

Oak Hill Advisors (Europe), LLP

Registered in England Number OC314278

Report and Financial Statements for the year ended 31 December 2022

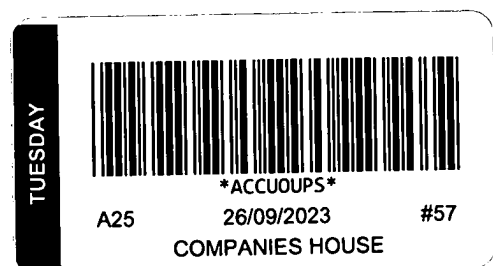


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Company information

Members

Oak Hill Advisors (U.K. Services) Limited
Oak Hill Advisors (U.K. Services (No.2)) Limited (appointed 29 December 2021)
Declan Tiernan (resigned 29 December 2021)
Alexis Atteslis (resigned 29 December 2021)
Lucy Panter (resigned 29 December 2021)
Musa Sonmez (resigned 29 December 2021)

Auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Banker

Royal Bank of Scotland
PO Box 39952
London
EC2M 4XK

Solicitor

Ashurst
Broadwalk House
5 Appold Street
London
EC2A 2HA

Registered Office

Oak Hill Advisors (Europe), LLP
45 Pall Mall
4th Floor
London
SW1Y 5JG

Members' report

The members present their report and financial statements of Oak Hill Advisors (Europe), LLP (the "LLP") for the year ended 31 December 2022.

Principal activity and review of the business

The principal activity of the LLP is to provide investment management services to collateralised loan obligation issuers ("CLOs"), private funds, affiliated entities and separate accounts.

As at 31 December 2022 the LLP had assets under management ("AUM") of £2.39 billion (2021: £2.15 billion) in respect of funds and accounts it directly managed. The LLP continued to provide investment advice to affiliated entities in respect of European assets in funds and accounts managed by Oak Hill Advisors, L.P. ("OHA"), the immediate US parent entity of the OHA Group.

T. Rowe Price Group, Inc. ("T. Rowe Price") is the ultimate parent entity of OHA and all its foreign subsidiaries. T. Rowe Price is a global investment management organisation with 1.28tn in assets under management. OHA operates as a stand-alone business under the OHA brand name, maintaining autonomy over the investment process.

At 31 December 2022, the LLP served as collateral manager to six CLOs. The LLP owns at least a 5% interest in each tranche of securities issued by the CLOs (pursuant to applicable risk retention regulations). Such investments are required to be held over the life of the respective CLO. The LLP has third party financing in respect of the required retention investments. In March 2021, the LLP became the collateral manager for its latest of the six CLO funds that it manages, while in December 2021 one of the CLOs that the LLP manages was reset. OHA have a Fund with the investment objective of providing equity capital to OHA managed CLOs. The Fund is designed to fulfil risk retention rules as a third party originator. As a result, it is unlikely that the LLP will hold risk retention investments for future CLOs.

The LLP is authorised and regulated by the Financial Conduct Authority ("FCA") under the second Markets in Financial Instruments Directive ("MiFID").

Results and distributions

During 2022, the LLP received inter-company advisory fees from OHA, calculated in line with OHA's group transfer pricing policy, which is in line with industry standards and is subject to annual review by OHA's tax advisors. This resulted in a receipt of intercompany advisory fees of £1.8 million (2021: payment of £2.3 million). In total, management fees and advisory fees earned during the year amounted to £12.1 million (2021: £12.8 million), while net profits decreased to £4.3 million in 2022 (2021: £5.2 million).

The results for the year are shown in the profit and loss account on page 12. The LLP's balance sheet as detailed on page 14 shows a satisfactory position. During the year, the LLP allocated £0 (2021: £2,083,806) of its retained profits to its members.

Future developments

Ukraine-Russian conflict

In response to Ukraine-Russian conflict, the LLP has no direct exposure to Ukraine, Russia, or Belarus. Furthermore, the funds and accounts that the LLP manages or provides advice on, have not accepted capital commitments or funds from any sanctioned individual or Russian national. Management will continue to monitor the markets in response to the conflict. The ultimate fallout and long-term impact are not known, are highly uncertain, and cannot be predicted.

UK Investment Funds Prudential Regime

Effective 1 January 2022, a new regulatory regime came into force in the UK, the UK Investment Firms Prudential Regime ("IFPR"). IFPR replaced the Capital Requirements Directive, which was originally designed for credit institutions. While the implementation of IFPR has not led to the identification of new risks, nor a material change in existing risks, it provides an additional lens through which to consider risks faced by the Firm (namely the risk of harm caused to the LLP, clients or the market). The main changes as a result of the implementation of IFPR are:

Members' report (continued)

UK Investment Funds Prudential Regime (continued)

i) Own Funds requirements: Sometimes referred to as Regulatory Capital requirement, is the higher of a) the permanent minimum requirement ("PMR"); b) the K-factor requirement ("KFR"); or c) the fixed overhead requirement ("FOR"). The main change here is the removal of the credit risk component and the introduction of KFR. Currently, FOR is the highest of the above 3 tests, which results in a reduction in regulatory capital requirement for the LLP.

ii) Liquidity requirement: Under IFPR, the basic liquid assets requirement is equal to 1/3rd of the FOR, which is a reduction in the overall liquidity requirement, however the basic liquid asset requirement must be made up of so called "core liquid assets". This means that the basic liquid assets requirement must be made up of cash and cash equivalents denominated primarily in pound sterling.

iii) ICARA process: Under the new prudential regime the LLP will be required to complete an annual Internal Capital and Risk Assessment ("ICARA") process in place of the previous ICAAP. The first ICARA will be produced by 30 June 2023. The underlying objective of the ICARA is for the Firm to identify and measure the risk of harm. In doing so it must identify own funds and liquid assets threshold requirements. The threshold requirements of the LLP must equal, at least, the additional amount of own funds and liquid assets required to commence an orderly wind-down. In addition, the Firm must also set intervention points and actions as well as notification procedures. When looking at liquid asset threshold requirements, the LLP may use non-core assets, subject to an appropriate haircut. The Firm must review and document the ICARA at least once every 12 months and immediately following a change in business/operation model.

iv) Changes in remuneration requirements: IFPR has required that U.K Services updated its remuneration policy, set an appropriate balance between fixed and variable remuneration and apply standard remuneration requirements to material risk takers ("MRT"). This includes being able to claw-back all or part of an MRTs variable compensation in certain limited cases. Clawback must run at least three years post-award or post-vesting.

Going Concern

The LLP's activities, together with the factors likely to affect its future development, performance and position are set out in the applicable sections of the Members' report above. The financial position of the LLP, its liquidity position, and its cash flows are reflected on the Balance sheet and Statement of cash flows. The LLP maintains an appropriate level of regulatory capital and liquidity headroom for the nature of its individual circumstances.

The LLP bases its going concern assessment on a two-year business plan which is subject to a range of stress tests as part of the normal financial and capital planning cycle.

In addition to the current financial position and projections of the LLP, the members have considered the ability of the LLP to continue operationally in the current environment. As part of its overall business continuity planning, OHA had invested considerably in IT and operational resilience including remote working capabilities. As a result, OHA and, by extension, the LLP have a sound operational position from which to make their going concern assessment.

Based on the current financial and operational position of the LLP, and the business plan and stress testing performed, the members have a reasonable expectation that the LLP has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the members consider it appropriate that the LLP continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Pillar 3 risk disclosures

Basel II Pillar 3 disclosures per the requirements of the Capital Requirements Directive (2013/36/EU) and Regulations ((EU) No 575/2013), together "CRD IV", are published on the LLP's disclosure website. Please go to the following page: <https://oakhilladvisors.app.box.com/v/OHAUKDisclosure>. Per (CRD IV) Article 89, institutions are required to publish certain details on a country-by-country reporting ("CBCR") basis. CRD IV permits this information to be presented on a consolidated basis. Therefore, CBCR will be presented at the Oak Hill Advisors (U.K. Services) Limited level in the annual audited financial statements found on the Companies House website.

Members' report (continued)

Members' profit allocation

Any profits are shared among the members as decided by the Members and governed by the Partnership Agreement dated 20 December 2005, as amended and restated.

Policy for members' drawings, subscriptions and repayments of members' capital

Policies for members' drawings, subscriptions and repayment of members' capital are governed by the Partnership Agreement dated 20 December 2005, as amended and restated. Initial subscriptions of capital are to be received in cash when a new member enters the LLP and must be maintained at all times during the continuance of the LLP. Repayments of capital will only occur when a member leaves the LLP or the LLP ceases to continue operations. Drawings are broken into three types: priority profit share, additional profit share, and allocation of net profit; and are determined annually by the Managing Members in conjunction with said Partnership Agreement.

Members

The Members of the LLP during the year and as at the date of this report were as follows:

Oak Hill Advisors (U.K. Services) Limited*

Oak Hill Advisors (U.K. Services (No.2)) Limited (appointed 29 December 2021)*

Declan Tiernan (resigned 29 December 2021)

Alexis Atteslis (resigned 29 December 2021)

Lucy Panter (resigned 29 December 2021)

Musa Sonmez (resigned 29 December 2021)

*Designated Members.

Disclosure of information to the auditor

So far as the members are aware, there is no relevant audit information of which the LLP's auditor is unaware. The members have taken all steps that they ought to have taken as members in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of this information.

Auditor

A resolution to reappoint KPMG LLP as auditor will be put to the members at the Management Committee Meeting held annually to approve the year end accounts.

By order of the members:



William Bohnsack Jr. for
Oak Hill Advisors (U.K. Services) Limited
45 Pall Mall, 4th floor
London, SW1Y 5JG
Designated Member

Date: 26 April 2023

Statement of Members' Responsibilities

The members are responsible for preparing the Members' Report and the financial statements in accordance with applicable law and regulations.

The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 require the Members to prepare financial statements for each financial year. Under that law, the members have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable to the UK and Republic of Ireland*.

Under Regulation 8 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 the members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the LLP and of the profit or loss for that period. In preparing these financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- assess the LLP's ability to continue as a going concern, disclosing as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the LLP or to cease operations or have no realistic alternative but to do so.

Under Regulation 6 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008, the members are responsible for keeping adequate accounting records that are sufficient to show and explain the LLP's transactions and disclose with reasonable accuracy at any time the financial position of the LLP and enable them to ensure that its financial statements comply with those regulations. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the LLP and to prevent and detect fraud and other irregularities.

Independent auditor's report

to the members of Oak Hill Advisors (Europe), LLP

Opinion

We have audited the financial statements of Oak Hill Advisors (Europe), LLP ("the LLP") for the year ended 31 December 2022 which comprise the Profit and Loss Account and other comprehensive income, Statement of Changes in Equity, Balance Sheet, Statement of Cash Flows and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view, of the state of affairs of the LLP as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the LLP in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The members have prepared the financial statements on the going concern basis as they do not intend to liquidate the LLP or to cease its operations, and as they have concluded that the LLP's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the members' conclusions, we considered the inherent risks to the LLP's business model and analysed how those risks might affect the LLP's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the members' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the members' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the LLP's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the LLP will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

Independent auditor's report

to the members of Oak Hill Advisors (Europe), LLP

- Enquiring of members, as to the LLP's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading management committee minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. As required by auditing standards and taking into account our overall knowledge of control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the revenue is non-judgmental and straightforward, with limited opportunity for manipulation.

We did not identify any additional fraud risks.

We also performed procedures including identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the members and other management (as required by auditing standards), and discussed with the members and other management the policies and procedures regarding compliance with laws and regulations.

As the LLP is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the LLP is subject to laws and regulations that directly affect the financial statements including financial reporting legislation, distributable profits legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the LLP is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the LLP's license to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, data protection, anti-money laundering, market abuse regulations and financial services regulations including Client Assets, and specific areas of regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the members and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Independent auditor's report

to the members of Oak Hill Advisors (Europe), LLP

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The members are responsible for the other information, which comprises the members' report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Matters on which we are required to report by exception

Under the Companies Act 2006 as applied to limited liability partnerships we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit; or

We have nothing to report in these respects.

Members' responsibilities

As explained more fully in their statement set out on page 7, the members are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the LLP'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 they either intend to liquidate the LLP or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent auditor's report

to the members of Oak Hill Advisors (Europe), LLP

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the members of the LLP, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as required by Regulation 39 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. Our audit work has been undertaken so that we might state to the LLP'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 LLP and the LLP's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Wiqas Qaiser (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants, KPMG LLP

15 Canada Square

E14 5GL

London

26 April 2023

Profit and loss account and other comprehensive income

for the year ended 31 December 2022

	<i>Notes</i>	<i>2022</i> £	<i>2021</i> £
Turnover			
Management fees	2,3	12,050,605	12,798,147
Expenses			
Administration expenses		(7,730,263)	(8,662,655)
Operating profit	4	4,320,342	4,135,492
Loss on financial assets at fair value through profit or loss	6	(2,110,808)	(266,497)
Interest, dividend income and other income		3,136,542	3,073,804
Interest expense on long term loans/financing		(1,703,724)	(1,655,985)
Other finance costs	12	(34,220)	(71,238)
Foreign exchange loss		721,271	(9,427)
Profit and other comprehensive income for the financial year available for discretionary division among members		4,329,403	5,206,149

The LLP has no other comprehensive income during the year other than the amounts shown above. The profits for the current and prior years relate solely to continuing operations.

The notes on pages 15 to 23 form an integral part of these financial statements.

Statement of changes in equity

31 December 2022

	<i>Members'</i> <i>capital</i> £	<i>Other</i> <i>reserves</i> £	<i>Total</i> <i>members'</i> <i>equity</i> <i>interests</i> £	<i>Loans and</i> <i>other debts</i> <i>due to/(from)</i> <i>members</i> £	<i>Total</i> <i>Members'</i> <i>interests</i> £
At 1 January 2021	17,550,331	11,492,805	29,043,136	(3,672,233)	25,370,903
Capital introduced	1	-	1	-	1
Profit for the year	-	5,206,149	5,206,149	-	5,206,149
Profit allocation	-	(2,083,806)	(2,083,806)	2,083,806	-
Distributions to members	(2,000)	-	(2,000)	(2,083,806)	(2,085,806)
Other payments from members	-	-	-	(1,950,500)	(1,950,500)
At 31 December 2021	17,548,332	14,615,148	32,163,480	(5,622,733)	26,540,747
Profit for the year	-	4,329,403	4,329,403	-	4,329,403
Distributions to members	-	(361,500)	(361,500)	-	(361,500)
Other payments to members	-	-	-	(2,360,799)	(2,360,799)
At 31 December 2022	17,548,332	18,583,051	36,131,383	(7,983,532)	28,147,851

The notes on pages 15 to 23 form an integral part of these financial statements.

Registered No: OC314278

Balance sheet

at 31 December 2022

	Notes	2022 £	2021 £
Fixed assets			
Investments	6	94,956,017	95,232,970
Current assets			
Debtors	7	15,536,242	13,373,225
Amounts due from members	13	7,983,531	5,622,733
Cash at bank		3,545,510	1,937,101
		<u>27,065,283</u>	<u>20,933,059</u>
Current liabilities			
Creditors: amounts falling due within one year	8	(682,857)	(589,577)
Net current assets		<u>26,382,426</u>	<u>20,343,482</u>
Total assets less current liabilities		<u>121,338,443</u>	<u>115,576,452</u>
Creditors: amounts falling due after one year	10,11	(85,207,060)	(83,412,972)
Net assets attributable to members		<u>36,131,383</u>	<u>32,163,480</u>
Represented by:			
Members' other interests			
Members' capital classified as equity under FRS 102 section 22		17,548,332	17,548,332
Members' other interests – other reserves classified as equity		18,583,051	14,615,148
		<u>36,131,383</u>	<u>32,163,480</u>
Total members' interests			
Amounts due from members		(7,983,532)	(5,622,733)
Members' other interests		36,131,383	32,163,480
		<u>28,147,851</u>	<u>26,540,747</u>

The notes on pages 15 to 23 form an integral part of these financial statements.

The financial statements were approved by the Members on 26 April 2023.

For and on behalf of the Members by:



William Bohnsack Jr. for
Oak Hill Advisors (U.K. Services) Limited
Designated Member

Statement of cash flows

for the year ended 31 December 2022

	2022 £	2021 £
<i>Cash flows from operating activities:</i>		
Operating profit	4,320,342	4,135,492
<i>Adjustments for:</i>		
Increase in debtors	(2,780,312)	(3,394,030)
Increase/(decrease) in creditors	1,016,076	(2,952,286)
Foreign exchange gain	149,047	3,006,423
Net cash inflow from operating activities	2,705,153	795,599
<i>Cash flows from investing activities:</i>		
Interest and dividend received	3,113,073	2,934,062
Receipts from sales of investments	2,683,890	40,569,549
Return of capital on equity investments	207,006	422,691
Payments to acquire investments	-	(42,726,692)
Net cash inflow from investing activities	6,003,969	1,199,610
<i>Cash flows from financing activities:</i>		
Interest paid	(1,703,724)	(1,655,985)
Issue costs on new long-term loans	-	(305,431)
Interest-bearing borrowings received	-	1,890,058
Repurchase obligation agreement financing received	-	39,127,869
Repayment of long-term loans	(2,683,890)	(36,032,331)
Capital introduced	-	1
Movements in loans and other debts due to members	(2,360,799)	(1,950,500)
Distributions to members	(361,500)	(2,085,806)
Net cash outflow from financing activities	(7,109,913)	(1,012,125)
Increase in cash at bank	1,599,209	983,084
Effect of exchange rates on cash	9,200	41,155
Cash at bank at 1 January	1,937,101	912,862
Cash at bank at 31 December	3,545,510	1,937,101

The notes on pages 15 to 23 form an integral part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2022

1. General Information

Oak Hill Advisors (Europe), LLP (the “LLP”) is a limited liability partnership which is authorised and regulated by the Financial Conduct Authority (“FCA”) under the second Markets in Financial Instruments Directive (“MiFID II”).

The LLP provides investment management services to Collateralised Loan Obligation issuers (“CLOs”), private funds, affiliated entities and separate accounts.

2. Accounting policies

Statement of Compliance

The LLP is a limited liability partnership incorporated in England and Wales. The registered office of the LLP is 45 Pall Mall, 4th Floor, London, England SW1Y 5JG.

The LLP’s financial statements have been prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (“FRS 102”) and the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008, and in accordance with the Statement of Recommended Practice ‘Accounting by Limited Liability Partnerships’ (the “LLP SORP”) issued in July 2014 and amended in January 2019.

Basis of preparation

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with applicable UK accounting standards as defined in the Companies Act 2006 and the LLP SORP.

The members perform an annual going concern review that considers the LLP’s ability to meet its financial obligations as they fall due, and to meet its regulatory capital and liquidity requirements at all times, for a period of at least twelve months after the date that the financial statements are signed. As a consequence, the members believe that the LLP is well placed to manage its financial obligations successfully despite the continued uncertain economic outlook.

Management has performed an in-depth review of the operational and financial resilience of the business to support the going concern assessment. The following factors were considered:

- The financial impact of the current uncertainty on the LLP’s balance sheet; in particular the valuation of mark-to-market CLO risk retention investments as discussed in note 6
- Stress tests on base-case financial projections including significantly reduced management fees charged on assets under management;
- The LLP’s liquidity position based on current and projected cash resources. The LLP’s current liquidity position is able to sustain its current operational costs for at least a year even with the significantly reduced revenue scenarios used in the stress testing described above;
- Regulatory capital requirements based on reduced revenue and mark-to-market losses on assets as described above. The LLP is able to maintain sufficient regulatory capital;
- The impact of the current economic environment on borrowing covenants, including the ability to pay any future margin calls; and
- The LLP’s operational resilience with respect to key business and operational processes, IT systems and infrastructure. This includes the interdependency of the LLP’s operations and finances with those of its ultimate parent, Oak Hill Advisors, L.P. (“OHA”) and its financial strength and ability to pay advisory fees to the LLP.

Notes to the financial statements

for the year ended 31 December 2022

2. Accounting policies (continued)

Basis of preparation (continued)

Based on the above assessment and the successful implementation of working from home from an operational perspective for over a year, the members have concluded that the LLP has adequate resources to continue in operational existence for the foreseeable future (for a period of at least twelve months after the date that the financial statements are signed). Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Use of estimates

The preparation of the financial statements requires management to make certain estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. Certain estimates were used in the preparation of the financial statements; however, the majority of these estimates did not have a significant impact on the preparation of these financial statements.

Estimates regarding the fair value of CLO equity risk retention investments (which are carried at fair value), are supported by externally sourced pricing services.

Turnover

Turnover represents fees receivable for investment management services provided during the year to certain investment funds and separate accounts. Management fees are recognised when the LLP obtains the right for consideration in exchange for its performance of services. Turnover is measured at the fair value of the consideration received, excluding rebates and VAT.

Interest income

Interest income is recognised as interest accrues using the effective interest method.

Dividend income

Dividends are recognised when the LLP's right to receive payment is established.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken to the profit and loss account.

Taxation

No provision has been made for taxation in the financial statements. Each partner is exclusively liable for any tax liabilities arising out of their interest in the LLP, which will be assessed on the individual partners and not on the LLP.

Members' profit allocations

Any profits are shared among the members as decided by the Members and governed by the Partnership Agreement dated 20 December 2005, as amended and restated. Profit allocations are recognised when formally approved by the Management Committee.

The Partnership Agreement states that each partner will be entitled to priority profit share payments each month. However, to the extent that in any accounting year the total profits of the LLP are less than the aggregate of the priority profit share paid, or a loss occurs for the year, those distributions must be repaid. In addition, the Management Committee may retain in the LLP any profits it deems necessary for working capital or for regulatory capital purposes. Profits are only allocated to members once such allocations are approved by the Management Committee.

Notes to the financial statements

for the year ended 31 December 2022

2. Accounting policies (continued)

Members' profit allocations (continued)

In determining the treatment of profit shares, the LLP has considered the guidance provided in the LLP SORP. Based on the terms summarised above, and on the guidance in the LLP SORP, all partner remuneration is considered to be an allocation of profit to members and is therefore not recognised as an expense in the profit and loss account.

Other than the allocation of profits as described above, Members' other interests may not be reduced during the continuance of the LLP without being replaced by an equal amount of equity capital from another member. In addition, there are no post-retirement payments made to members.

Financial instruments

Financial assets and financial liabilities are recognised in the LLP's balance sheet when the LLP becomes a party to the contractual provisions of the instrument.

Cash at bank

Cash at bank comprises cash at banks with liquidity of three months or less.

Debtors

Debtor amounts are measured at fair value on initial recognition. Appropriate write offs for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

Creditors

Creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Subordinated note investments

As a collateral manager, the LLP was subject to applicable risk retention rules. The LLP is required to hold a minimum 5% interest in the notes issued by each CLO it manages, which is achieved through a 5% 'vertical slice' of each of the rated and unrated notes issued by each CLO.

Subordinated note investments represent a 5% risk retention investment in the subordinated note tranches of certain CLOs managed by the LLP (as noted above and further in note 6). These investments are often referred to as equity in the CLO market despite being a debt instrument, due to their junior ranking, and the exposure to variability on cash flows from the CLO vehicle as they are paid all residual funds after all other note holders, expenses, and creditors have been paid. These instruments do not have fixed and determinable cash flows through their life. They are recognised initially at fair value which is normally the transaction price. Subsequently, they are measured at fair value through profit or loss, with fair values determined based on pricing quotes from third party pricing services.

Investments are recognised and derecognised on trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Fixed asset investments

Fixed asset investments represent a 5% risk retention investment in the rated note tranches of the CLOs noted above. Under FRS 102, investments are accounted for under sections 11 and 12 – Basic Financial Instruments and Other Financial Instruments Issues. In accordance with FRS 102 sections 11 and 12, the LLP has opted to value its investments in accordance with option (b) the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement*, the disclosure requirements of Sections 11 and 12 and the presentation requirements of paragraphs 11.38A or 12.25B. These notes have fixed and determinable cash flows, and their prices are not quoted in an active market. As such, they are classified as loans and receivables.

Notes to the financial statements

for the year ended 31 December 2022

2. Accounting policies (continued)

Fixed asset investments (continued)

These assets are initially recognised at fair value, which is normally the transaction price, and are subsequently measured at amortised cost using the effective interest method with current accretion recognised to the profit and loss account. Since these monetary items are denominated in EUR, they are subject to periodic retranslation at the GBP equivalent rate on the balance sheet date at each period end. In addition, and as discussed below, two of the risk retention investments are pledged as collateral under repurchase agreements.

Derivatives

Derivative financial instruments are measured at fair value upon initial recognition and subsequently remeasured at the balance sheet date with any gains or losses on revaluation being recognised within the profit and loss account and other comprehensive income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

(a) Foreign exchange contracts

The LLP uses forward foreign currency contracts ("Forwards") to reduce exposure to foreign exchange rates and engages in such Forwards from time to time. The fair value of the Forwards is calculated by reference to spot and forward foreign exchange rates prevailing at the accounting reference date. As the LLP has the right to settle these contracts on a net basis, and routinely does so, the fair value is presented as the net of the two forward cash flows.

Interest-bearing borrowing classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Loan notes

Loan notes which are basic financial instruments are initially recorded at the present value of future payments discounted at a market rate of interest for a similar loan. Subsequently, they are measured at amortised cost.

Repurchase agreements

Repurchase agreements are utilised as external funding for two CLO investments. The LLP has acquired financing from an external party to purchase part of the 5% risk retention investment in two of the CLOs and in return has pledged all or part of those investments as collateral against the repurchase agreement. The repurchase obligations under these agreements are initially recorded at fair value which is normally the transaction cost and are subsequently measured at amortised cost. The LLP retains all of the risks and rewards of the transferred assets used as collateral for the repurchase agreements and, therefore, the transferred assets are not derecognised.

Borrowing costs

The LLP has chosen to capitalise the debt issuance costs incurred in relation to the loan notes issued and repurchase agreements entered. The debt issuance costs are recognised in profit and loss on a straight-line basis over the maturity of loans/financing.

Expenses

Expenses incurred have been recognised on an accrual basis.

3. Turnover

The total turnover of the LLP for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

Notes to the financial statements

for the year ended 31 December 2022

4. Operating profit

This is stated after charging:

	2022	2021
	£	£
Auditor's remuneration:		
Audit services	60,353	17,000
CASS audit services	16,000	11,000
Tax services	10,750	10,750

No other non-audit fees were payable to the LLP's auditor.

5. Members' remuneration

	2022	2021
	£	£
Profit for the financial year before members' remuneration and profit share and available for discretionary division among members	4,329,403	5,206,149
Profit attributable to the member with the largest entitlement	4,329,403	3,150,149

The average number of members in the year was 1 (2021: 4). None of the members' remuneration above are being treated as an expense.

6. Investments

	Subordinated Notes ^(a)	Rated Notes ^(b)	Total
	£	£	£
Balance at 1 January 2022	6,784,596	88,448,374	95,232,970
Disposals/Paydowns	-	(2,683,890)	(2,683,890)
Amortisation of discounts	-	23,469	23,469
Loss on financial assets at fair value through profit or loss	(2,110,808)	-	(2,110,808)
Return of capital on equity investments	(207,006)	-	(207,006)
Foreign exchange gain	134,593	4,566,689	4,701,282
Balance at 31 December 2022 ¹	4,601,375	90,353,642	94,956,017
Carrying amount at 31 December 2022	4,601,375	90,353,642	94,956,017
Carrying amount at 31 December 2021	6,784,596	88,448,374	95,232,970

¹ Includes £59,021,889 (2021: £58,680,538) of notes pledged as collateral under repurchase agreements.

Notes to the financial statements

for the year ended 31 December 2022

6. Investments (continued)

(a) Subordinated notes (fair value)

The current market values as of 31 December 2022 and 2021 appear in the table above. These investments are denominated in EUR and subject to periodic retranslation at the GBP equivalent rate on the balance sheet date at each period end.

The above subordinated note investments have been classified as level 2 investments in accordance with the fair value hierarchy table.

(b) Rated notes (amortised cost)

The fixed asset investments held at amortised cost are subject to periodic impairment testing. Impairment testing is based on the current credit ratings of the underlying notes in the CLOs as well as the CLOs ability to continue to meet its profile, quality, and coverage tests stipulated in the CLO offering documents. As of 31 December 2022 and 2021, there was no permanent impairment. The LLP has continued using amortised cost as the valuation method that appears to be the most appropriate.

Market risk

The LLP is exposed to market risk through movements in the value of its amortised cost and equity investments that are inherent in the performance of the underlying financial loan markets. However, the market risk that exists on the amortised cost investments would only occur if the values declined to the point where the LLP would have to record a permanent impairment on these investments.

Foreign exchange risk

The majority of the FX exposure on EUR denominated risk retention investment is off set by the associated external financing, which is also denominated in EUR. FX risk does arise on the portion of those investments which are funded by member's capital. This exposure is hedged as explained in note 9.

Credit risk

The credit risk relating to investments arises from potential default of the CLO issuer (which in turn is dependent on the performance of the underlying pool of assets managed by the LLP), with a maximum exposure equal to the carrying amount of these investments. This credit risk varies in line with the seniority of each class of notes in the capital structure in each CLO, with the equity investments carrying the greatest risk. The LLP monitors its risk exposure and holds sufficient capital against the credit risk faced.

7. Debtors

	2022	2021
	£	£
Prepayments and accrued income	2,828,831	2,887,633
Interest and dividend receivable and similar income	499,444	989,141
Derivative financial instruments (see note 9)	-	25,744
Amounts due from ultimate parent undertaking	12,207,967	9,470,707
	<u>15,536,242</u>	<u>13,373,225</u>

Notes to the financial statements

for the year ended 31 December 2022

8. Creditors: amounts falling due within one year

	2022	2021
	£	£
Derivative financial instruments (see note 9)	149,950	-
Interest-bearing borrowings	-	-
Interest payable and similar charges	532,907	589,577
	<u>682,857</u>	<u>589,577</u>

Interest – bearing borrowings were used as short-term financing for the investment of the senior notes in the CLO warehouse provided by a third party. The warehouse borrowings matured when the CLO fund closed on 31 March 2021.

9. Derivatives

Foreign exchange contracts

The LLP uses EUR-GBP foreign currency forward contracts to hedge residual currency exposure between EUR denominated risk retention investments and associated external financing. This residual exposure arises from the portion of the investments funded by member's capital rather than external finance.

In aggregate the LLP has €11,311,383 (2021: €14,056,860) of FX forwards used to hedge currency exposure on the risk retention investments. As of 31 December 2022, there is a net liability balance of £149,950 (2021: net asset balance of £25,744), which represents the current unrealised (losses)/gains on the forward contracts.

10. Long term loans

	2022	2021
	£	£
Balance at 1 January	27,287,086	49,030,812
New loans	-	1,890,058
Loan repayments	(2,447,693)	(23,762,306)
Foreign exchange loss	1,345,781	128,522
Balance at 31 December	<u>26,185,174</u>	<u>27,287,086</u>

Long term loans are currently used as external finance for two of the LLP's CLO investments. These are summarized below:

<i>Amount (EUR)</i>	<i>Interest rate</i>	<i>Maturity</i>
11,053,916	3m EURIBOR +1.95%	20 July 2030
18,513,804	3m EURIBOR +1.70%	20 January 2032

The note facilities each mature on the sooner of the above dates or the redemption of the underlying investment. The deeds contain covenants which, if not met, may cause the termination of the note facility commitments and declare the principal of and interest on the loans immediately due and payable. As of 31 December 2022 and 2021, the LLP was in compliance with such covenants. The debts are collateralised by a fixed charge over the respective CLO assets which they finance.

Notes to the financial statements

for the year ended 31 December 2022

11. Repurchase agreements

Repurchase agreements are currently used as external financing for four of the LLP's CLO investments with a total repurchase liability as of 31 December 2022 of £59,021,889 (2021: £56,125,886). These are summarised below:

<i>Amount (EUR)</i>	<i>Interest rate (bps)</i>	<i>Assets financed</i>	<i>Maturity</i>
16,750,000	50	Class A-D notes (with all other tranches posted as additional collateral)	2032
18,659,000	50	Class A-F notes	2035
18,444,216	50	Class A-F notes	2031
12,873,000	50	Class A-F notes	2035

The LLP continues to satisfy the applicable risk retention requirements relating to these two investments.

12. Borrowing costs

In connection with the note facilities and repurchase agreements in notes 10 and 11, the LLP incurred debt financing and upfront borrowing costs which are amortised on a straight-line basis over the lives of the respective agreements. During 2022 no new debt issuance costs were capitalised (2021: £119,343). During 2022, an amortisation expense of £34,220 (2021: £71,238) was recognised through the profit and loss. The remaining asset balance at 31 December 2022 was £356,2343 (2021: £390,454).

13. Related parties

During the year, the LLP earned advisory fees of £1,838,326 from OHA (2021: owed advisory fees of £2,330,312 to OHA) in respect of group sub-advisory services. At year end, £2,394,451 is due from OHA (2021: £1,918,659 is due to OHA) in relation to these services and other intercompany activity.

During 2016, the LLP entered into revolving loan arrangements with OHA to lend various amounts over time based on excess cash balances in the LLP with the ability to recall amounts as needed. The loans are revolving funding facilities repayable upon 10 days written notice from either party. As of 31 December 2022, the outstanding loan balance including accrued interest was \$10,215,135 (2021: \$10,215,135). Interest earned from OHA in respect of these revolving loan balances in 2022 was £224,275 (2021: £154,568).

During the year, the LLP incurred service fees of £7,727,312 (2021: £8,654,389) in respect of administrative services rendered by U.K. Services, a designated member of the LLP. At year end, £7,983,531 (2021: £5,622,733) is due from U.K. Services.

During the year, the LLP allocated profits of £361,500 (2021: £2,083,806) to members. This profit allocation was subsequently distributed to members during the course of the year. Payments of £2,360,799 were made to members in 2022 (2021: £1,950,500 were received from members).

14. Ultimate controlling party

U.K. Services is the majority member of the LLP. U.K. Services is wholly owned by Oak Hill Advisors, L.P., a Delaware limited partnership formed and operated in the United States. T. Rowe Price is the sole ultimate beneficial owner of the LLP.

Notes to the financial statements

for the year ended 31 December 2022

15. Post balance sheet events

There are no post balance sheet events that require disclosure.