# FINISTERRE CAPITAL UK LIMITED

## Annual Report and Financial Statements
## 31 December 2019



Company Registered Number: 07686544

## Company Information

| | |
|---|---|
| **Directors** | Rafael Biosse Duplan<br>David Hill (resigned 9 January 2019)<br>Michael Thornton (appointed 14 June 2019) |
| **Company Secretary** | Ursula Newman (resigned 14 June 2019)<br>Principal Corporate Secretarial Services Limited (appointed 14 June 2019) |
| **Company Number** | 07686544 |
| **Registered Office** | 10 New Burlington Street<br>London<br>W1S 3BE |
| **Auditors** | Ernst & Young LLP<br>25 Churchill Place<br>Canary Wharf<br>London<br>E14 5EY |
| **Bankers** | HSBC<br>133 Regent Street<br>London<br>W1B 4HX |

## Directors' report

The directors present their report together with the audited consolidated financial statements of Finisterre Capital UK Limited (the "company") for the year ended 31 December 2019. The consolidated financial statements comprise the financial statements of the company and of its subsidiary Finisterre Capital LLP (the "LLP" and collectively the "group").

**Principal activities**

The group's principal activities, as exercised by the company and its subsidiaries, are to provide asset management services. The company's principal activity is to provide regulatory capital to, and act as a member of the LLP.

**Employees**

The average number of persons employed during the year by the group was 34 (2018: 37). During the year the company had no employees (2018: nil)

**Political and charitable donations**

During the year the LLP made charitable donations of £30,000 (2018: £35,743). The company made no donations.

**Directors**

The directors who served during the year and to the date of this report were:
Rafael Biosse Duplan
David Hill (resigned on 9 January 2019)
Michael Thornton (appointed 14 June 2019)

**Provision of information to auditors**

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- each director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information.

This report was prepared and approved by the board on 24 June 2020 and signed on its behalf.

**Rafael Biosse Duplan**
Director

## Strategic report

The directors present their strategic report for the year ended 31 December 2019.

### Results and business review

Details of the group and company's financial performance results for the year can be found on page 9. The profit for the year for the group, after taxation, amounted to £6,266,889 (2018: £2,083,850).

### Future developments

The group will continue to provide asset management services and the company will continue to act as a member of the LLP. Post year end the Chief Investment Officer, Hakan Sofuoglu, of the Finisterre Credit Fund (the "Fund"), a fund for which the LLP provides asset management services, announced that he was to step down from his role due to personal circumstances at the end of June 2020. Senior management of the Company, as well as the Directors of the Fund, considered several options to transition the fund in light of this sudden development, but none were considered viable in the long run. As a result, the decision was made to close the Finisterre Credit Fund voluntarily and return capital to investors by 1 July 2020. Please refer to Going Concern below for more detail on the impact of this on the Group's going concern.

### Principal risks and uncertainties

The principal risk and uncertainty for the group is the continued provision of asset management services. The principal risk and uncertainty for the company is the valuation of its investment in the LLP which is reviewed for impairment on an annual basis. The directors have considered all other risks of the group and company and do not believe that there are any significant financial or currency risks and believe that adequate funds are available to meet all future liabilities.

### Independent auditors

The independent auditors of the LLP are Ernst & Young LLP who will be proposed for reappointment.

### Going concern

The group intend for the LLP's current principal activities to remain the same for the foreseeable future, being 12 months following the date of this report. The LLP continues to perform as anticipated and there is a reasonable expectation that the LLP will continue in operational existence for the foreseeable future.

The novel coronavirus ("COVID-19") outbreak since early 2020 has brought additional uncertainties into the operating environment of the LLP. It has had impacts on the operation of businesses in some industries and the overall market economic environment. Management's analysis of the impact is discussed in more detail in Note 1.4 of the audited financial statements.

The group have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the group to continue as a going concern, being 12 months following the date of this report. On this basis, the group continues to adopt the going concern basis in preparing the financial statements. Please refer to Note 1.4 below for further details on the group's going concern assessment

This report was prepared and approved by the board on 24 June 2020 and signed on its behalf.

**Rafael Biosse Duplan**
Director

## Directors' responsibilities statement

The directors are responsible for preparing the directors' report, strategic report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Generally Accepted Accounting Practices (United Kingdom Accounting Standards and applicable law) have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group or company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FINISTERRE CAPITAL (UK) LIMITED

## Opinion

We have audited the financial statements of Finisterre Capital (UK) Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise the Group Statement of comprehensive income, the Group and Company Statement of financial position, the Group and Company Statement of changes in equity, the Group Statement of cash flows and the related notes 1 to 20, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In our opinion, the financial statements:

- give a true and fair view of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Emphasis of Matter –Effects of COVID-19

We draw attention to Notes 1 and 12 of the financial statements, which describes the economic disruption the Partnership is facing as a result of COVID-19 which is impacting financial markets, and which may therefore impact the future solvency of the Partnership. Our opinion is not modified in respect of this matter.

## Conclusions relating to going concern

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

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

### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

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

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

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

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

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

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

## Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Ashley Coups (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
25 June 2020

## Statement of comprehensive income

| | | Group | |
|---|---|---|---|
| | | **2019** | 2018 |
| | *Notes* | **£** | £ |
| **Turnover** | | **19,289,542** | 16,357,719 |
| Administrative expenses | | **(14,401,579)** | (15,573,587) |
| Other operating income | | **1,333,876** | 1,287,065 |
| **Operating profit** | *2* | **6,221,839** | 2,071,197 |
| Interest receivable and similar income | | **45,050** | 12,856 |
| Interest payable and similar charges | | **-** | (203) |
| **Profit on ordinary activities before taxation** | | **6,266,889** | 2,083,850 |
| Tax on profit on ordinary activities | *5* | **-** | - |
| **Profit for the financial year** | | **6,266,889** | 2,083,850 |
| Other comprehensive income | | **-** | - |
| **Total comprehensive income for the financial year** | | **6,266,889** | 2,083,850 |
| ***Total comprehensive income for the financial year attributable to:*** | | | |
| Equity holders of the parent | | **(5,650)** | **(9,500)** |
| Non-controlling interests | | **6,272,539** | **2,093,350** |
| | | **6,266,889** | **2,083,850** |

All amounts relate to continuing operations.

The notes on pages 14 to 25 are an integral part of these financial statements.

## Statement of financial position

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | As at 31 December | | | |
| | | **2019** | 2018 | **2019** | 2018 |
| | *Notes* | £ | £ | £ | £ |
| **Non current assets** | | | | | |
| Tangible fixed assets | 6 | **561,267** | 692,826 | - | - |
| Investment in subsidiary | 7 | - | - | **659,844** | 659,844 |
| Other receivable | 8 | **99,709** | - | - | - |
| Total fixed assets | | **660,976** | 692,826 | **659,844** | 659,844 |
| **Current assets** | | | | | |
| Debtors | 8,9 | **9,159,478** | 6,310,923 | - | - |
| Cash at bank and in hand | | **5,111,381** | 3,480,869 | **1,897** | 1,897 |
| Total current assets | | **14,270,859** | 9,791,792 | **1,897** | 1,897 |
| **Creditors**: Amounts falling due within one year | *10,16* | **(5,961,940)** | (5,883,170) | **(12,815)** | (16,665) |
| **Net current assets/(liabilities)** | | **8,308,919** | 3,908,622 | **(10,918)** | (14,768) |
| **Total assets less current liabilities** | | **8,969,895** | 4,601,448 | **648,926** | 645,076 |
| **Creditors**: Amounts falling due after one year | *11* | **(126,100)** | (760,147) | - | - |
| **Net assets** | | **8,843,795** | 3,841,301 | **648,926** | 645,076 |
| **Capital and reserves** | | | | | |
| Called up share capital | 12 | **665,947** | 665,947 | **665,947** | 665,947 |
| Profit and loss account | 13 | **(17,021)** | (20,871) | **(17,021)** | (20,871) |
| **Shareholders' reserves attributable to equity holders of the parent** | | **648,926** | 645,076 | **648,926** | 645,076 |
| Non-controlling interests | | **8,194,869** | 3,196,225 | - | - |
| **Total shareholders' reserves** | | **8,843,795** | 3,841,301 | **648,926** | 645,076 |

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 24 June 2020.

**Rafael Biosse Duplan**
Director

The notes on pages 14 to 25 are an integral part of these financial statements.

## *Statement of changes in equity*

| Group | Attributable to equity holders of the parent | | | | |
|---|---|---|---|---|---|
| | Share capital | Retained earnings | Total | Non-controlling interest | Total |
| | £ | £ | £ | £ | £ |
| Balance at 1 January 2018 | 665,947 | (17,236) | 648,711 | 10,676,378 | 11,325,089 |
| **Comprehensive income** | | | | | |
| Allocation of non-controlling interest to the company | - | (9,500) | (9,500) | 2,093,350 | 2,083,850 |
| Profit/(loss) for the year | - | 5,866 | 5,866 | (5,866) | - |
| Total comprehensive income | - | (3,634) | (3,634) | 2,087,484 | 2,083,850 |
| Additional non-controlling interests in a subsidiary | - | - | - | - | - |
| Profit distributed to non-controlling interests | - | - | - | (9,567,638) | (9,567,638) |
| **Balance at 31 December 2018** | **665,947** | **(20,871)** | **645,077** | **3,196,224** | **3,841,301** |
| **Comprehensive income** | | | | | |
| Allocation of non-controlling interest to the company | - | (5,650) | (5,650) | 6,272,539 | 6,266,889 |
| Profit/(loss) for the year | - | 9,500 | 9,500 | (9,500) | - |
| Total comprehensive income | - | 3,850 | 3,850 | 6,263,039 | 6,266,889 |
| Additional non-controlling interests in a subsidiary | - | - | - | - | - |
| Profit distributed to non-controlling interests | - | - | - | (1,264,395) | (1,264,395) |
| **Balance at 31 December 2019** | **665,947** | **(17,021)** | **648,926** | **8,194,868** | **8,843,795** |

The notes on pages 14 to 25 are an integral part of these financial statements.

## Statement of changes in equity - continued

**Company**

| | Share capital | Retained earnings | Total |
|---|---|---|---|
| | £ | £ | £ |
| **Balance at 1 January 2018** | **665,947** | **(17,236)** | **648,711** |
| **Comprehensive income** | | | |
| Profit for the year | - | (3,634) | (3,634) |
| Total comprehensive income | - | (3,634) | (3,634) |
| **Balance at 31 December 2018** | **665,947** | **(20,871)** | **645,077** |
| **Comprehensive income** | | | |
| Profit for the year | - | 3,850 | 3,850 |
| Total comprehensive income | - | 3,850 | 3,850 |
| **Balance at 31 December 2019** | **665,947** | **(17,021)** | **(648,926)** |

The notes on pages 14 to 25 are an integral part of these financial statements.

## Statement of cash flows

| | Notes | Group 2019 £ | 2018 £ |
|---|---|---|---|
| Net cash inflow/(outflow) from operating activities | 14 | 3,190,990 | (366,226) |
| *Investing activities* | | | |
| Interest received | | 45,051 | 12,856 |
| Interest paid | | - | (203) |
| Payments to acquire tangible fixed assets | | (1,137) | (6,760) |
| Net cash outflow from investing activities | | 43,914 | 5,893 |
| *Financing activities* | | | |
| Distributions paid to non-controlling interests | | (1,604,392) | (9,698,377) |
| Issue of capital in subsidiary to non-controlling interests | | - | - |
| (Decrease) in current borrowings | | - | (56,396) |
| Net cash outflow from financing activities | | (1,604,392) | (9,754,773) |
| **Increase/(Decrease) in cash in the year** | | **1,630,512** | **(10,115,106)** |
| **Cash and cash equivalents at 1 January** | | **3,480,869** | **13,595,975** |
| **Cash and cash equivalents at 31 December** | | **5,111,381** | **3,480,869** |

The notes on pages 14 to 25 are an integral part of these financial statements.

## Notes to the financial statements

### 1. Accounting policies

#### 1.1. Statement of compliance and basis of preparation of financial statements

The company is a limited company incorporated in the United Kingdom on 29 June 2011 with its registered office at 10 New Burlington Street, London, W1S 3BE.

The consolidated financial statements comprise the financial statements of the company and its subsidiary, the LLP. They have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS102") as it applies to these financial statements for the year end 31 December 2018.

The company holds 61.08% (2018: 52.98%) of the voting rights of the LLP as of 31 December 2019.

#### 1.2. Basis of consolidation

The group financial statements consolidate the financial statements of the company and all its subsidiary undertakings drawn up to 31 December each year. Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities.

In the parent company financial statements investments held as fixed assets are shown at cost less provision for impairment.

#### 1.3. Basis of preparation

These financial statements are prepared in accordance with applicable United Kingdom accounting standards, including FRS102 and with the Companies Act 2006. The financial statements have been prepared on the historical cost convention as modified by the revaluation of financial assets and liabilities at fair value through profit and loss.

#### 1.4. Critical accounting estimates and judgments

The group's financial statements are influenced by accounting policies, assumptions, estimates and management's judgement, which necessarily have to be made in the course of preparation of the financial statements.

The group determines estimates and assumptions that affect the reported amounts of assets and liabilities for the next financial year. All estimates and assumptions required in conformity with FRS 102 are best estimates undertaken in accordance with the applicable standard.

Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. The application of accounting policies and management's judgements for certain items are especially critical for the group's results and financial situation due to their materiality.

## Notes to the financial statements – continued

### 1.4 Critical accounting estimates and judgments (continued)

The following are key judgments made by the directors:

*Going concern*

On January 30, 2020, the World Health Organization declared the outbreak of coronavirus ("COVID-19") to be a public health emergency of international concern. This coronavirus outbreak has severely restricted the level of economic activity around the world. In response to this coronavirus outbreak, the governments of many countries, states, cities and other geographic regions have taken preventative or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes.

Effective 16 March 2020, the Group's Partners and staff, as a precautionary measure started to work from home adhering to the guidance provided by the UK government. The impact of COVID-19 has led to significant volatility and declines in the global public fixed income markets and it is uncertain how long this volatility will continue.

The full extent to which the COVID-19 pandemic may impact the group's results, operations or liquidity is uncertain. Management continues to monitor the impact that the COVID-19 pandemic has on the Group, including the LLP and the funds / economies in which the LLP has exposures to through its asset management services. COVID-19 is unlikely to have a material direct impact on the group, management has performed a COVID-19 impact assessment as part of their going concern assessment using information available to the date of issue of these financial statements.

The most likely expected financial impact is in respect of lower management fees as a result of declining assets under management in the products that the LLP provides asset management services for. It is not possible to quantify the overall impact of COVID-19 as financial markets continue to react to developments and management have a number of actions that they are able to take to protect profitability and solvency should they be required.

A key impact on the group, which is non COVID-19 related but that does have a significant impact on the going concern of the group, is the decision of the Chief Investment Officer of the Finisterre Credit Fund to step down from his role due to personal circumstances at the end of June 2020.

Senior management of the LLP, as well as the Directors of the Fund, considered several options to transition the Fund in light of this sudden development, but none were considered viable in the long run. As a result, the decision was made to close the Finisterre Credit Fund voluntarily and return capital to investors by 1 July 2020.

The closure of the Fund will have a material impact on the group and has resulted in the LLP making a number of changes to its business model going forward and to the Finisterre group overall. Despite these changes resulting in significant savings for the group, the impact of the fall in revenue due to the Fund's closure still places the group under significant financial pressure. As a result, a letter of support has been obtained from the group's ultimate parent, Principal Global Investors Holdings LLP, LLC in order for the group to be considered a Going Concern until the revenue levels from the remaining products for which the LLP provides its asset management services, return to the levels required for the group to return to profitability.

The group have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the group to continue as a going concern, being 12 months following the date of this report. On this basis, the group continues to adopt the going concern basis in preparing the financial statements.

## Notes to the financial statements – continued

### 1.5 Turnover

The turnover shown in the group profit and loss account represents income from investment management services, net of sales, related taxes and discounts. Turnover is accounted for on an accruals basis. All turnover arose outside the United Kingdom.

### 1.6 Expenses

Expenses are recognised on an accruals basis.

### 1.7 Operating leases

Rentals under operating leases are charged to the profit and loss account on a straight line basis over the lease term. Benefits received and receivable as an incentive to sign an operating lease are recognized on a straight line basis over the year until the date the rent is expected to be adjusted to the prevailing market rate.

### 1.8 Pensions

The LLP operates a defined contribution pension scheme and the pension charge represents the amounts payable by the entity to the fund in respect of the year. The company does not operate a pension scheme.

### 1.9 Foreign currencies

These financial statements are presented in GBP, which is the group's functional and presentation currency. Foreign currency transactions are initially recorded using its functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting year. All differences arising on settlement or translation of monetary items are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

### 1.10 Functional and presentational currency

The Directors consider the currency of the primary economic environment in which the group operates to be GBP as this is the currency which in their opinion most faithfully represents the economic effects of underlying transactions, events and conditions. Furthermore, GBP is the currency in which the group pays the majority of its expenses. The financial statements are presented in GBP, which is the group's functional and presentation currency.

## Notes to the financial statements – continued

### 1.11 Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse. Deferred tax assets and liabilities are discounted.

### 1.12 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is calculated on the straight-line basis to write off the cost of each tangible fixed asset to its residual value over its estimated useful life on the following bases:

| | |
|---|---|
| Leasehold improvements | To the end of the LLP's lease (December 2024) |
| Office equipment | 3-5 years |

### 1.13 Cash at bank and in hand

Cash at bank and in hand is carried in the statement of financial position at face value. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held on call with banks.

### 1.14 Debtors

Short term debtors are measured at the transaction price, less any impairment. Loans receivable are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less provision for impairment, if any.

### 1.15 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 1.16 Derivative financial instruments

Derivative financial instruments are recognized initially at fair value and subsequently measured at fair value with any gains and losses being reported in the statement of comprehensive income.

## Notes to the financial statements – continued

### 2. Operating profit

The group's profit before tax is arrived at after charging/(crediting):

| | Group 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Depreciation of tangible fixed assets | **132,694** | 152,853 |
| Difference on foreign exchange | **(320,831)** | (516,933) |
| Operating lease rentals: property | **1,050,910** | 1,037,702 |
| Operating lease rentals: plant and machinery | **22,042** | 15,862 |

Included in difference on foreign exchange are realised gains and losses from derivative transactions (see Note 17).

### 3. Auditors' remuneration

Fees charged by the auditor for services rendered relate to the following:

| | Group 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Fees payable to the company's auditor for the audit of the company's annual accounts | **2,550** | 3,600 |
| Fees payable to the company's auditor and its associates for other services: | | |
| Audit of the accounts of subsidiaries | **19,000** | 18,550 |

No fees (2018: nil) were paid to the auditor and its associates in respect of non-audit services.

## Notes to the financial statements – continued

### 4. Staff costs

Staff costs were as follows:

| | Group 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Wages and salaries | **6,191,749** | 7,322,744 |
| Social security costs | **870,786** | 1,031,048 |
| Other pension costs | **146,570** | 174,008 |
| **Total staff costs** | **7,209,105** | 8,527,800 |

The average number of persons employed during the year by the Group totaled 34 (2018: 37), all of which were in finance and administration. The company has no employees other than the directors, who did not receive any remuneration.

### 5. Taxation

**Analysis of tax charge in the year**

There was no (2018: nil) current tax or deferred tax charged during the year. A deferred tax asset of £383 (2018: £691) has not been recognised due to uncertainty of future income to offset the losses against.

**Factors affecting tax charge for the year**

The rate of corporation tax for the year was 19% (2018: 19%). The tax assessed for the year is higher than the standard rate of corporation tax in the UK . The differences are explained below:

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Profit on ordinary activities before tax | **6,266,889** | 2,083,850 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%) | **1,190,709** | 395,931 |
| **Tax effect of:** | | |
| Minority interest profit attributable to tax transparent subsidiary | **(1,191,782)** | (397,736) |
| Losses carried forward | **1,073** | 1,805 |
| **Current tax charge for the year** | **-** | - |

**Factors that may affect future tax charges**

There were no factors that may affect future tax charges.

## Notes to the financial statements – continued

### 6. Property, plant and equipment

**Group**

| | Furniture, fittings & equipment £ | Leasehold improvements £ | Total £ |
|---|---|---|---|
| **Year ended 31 December 2018** | | | |
| **Cost** | | | |
| Balance at beginning of year | 644,438 | 851,010 | 1,495,448 |
| Additions for the year | 6,760 | - | 6,760 |
| Write down | (92,248) | - | (92,248) |
| Balance at end of year | 558,950 | 851,010 | 1,409,960 |
| **Accumulated depreciation** | | | |
| Balance at beginning of year | 409,465 | 246,617 | 656,082 |
| Depreciation charge | 65,472 | 87,381 | 152,853 |
| Write down depreciation | (91,801) | - | (91,801) |
| Balance at end of year | 383,136 | 333,998 | 717,134 |
| **Net book value** | **175,814** | **517,012** | **692,826** |
| **Year ended 31 December 2018** | | | |
| **Cost** | | | |
| Balance at beginning of year | 558,950 | 851,010 | 1,409,960 |
| Additions during the year | 1,136 | - | 1,136 |
| Write down | - | - | - |
| Balance at end of year | 560,086 | 851,010 | 1,411,096 |
| **Accumulated depreciation** | | | |
| Balance at beginning of year | 383,136 | 333,998 | 717,134 |
| Charge for the year | 45,313 | 87,381 | 132,694 |
| Write down depreciation | - | - | - |
| Balance at end of year | 428,449 | 421,379 | 849,829 |
| **Net book value** | **131,636** | **429,631** | **561,267** |

**Company**

The Company does not have any items of property, plant and equipment.

## Notes to the financial statements – continued

### 7. Investment in subsidiary

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **£** | £ | **£** | £ |
| **Cost and net book value** | | | | |
| At beginning of year | - | - | **659,844** | 659,844 |
| Additions | - | - | - | - |
| At 31 December | - | - | **659,844** | 659,844 |

As part of the company's principle activity of providing regulatory capital, the company holds an investment in the LLP of £659,844 (2018: £659,844).

The company's subsidiary as at 31 December is shown below:

| | Registered office | Class of interests | 2019 % of voting interests | 2018 % of voting interests |
|---|---|---|---|---|
| Finisterre Capital LLP | 10 New Burlington Street<br>London<br>W1S 3BE | Member's Capital | **61.08** | 52.98 |

### 8. Debtors

Amounts falling due within one year:

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **£** | £ | **£** | £ |
| Trade debtors | **6,222,173** | 2,322,212 | - | - |
| Other debtors | **2,269,393** | 1,802,919 | - | - |
| Prepayments and accrued income | **667,912** | 427,057 | - | - |
| | **9,159,478** | 4,552,188 | - | - |

## Notes to the financial statements – continued

### 9. Debtors

Amounts falling due after one year:

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **£** | £ | **£** | £ |
| Other debtors | **99,709** | **1,758,735** | - | - |
| | **99,709** | **1,758,735** | - | - |

### 10. Creditors

Amounts falling due within one year:

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **£** | £ | **£** | £ |
| Trade creditors | **324,199** | 447,576 | - | - |
| Accruals and deferred income | **393,569** | 5,042,028 | **8,750** | 6,700 |
| Amounts owed to group undertakings | - | - | **4,065** | 9,965 |
| Other creditors | **5,244,172** | 393,566 | - | - |
| | **5,961,940** | 5,883,170 | **12,815** | 16,665 |

Included in other creditors is an interest-free loan of £393,569 (2018: £393,569) from Finisterre Malta Limited, being a subordinated loan with a rolling maturity that can be repaid with five years' notice, or earlier if consent is obtained from the FCA. The Company notified the FCA on 16 June 2020 of its intention to repay the loan early and therefore this has been categorized as a current creditor.

### 11. Creditors

Amounts falling due after one year:

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **£** | £ | **£** | £ |
| Accruals and deferred income | **126,100** | 760,147 | - | - |
| Other creditors | - | - | - | - |
| | **126,100** | 760,147 | - | - |

## Notes to the financial statements – continued

### 12. Share capital

| | Company | |
|---|---|---|
| | **2019** | 2018 |
| | **£** | £ |
| **Allotted, called up and fully paid** | | |
| 665,947 (2018: 665,947) Ordinary Shares of £1 each | **665,947** | 665,947 |

During the year, no (2018: nil) Ordinary shares of £1 each were issued or allotted.

### 13. Share based payment

Included in reserves are share based payments. This relates to equity issued in Finisterre Holdings Limited ("FHL"), the parent company of FCUK Ltd, which is the parent company of the LLP. The program is a cash settled plan, settled by FHL with vesting over a 5 year period. The liability is measured through an independent third party valuation. During the year, share based payment expenses of £339,997 were charged (2018: £130,740), and £252,900 (2018: £252,900) was including in Other Reserves.

### 14. Cash generated from operations

Reconciliation of operating profit to net cash flow from operating activities:

| | Group | |
|---|---|---|
| | **2019** | 2018 |
| | **£** | £ |
| Operating profit | **6,221,839** | 2,071,197 |
| *Adjustments to reconcile profit for the year to net cash flow from operating activities:* | | |
| Depreciation | **132,694** | 152,853 |
| Loss on write down of fixed assets | **-** | 447 |
| Share based payment | **339,997** | 130,740 |
| (Increase) in debtors | **(2,907,341)** | (100,459) |
| (Decrease) in creditors | **(596,199)** | (2,621,004) |
| Net cash (outflow)/inflow from operating activities | **(3,190,990)** | (336,226) |

### 15. Pension commitments

The LLP operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the LLP in an independently administered fund. The pension cost charge represents contributions payable by the LLP to the fund and amounted to £146,570 (2018: £174,008) and are included in staff costs. £1,478 (2018: £1,958) was payable to the pension fund at the balance sheet date. The company does not operate a pension scheme as it has no employees.

## Notes to the financial statements – continued

### 16. Operating lease commitments

As at 31 December 2019 the group has committed to make the following total future minimum lease payments under non-cancellable operating leases:

| | Group | |
|---|---|---|
| | **2019** | 2018 |
| | **£** | £ |
| Amounts due within 1 year | **1,205,390** | 1,192,182 |
| Amounts due between 2 and 5 years | **3,616,170** | 4,768,727 |
| Amounts due after 5 years | **-** | 1,107,259 |

The company had no operating lease commitments.

### 17. Derivative financial instruments

Financial liabilities relate to foreign currency contracts to sell USD and buy GBP. There were no open financial instruments as at year end (2018: nil). The foreign currency contracts are not traded in active markets. These have been fair valued using the difference between observable forward exchange rates corresponding to the maturity of the contract and the contracted rate, at the balance sheet date.

No realized gain or loss (2018: £444,153) was recorded in the Statement of Comprehensive Income in relation to derivative transactions that settled during the year.

Included in cash at bank and in hand is collateral of nil (2018: £524,905). None of this is pledged (2018: Nil).

### 18. Related party transactions

#### Group

Finisterre Malta Limited ("FML") is a related party due to common ownership. During the year the group charged FML £16,147,398 (2018: £14,546,864) in respect of investment management services provided. At the year end the balance due from FML was £6,045,878 (2018: £2,181,425). Details of loans made by FML to the group are included in note 10.

In addition, FML owed the LLP £1,645,007 (2018: £3,280,772) in relation to intragroup working capital.

Finisterre Holdings Limited ("FHL") is the parent company of the group. The directors consider FHL to be a related party by virtue of FHL controlling 100% of the voting rights of the company. At the year end, the group owed FHL nil (2018: £nil) in relation to intragroup working capital.

#### Company

The directors consider the LLP to be a related party by virtue of the company owning a majority of the voting rights of the LLP. The LLP has paid expenses on behalf of the company totaling £3,600 (2018: £6,480). At year end £4,065 (2018: £9,965) was due from the company to the LLP. The company holds an investment in the LLP which is detailed further in note 7.

## Notes to the financial statements – continued

### 19. Ultimate parent undertaking and controlling party

The company's immediate controlling party is FHL by virtue of its controlling 100% of the voting rights of the company. FHL is a limited liability company and is incorporated in Malta. The company is included in the consolidated accounts of FHL, which are publicly available at The Registry of Companies, Malta Financial Services Authority, Notabile Road, Attard, BKR 3000, Malta.

The ultimate controlling party is Principal Global Investors Holdings Company, LLC, a company incorporated in the United States of America.

### 20. Post balance sheet events

Post year end the Chief Investment Officer, Hakan Sofuoglu, of the Finisterre Credit Fund (the "Fund"), a fund for which the Group provides asset management services, announced that he was to step down from his role due to personal circumstances at the end of June 2020. Senior management of the LLP, as well as the Directors of the Fund, considered several different options in order to keep managing the fund in light of this news, but none were considered viable in the short timeframe. As a result, the decision was made to close the Finisterre Credit Fund voluntarily and return capital to investors by 1 July 2020.

COVID-19 is considered to be a non-adjusting post balance sheet event and as such no adjustments have been made to the valuation of assets and liabilities as at 31 December 2019. For further discussions concerning the Group's assessment of COVID 19's impact on the Group as well as an assessment of its going concern, please refer to Note 1.4.