Advisors, Ltd.

Notes to the Financial Statements
for the year ended 31 December 2014 (continued)

4. Directors' emoluments

	2014 £'000	2013 £'000
Aggregate emoluments	-	-
Emoluments of the highest paid director	-	-

The Directors are employed and paid by affiliated companies which make no recharge to the company. Accordingly, no emoluments in respect of the Directors are disclosed in the financial statements.

5. Employee Information

The monthly average number of people including directors employed by the company during the year was:	2014	2013
Investment staff	24	19
Administrative staff	12	6
Total average headcount	36	25

6. Net Interest

	2014 £'000	2013 £'000
Interest receivable and similar income	12	4
Interest payable and similar charges	-	-
Net interest receivable	12	4

7. Tax on profit on ordinary activities

	2014 £'000	2013 £'000
Current tax:		
UK corporation tax on profits of the year	378	368
Total current tax	378	368
UK deferred tax:		
Origination and reversal of timing differences	(8)	(4)
Total deferred tax (note 13)	(8)	(4)
Tax on profit on ordinary activities	370	364

The tax assessed for the year is higher (2013: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2014 of 21.5% (2013: 23.25%). The differences are explained below:

	2014 £'000	2013 £'000
Profit on ordinary activities before tax	1,707	1,526
Profit on ordinary activities multiplied by standard rate in the UK 21.5% (2013: 23.25%)	367	355
Effects of:		
Expenses not deductible for tax purposes	4	6
Depreciation in excess of capital allowances	7	7
Origination and reversal of timing differences	(8)	(4)
Total tax charge for the year	370	364

Notes to the Financial Statements for the year ended 31 December 2014 (continued)

7. Tax on profit on ordinary activities (continued)

The standard rate of corporation tax in the UK changed from 23% to 21% with effect from 1 April 2014. Further reductions to 21% and 20% with effect 1 April 2015 was enacted in the Finance Act 2014.

8. Tangible assets

	Furniture, fittings and equipment £'000	IT £'000	Total £'000
Cost			
At 1 January 2014	55	90	145
Additions	12	-	12
At 31 December 2014	67	90	157
Accumulated Depreciation			
At 1 January 2014	4	46	50
Charge for the year	10	41	51
At 31 December 2014	14	87	101
Net book amount			
At 31 December 2013	51	44	95
At 31 December 2014	53	3	56

9. Financial assets

Financial assets are held at fair value through profit and loss and are classified in accordance with the following three-level hierarchy for fair value measurement disclosure:

a. The best evidence of fair value is a quoted price for an identical asset in an active market. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the current bid price.

b. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (eg because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted.

c. If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Notes to the Financial Statements for the year ended 31 December 2014 (continued)

9. Financial assets (continued)

The financial assets comprise an investment, purchased during the year, in debt securities which are issued by Newhaven CLO, Ltd. They are measured in accordance with Level c.

The movement in financial assets during the year is reflected through profit and loss and can be analysed as follows:

	2014 £'000	2013 £'000
At January 1	-	-
Additions	13,771	-
Fair value adjustment for foreign exchange	(2)	-
At December 31	13,769	-

10. Debtors

	2014 £'000	2013 £'000
Amounts falling due within one year		
Amounts owed by group undertakings	4,731	485
Other Debtors	218	50
Deferred tax asset (see note 13)	12	4
Prepayments and accrued income	6	248
	4,967	787

Amounts owed by group undertakings are unsecured, interest free and are repayable on demand.

11. Creditors: Amounts falling due within one year

	2014 £'000	2013 £'000
Amounts owed to group undertakings	25	417
Accruals and deferred income	872	610
	897	1,027

Amounts due to group undertakings are unsecured, interest free and repayable on demand.

Accruals and deferred income represent financial liabilities and comprise trade payables and accruals which are payable within one year.

12. Financial risk management

The key risks that the company is exposed to, together with the Directors' approach to managing these risks are explained in the Strategic Report on pages 1-4.

(a) Credit risk management

Financial assets subject to credit risk are:

	Note	2014 £'000s	2013 £'000s
Financial asset investments	9	13,769	-
Cash and cash equivalents		1,062	3,913
Total		14,831	3,913

Notes to the Financial Statements
for the year ended 31 December 2014 (continued)

12. Financial risk management (continued)
The financial asset investments were acquired during the year and are in the subordinated debt securities of Newhaven CLO, Ltd. The securities are unrated. Cash and cash equivalents represents deposits held at call with the Royal Bank of Scotland. The banks credit rating is P2.

Other assets comprise amounts owed by group undertakings, which are unsecured, interest free and repayable on demand, and other trade receivables. None of the assets were past due at the balance sheet date (2013: none).

(b) Market risk management

(i) Investment risk
The company has an investment in Newhaven CLO, Ltd's subordinated debt securities which is held at fair value through profit and loss. The fair valuation method uses a discounted cash flow model with unobservable inputs including default and recovery rates to determine projected cash flows of the relevant underlying loans. A risk premium for liquidity and credit risk is incorporated into the discount rate. The Company estimates, by recalculating the balance sheet value of the investment, that at 31 December 2014, if the discounted cash flow model input assumptions on the CLOs underlying loan portfolio were changed from the base case 2% default rate to a stress case 5% default rate, and with a proportional decrease in loan recovery rates, and with all other variables held constant, that the fair value of the investment would decrease by £7,649,000 (2013: Nil), with a corresponding impact recognised in Comprehensive Income. The directors consider the likelihood of such a change in default and recovery rates to be remote.

(ii) Foreign exchange risk
The Company's investment in CLO securities is denominated in Euro. All other assets and liabilities are denominated in pounds sterling.

The Company estimates, by recalculating the balance sheet values of financial assets denominated in foreign currencies, that at 31 December 2014, if the foreign currency rates applicable to the Company's financial assets and liabilities strengthened / (weakened) by 100 basis point against sterling, with all other variables held constant, this would have resulted in a fair value adjustment of +/- £138,000 (2013: Nil), with a corresponding impact on Comprehensive Income.

(iii) Interest rate risk
Interest is received on the company's bank deposits. The interest rate received would need to fall to zero to eliminate any interest income received during the current financial year. As the Company does not have any debt financing it is not exposed to the risk of the extra cost associated with higher interest rates on debt borrowing.

(c) Liquidity risk management
The company maintains sufficient cash and balances with group undertakings, which are repayable on demand, to mitigate liquidity and cash flow risks. Accruals and deferred income, as disclosed in note 11, represent financial liabilities and comprise trade payables and accruals which are payable within one year.

(d) Capital management
The Company uses its capital to support the growth of the business, to provide it with a cushion to shield it from adverse market conditions and to ensure that it is at all times able to meet any regulatory capital requirements. The Company was in compliance with, and maintained a

Notes to the Financial Statements for the year ended 31 December 2014 (continued)

12. Financial risk management (continued)

comfortable excess over, the minimum regulatory capital requirements throughout the current period. Once these requirements have been met, available capital may be used to pay dividends to Shareholders and to provide funding for new business initiatives.

13. Deferred tax asset

	2014 £'000	2013 £'000
Accelerated capital allowances	12	4
1 January	4	-
Deferred tax credit in the statement of comprehensive income	8	4
31 December	12	4

14. Called up share capital

	2014 £,000	2013 £,000
Authorised		
14,052,876 (2013: 250,000) ordinary shares of £1 each	14,052	250
Allotted and fully paid		
14,052,876 (2013: 200,000) ordinary shares of £1 each	14,052	200

The company issued 13,852,276 ordinary shares of £1.00 each on 3rd November 2014. The shares were subscribed and paid up in full by the company's parent, Sankaty Advisors, LLC. The ordinary shares are entitled to one vote per share and a participation in the distributable reserves at the discretion of the directors.

15. Profit and loss account

	2014 £'000	2013 £'000
1 January	3,568	2,406
Profit for the financial year	1,337	1,162
31 December	4,905	3,568

16. Reconciliation of movements in shareholders' funds

	2014 £'000	2013 £'000
Opening shareholders' funds	3,768	2,606
Profit for the financial year	1,337	1,162
New share capital issued (Note 14)	13,852	-
Closing shareholders' funds	18,957	3,768

Notes to the Financial Statements
for the year ended 31 December 2014 (continued)

17. Reconciliation of operating profit to net cash inflow from operating activities

	2014	2013
	£'000	£'000
Operating profit	1,695	1,522
Depreciation charge	51	50
Non cash movement in respect of tax and capital expenditure paid for by affiliated companies	(370)	(509)
(Increase) / decrease in debtors	(4,179)	3,110
(Decrease) in creditors	(130)	(2,990)
Net cash (outflow) / inflow from operating activities	(2,933)	1,183

18. Related party transactions

As the company is ultimately controlled by Bain Capital, LLC the the company has taken advantage of the exemption provided in paragraph 33.1A of FRS 102 "Related Party Transactions" not to make disclosure of transactions with other entities that are part of the group.

19. Parent undertaking

The company is a wholly owned subsidiary of Sankaty Advisors, LLC a US company. The ultimate parent undertaking and controlling party is Bain Capital, LLC a US company. The principal place of business of Sankaty Advisors, LLC and Bain Capital, LLC is John Hancock Tower, 200 Clarendon Street, Boston, MA 02116, USA.

20. Events after the end of the reporting period

On the 21st of January 2015, the company purchased €17,640,000 of subordinated debt securities in Rye Harbour CLO, Ltd. The funding required to purchase these debt securities was raised via a subscription of 13,465,649 ordinary shares of £1.00 each by Sankaty Advisors, LLC the company's direct and only shareholder.

Pillar 3 disclosure (un-audited)

Background

The EU Capital Requirements Directive (2013/36/EU) ("CRD IV") and the EU Capital Requirements Regulation (Regulation (EU) No. 575/2013) ("CRR") set out the regulatory framework governing the amount of capital which must be maintained by credit institutions and investment firms. In the UK, CRD IV as applicable to Sankaty Advisors, Ltd. ("Sankaty" or the "Firm") has been adopted by the Financial Conduct Authority ("FCA") within the General Prudential Sourcebook ("GENPRU") and the Prudential Sourcebook for investment firms ("IFPRU").

The regulatory framework comprises three Pillars:

- Pillar 1 sets out the minimum capital requirements that the firm is required to meet;
- Pillar 2 requires the firm to assess whether additional capital should be held against the risks not adequately covered under Pillar 1; and
- Pillar 3 requires the firm to disclose its risk management strategies and controls, capital resources and capital requirements.

This document is designed to meet Sankaty's Pillar 3 obligations under IFPRU and Part Eight of the CRR.

Scope of Application

Sankaty Advisors, Ltd. is a private limited liability company registered in England and Wales. It is authorised and regulated by the FCA with firm reference number 441896. Sankaty is categorised as an IFPRU €50K limited licence firm and is a direct subsidiary of Sankaty Advisors, LLC, an affiliate of Bain Capital, LLC. Sankaty is regulated by the FCA on a stand-alone basis and is not subject to consolidated supervision.

The principal business activities of the Firm are: i) to provide sub-advisory services to, and to act as agent in relation to executing orders directed by, Sankaty Advisors, LLC; ii) to provide investment management services to Collaterised Loan Obligations (CLOs) and iii) to perform marketing activities for the various funds advised by Sankaty Advisors, LLC.

Risk Management

Sankaty's risk management policies and processes are proportionate to the nature and scale of its activities. The Board of Directors has overall responsibility for the Firm's risk management, and for implementing and maintaining adequate risk management systems within the Firm. The Board of Directors works closely with other entities in the broader Bain Capital organisation to manage and oversee the risks the Firm faces collectively as part of the broader Bain Capital organisation. The adequacy and effectiveness of the Firm's systems and controls are subject to an annual review.

Pillar 3 disclosure (un-audited continued)

The Risk Management Framework

The Firm's Risk Management Framework is made up of the following components:

1. *Statement of Responsibilities* – The Firm has adopted the following Statement of Responsibilities:

Board of Directors
The Board of Directors is responsible for risk management process, as well as forming its own opinion on the effectiveness of the process. The Board sets the risk strategy policies.

The Board decides the Firm's appetite or tolerance for risk – those risks it will accept and those it will not take in the pursuit of its goals and objectives. In addition, the Board ensures that the Firm has implemented an effective, ongoing process to identify risk, to measure its potential impact against a broad set of assumptions and then to ensure that such risks are actively managed.

The Board conducts a review of the effectiveness of Firm's system of internal controls at least annually. The review covers all material controls, including financial, operational and compliance controls, and risk management systems.

The Board of Directors periodically reviews its own composition and the composition of senior management to ensure the Firm maintains appropriate and sufficient knowledge and experience for the successful on-going management of the Firm's business operations.

The Board of Directors is satisfied that the risk management systems put in place are adequate with regard to the Firm's profile and strategy.

Senior Management
Senior Management is composed of the Board and certain other individuals who together are responsible for the management of the Firm on a day-to-day basis.

Senior Management is responsible for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Firm. Senior Management is responsible for effectively communicating the Firm's approach and commitment to establishing and maintaining an effective risk management framework and approach.

Senior Management is also responsible for ensuring that Sankaty personnel are adequately equipped with the right tools and knowledge to enable them to fulfil their obligations under the Firm's risk management processes.

Risk & Oversight Committee
The Firm has not established a separate risk committee. However, the Sankaty group has a Risk & Oversight Committee which acts as an additional forum to review business, financial, market, operational and other risks that may face the Firm and Sankaty Advisors, LLC individually and collectively.

2. *Risk Appetite Statement* – The Firm has approved a Risk Appetite Statement as discussed below.

Pillar 3 disclosure (un-audited continued)

3. *Risk Identification* – The Firm, in partnership with its ultimate parent company Bain Capital LLC, relies on the use of certain Bain Capital, LLC shared staff to conduct a comprehensive risk identification exercise to ensure that all significant risks have been identified.

4. *Risk Documentation* – All material risks have been documented and scored, as applicable. Risk mitigation plans have been included where necessary. A risk identification matrix has been developed for those risks that are specific to the UK operation.

5. *Scenario Analyses and Stress Tests* – The Firm identifies the most material risks to its business and subjects them to scenario analyses and stress tests in order to assist in its risk management and capital planning.

6. *Risk Review* – The Firm, in conjunction with Senior Management, periodically review the risks that may face the Firm and Sankaty Advisors, LLC individually and as a group. Regular risk and compliance monitoring reports are provided to the Board of Directors and Senior Management.

The key risk exposures are set out below.

<u>Business Risk</u>
The Firm's key Business Risks include:

- *Group risk.* The Firm is subject to risk individually and at the broader Bain Capital group level. The Firm monitors Group risk and has ongoing interactions with key Group executives to understand and influence decisions made for the broader Bain Capital group.
- *Implementation of Business Strategy.* The Firm is subject to the risk that the departure of key executives and personnel will adversely impact its business strategy. This is managed through the use of appropriate compensation and employee retention measures.
- *Marketing of Sankaty Funds.* Sankaty Advisors, Ltd., and Sankaty Advisors, LLC ("Sankaty Group") are subject to the risk that failing to attract and retain investors in the Sankaty Funds could adversely impact the Sankaty Group's impact to raise new funds, which in turn could adversely affect the Firm's advisory services. To manage the risk that the Sankaty Group will be able to attract and retain investors into the Sankaty Funds, a team of experienced investor relations personnel perform marketing activities for the Sankaty Funds and manage investor relationships.

<u>Operational Risk</u>
The Firm has a risk of loss resulting from certain Operational Risks. These risks include:

- *Inadequate or failed internal processes and procedures.* The Firm is subject to risk in relation to failed or inadequate internal processes and controls relating to IT systems, human resources, legal, compliance, operations, finance and tax. The Firm has established robust processes and controls to manage these operational risks.

<u>Credit and Market Risk</u>

- *Failure to receive remuneration when due.* There is a risk that a client may fail to pay the Firm remuneration due for its investment advisory or investment management services.
- *Financial Position.* The Firm holds capital on its balance sheet to comply with the CRD IV requirements in relation to securitisations. A significant decline in the value of the assets

Pillar 3 disclosure (un-audited continued)

could have a material impact on the Firm's financial position. However, the Firm holds appropriate regulatory capital against this risk.

Other Risks

Whilst Business Risk and Operation Risk are key risks to the Firm's business there are also other risks that are not considered significant or applicable to Sankaty's business at this time. These include:

- Insurance Risk
- Interest Rate Risk
- Liquidity Risk
- Risk of Excessive Leverage
- Pension Obligation Risk
- Securitisation Risk

Capital Resources and Adequacy

The Firm's capital resources as at 31 December 2014 is £4,769,000. Its minimum capital requirement under Pillar 1 is £2,144,000 based on the Fixed Overhead Requirement ("FOR"). The capital requirement is determined according to the highest of:

1. A base requirement of €50,000; or
2. The FOR (which is based on three months expenditures less certain discretionary amounts); or
3. The sum of the Firm's market and credit requirements.

The Firm's assets are unencumbered and comprise Loans on demand of £1,062,000; Asset backed securities of £13,769,000, which represents both carrying and fair value; and Other assets of £5,023,000.

Internal Capital Adequacy Assessment Process (ICAAP)

The Firm, through its ICAAP process, conducts an assessment of the amount of capital that is considered adequate to cover the risks facing its current and future business activities and includes the projection of financial profitability, capital resources and capital requirements. The key business risks to which the firm is or might be exposed are assessed along with the amount of capital that would be adequate to cover the Firm in the event that those risks were to crystallise. In addition, the economic environment and the impact of adverse economic conditions on the Firm's profitability and capital position are considered.

Board of Directors

The directors are appointed by Sankaty Advisors, LLC, the Firm's parent company, having regard to their individual knowledge, skills and experience and the combined knowledge, skills, experience and diversity of the Board as a whole.

Given the nature of Sankaty's business, members of the Board of directors hold a number of other directorships. The Firm is satisfied that the number of directorships held is appropriate.

Pillar 3 disclosure (un-audited continued)

Remuneration Disclosure

Decision making process
Given the nature, scope and complexity of the Firm's business, Sankaty has determined that it would not be proportionate to establish a Remuneration Committee. Responsibility for the Firm's remuneration policy, and for key decisions in relation to remuneration, lies with the Firm's senior management and the Board of Directors.

Link between pay and performance
Executives receive both a fixed and variable component to their remuneration. Performance is a key assessment used in the calculation of the variable remuneration. The assessment is based on the individual's performance, as well as the performance of the Firm and the investment vehicles. Individual performance is assessed over a multi-year framework to ensure the interests of staff are aligned with the long term objectives of the investment vehicles. Performance at an individual level is also assessed by reference to non-financial criteria, such as risk management, regulatory compliance and peer review.

Aggregate Quantitative Information
The Firm has one business area; therefore the Firm considers it would not be meaningful to provide quantitative information broken down by business area. The Firm only has four members that qualify as Code Staff and the disclosure of their aggregate quantitative information on remuneration would be inconsistent with the Firm's obligations under relevant data protection legislation.

Relevant Period
The Firm is disclosing information for the year ended 31 December 2014.