



THE BANK OF NEW YORK MELLON

Ivy Asset Management (U.K.) Limited
Pillar 3 Disclosures for the year ended 31st December 2008

31st March 2009

About Pillar 3 Disclosure

A. Alignment of disclosures among UK Asset Managers

The Investment Management Association, comprising a number of UK investment managers, has published guidelines for preparers of Pillar 3 disclosures to better align content, definitions and approaches and to drive comparability and consistency wherever possible. These disclosures have been produced with reference to the outcome of this Working Party. Where necessary, footnotes have been added to the data tables to explain content. However, whilst disclosures are intended to provide transparent information on a common basis, different assumptions may apply to other asset managers and banking groups especially outside the UK so a reader must understand the basis of each firm's disclosures before making comparisons.

B. Policy and approach

Pillar 3 disclosures are required at the consolidated group level for those parts of the group covered by the Basel II framework. At the request of the UK regulators, this sub-disclosure has been prepared at the highest national regulated entity level.

These disclosures have been approved by the Ivy Asset Management (U.K.) Limited ("Ivy") Board of Directors (BOD) which has verified that they are consistent with formal policies adopted regarding production and validation of content.

Information in this report has been prepared solely to meet the disclosure requirements about Basel II and to provide certain specified information about capital and other risks and details about the management of those risks and for no other purpose. This paper does not constitute any form of financial statement on the business nor does it constitute any form of contemporary or forward looking record or opinion about the business.

Unless indicated otherwise, information contained within this document has not been subject to external audit.

This report will henceforth be made on an annual basis as at the Accounting Reference Date, 31st December and publication will take place as soon as practicable.

The company will reassess the need to publish some or all of the disclosures more frequently than annually in light of any significant change to the relevant characteristics of its business including disclosure about capital resources and adequacy and information about risk exposure and other items prone to rapid change.

The BOD at its discretion may omit one or more of the disclosures if the information provided by such disclosures is not regarded as material. The criterion for materiality used in these disclosures is that the firm will regard as material any information where omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

The BOD at its discretion may omit one or more of the disclosures if those items include information which, in the light of requirements is regarded as proprietary or confidential. In this circumstance, the BOD will state in its disclosures the fact that specific items of information are not disclosed and the reason for non-disclosure and will publish more general information about the subject matter of the disclosure requirement except where these are to be classified as secret or confidential.

Disclosures will be published on The Bank of New York Mellon Corporation website (www.bnymellon.com), see section Investor relations, Financial reports, Other regulatory filings.

This policy will be periodically reassessed and updated in light of market developments associated with Pillar 3.

Further information about the company can be found in the latest Annual Report & Accounts.

Ivy Asset Management (U.K.) Limited

Pillar 3 Disclosures

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1. Background

These disclosures relate to Ivy Asset Management (UK) Limited ('IVY') and are published in accordance with the requirements of the Financial Services Authority ('FSA') Prudential Sourcebook for Banks, Building Societies and Investment Firms, BIPRU 11 (*Pillar 3*). Ivy implemented the Basel II standardised approach for calculating credit and market risk on 1st January 2008.

Purpose of Pillar 3

Basel II is the international banking accord intended to strengthen the measurement and monitoring of financial institutions' capital. The Basel II framework was implemented in the EU through the Capital Requirements Directive (CRD) which is now law. Basel II framework establishes a more risk sensitive approach to capital management and is comprised of three pillars:

- **Pillar 1** establishes rules for the calculation of minimum capital for Credit risk, Market risk and Fixed Overhead Requirement.
- **Pillar 2** is an internal discipline to evaluate the adequacy of the regulatory capital requirement under Pillar 1 and other non pillar 1 risks. This pillar requires the FSA to undertake a supervisory review to assess the robustness of Ivy's internal assessment.
- **Pillar 3** complements the other pillars and effects market discipline through public disclosure. Expanded disclosure about capital and risk enables interested parties to better understand the risk profile of individual banks and to make comparison

This document has been prepared with reference to the specific business activities of Ivy's UK regulated business.

Applicability

Ivy is considered a BIRPU limited licence firm under Basel II, meaning that it is not authorised to (1) deal on own account; or (2) provide the investment services of underwriting or placing financial instruments on a firm commitment basis.

Unless otherwise stated all amounts are as of December 31, 2008.

2. Risk Management Objectives and Policies

2.1 Risk Objectives

Ivy maintains a conservative risk profile, and remains cognisant of the risk/reward trade off. Ivy clients are institutions such as pension funds, central banks and insurance companies. Ivy has a comprehensive risk policy and due diligence process, the objective of which is to identify hedge fund managers with high integrity, operational strength, solid infrastructure and consistent and repeatable investment processes.

Ivy's principal activity is the distribution of funds managed by its parent company to professional investors. Ivy also acts as investment manager to three segregated accounts and one proprietary Ivy fund as well as identifying and performing due diligence on hedge fund managers in Europe.

Ivy has a robust management oversight and compliance infrastructure, which ensure policies and procedures are regularly reviewed and updated to reflect the development of the business and changes in industry best practice. Nonetheless as a small business some reliance is placed on manual controls and processes and the skills/capabilities of a small number of employees which can give rise to operational risks. Augmenting this are service functions shared with The Bank of New York Mellon Corporation ("BNYM") such as Compliance, Internal Audit, IT Security and Risk Management.

The identification, measurement, monitoring and management of risk are essential elements for the success of operations undertaken within Ivy. Specifically:

- The Board of Ivy recognises that defining a risk appetite must take into account the views of a number of stakeholders, including those of the regulator.
- Embedding the risk appetite into the business strategy is seen by the Board as essential.
- The Board recognises that it cannot mitigate all risks. Strategies, systems and controls can be put into place to control risks but a level of risk will remain uncontrollable.

2.1.1. Business Risk

Ivy has a small number of large institutional customers for which it acts as an investment manager. Business Risk arises through loss of such customers relating to poor investment performance or a change in their investment strategy. The investment processes are rigorously enforced with due diligence performed on potential and existing hedge fund managers.

2.1.2. Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events: including the potential for loss that arises from problems with operational processing, human error or omission breaches in internal controls, fraud, and unforeseen catastrophes.

Senior Management is responsible for identifying the risks associated with key business processes, identifying and assessing the quality of controls in place to mitigate risk and assigning accountability for the effectiveness of those controls. The objective of this self-assessment is to prevent or minimise losses due to:

- Errors or service delivery failures, especially those with visible impact on customers
- Violating client investment guidelines
- Business Continuity
- Systems failures
- Loss of key staff
- Failure of outsourced service providers

There is no regulatory capital requirement for operational risk due to Ivy being a BIPRU limited licence firm with a fixed overhead capital requirement. Risks to capital though is assessed under pillar 2 Internal Capital Adequacy Assessment Process.

2.1.3. Compliance Risk

Compliance Risk covers the risk relating to earnings or capital from violation, or non-conformance with laws, rules, regulations, prescribed practices or ethical standards which may, in turn, expose the firm and its executors to fines, payment of damages, the voiding of contracts or damaged reputation (with accompanying indirect costs).

As a subsidiary of BNYM, Ivy is subject to multiple corporate compliance policies and benefits from corporate wide training around compliance and ethics matters.

2.1.4. Credit Risk

Credit Risk covers default risk from counterparties or clients for loans, commitments, securities and other assets where realisation of the value of the asset is dependent on counterparties' ability to perform. Ivy's credit risk is minimal, with exposure limited to i) receivables from institutional clients to which Ivy provides discretionary investment management services and ii) transfer pricing payments from its parent company, Ivy Asset Management LLC.

2.1.5. Market Risk

Market Risk covers the current or prospective risk to earnings and capital arising from adverse movements in bond prices, security or commodity prices or foreign exchange rates.

2.2 Organisational Structure

At group level, Ivy has a number of committees which serve in an oversight role for various aspects of Ivy's business; the committee members are selected by Senior Management based on expertise and professional experience. The Management Committee, of which the Ivy Asset Management Chief Executive Officer is a member, sets Ivy's strategic objectives and key decision making. In addition, the Chief Executive Officer meets with BNYM senior management on a continuing basis, to discuss strategic matters and global synergies.

2.3 Scope and Nature of Risk Reporting Systems

From an accounting and risk perspective, all Ivy activity is ring-fenced in company systems such as the general ledger and is included in credit and capital computations for purposes of the assessment of risk exposure and capital adequacy.

2.4 Governance

The governing committees in Ivy are:

The Board of Directors is responsible for overseeing the implementation of systems and controls that deliver compliance with relevant regulations and appropriate risk management.

The Management Committee comprises senior members across Ivy's Investments, Client Development and Finance departments. The committee's mandate is to play an important role in setting Ivy's strategic objectives and key decision making paramount to the firm's success.

The Investment Committee is responsible for manager approvals, manager terminations, reviewing the Watch List, and risk profiling of managers in cooperation with the risk management group. In addition the committee controls the portfolio investment parameters while following the guidelines put forth by the client/mandate. The chairman of this committee is the Chief Investment Officer.

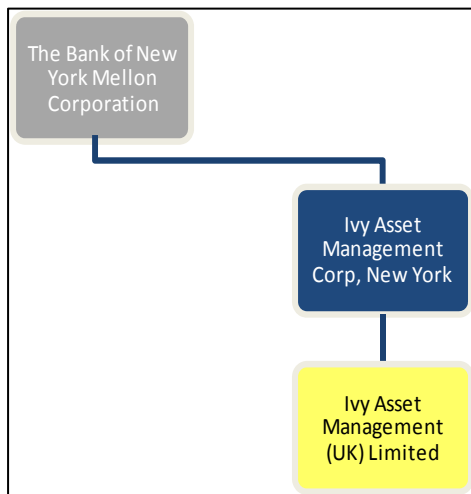
The Global Risk Management Committee is responsible for identifying, monitoring mitigating and eliminating (where feasible) corporate risk as well as developing policies and procedures for managing corporate risk, including for example, conflicts of interest, reputation, financial, internal control, compliance and regulatory, legal and technology.

The Investment Risk Management Committee establishes investment risk management policies and procedures to provide a framework for prudent and effective investment risk management. This committee will identify, quantify and manage investment risk exposure faced by Ivy.

The Data Ownership & Security Committee is responsible for determining the appropriate ownership and security for the information stored and processed at Ivy and for reviewing and recommending changes to existing business processes and workflows.

The Technology Steering Committee reviews and prioritises all technology projects for Ivy.

3. Scope and Application of Directive Requirements



Ivy is a subsidiary of Ivy Asset Management LLC, which in turn is a wholly-owned subsidiary of BNYM. This Pillar 3 disclosure refers to Ivy exclusively. Ivy has no subsidiaries.

Ivy is authorised and regulated in the UK by the Financial Services Authority. It has regulatory permissions as an investment advisor and discretionary fund manager. Ivy is a limited licence firm under Basel II.

4. Capital Resources

During the year ended 31st December 2008, the company complied with all of the externally imposed capital requirements to which it was subject. The table below summarises the composition of regulatory capital for the company as reported to the FSA as at 31st December 2008. The company had no Innovative Tier 1 capital nor any Tier 2 or Tier 3 capital as at 31st December 2008.

Resources	Notes	Total
		£000's
Tier 1 capital		
Called up share capital		9,525
Retained earnings and other reserves	1	-3,009
Total capital resources after deductions		6,516

1. Unaudited Profits are not reported to FSA as part of Tier one capital. As of the date of this report, 2008 profits have not been audited and are therefore excluded from capital.
2. Information about Capital terms and conditions is set out in the Company Annual Report and Accounts 2008

5. Capital Requirements & Adequacy

The Pillar 2 ICAAP process for Ivy has determined that currently there is sufficient capital to support the ongoing and pipeline projected business (as at December 2008, Ivy had a regulatory capital requirement of GBP 1.0 million giving surplus capital of GBP 5.5 million). The main sources of risk have been identified, assessed (*impact and likelihood* methodology) and approved by the relevant senior managers after taking into account the mitigating controls and rationale for direction of risk.

The following table shows the company's capital requirements by exposure class as at 31st December 2008.

Exposure class	Minimum capital requirements
	£000's
Credit risk - standardised approach	
Short term claims on Institutions & Corporates	99
Other Items	457
Total (1)	556
Market Risk	
Foreign currency Position Risk Requirement	419
Total (2)	419
Total 1+2	975
Fixed Overhead Requirement (3)	953
Total requirements (Higher of 1+2 or 3)	975
Capital surplus	5,541

Minimum Capital Requirements (MCR) are established with reference to the Credit, Market and Fixed Overhead requirements under Pillar 1 rules for limited licence groups in the UK. The Fixed Overhead Requirement is calculated as 25% of annual expenditure not including variable elements such as incentive based compensation. The total MCR is the higher of Credit plus Market Risk requirements or the Fixed Overhead requirement.

Other items MCR is predominantly in respect of miscellaneous accruals and prepayments

The company does not take trading positions and does not have market risk exposure except for Foreign currency exposure arising from day to day activities.

6. Credit Risk

Credit Risk for Ivy is minimal with assets being mostly cash receivables. Further breakdown is not disclosed due to materiality.

As at 31st December 2008, the company had no impaired assets for which a specific or general provision had been raised. There were no assets past due greater than 90 days. The company did not incur any write-offs of bad debts or make any recovery of amounts previously written off during the year to 31st December 2008.

For regulatory purposes, assets exposed to market risk are weighted at 100%.

7. Market Risk

Ivy's market risk is minimal, in the form of adverse movements in the USD/GBP currency exchange rate when converting USD denominated intra company receivables from Ivy's parent company, Ivy Asset Management LLC.

For regulatory purposes, assets exposed to market risk are weighted at 100%.

8. Operational Risk

There is no regulatory capital requirement for operational risk due to IVY being a BIPRU limited licence firm with a fixed overhead capital requirement.

Ivy has a robust management oversight infrastructure, which ensure policies and procedures are regularly reviewed and updated to reflect the development of the business and changes in industry best practice. Nonetheless as a small business some reliance is placed on manual controls and processes and the skills/capabilities of a small number of employees which can give rise to operational risks. Augmenting this are shared service functions such as Compliance, Internal Audit, IT Security and Risk Management of parent companies.

9. Other Risks

The management of Ivy considers that the detailed disclosures under BIPRU 11 about other risks are either not applicable or immaterial and therefore in accordance with BIPRU 11.3.5 and 11.4.1, further disclosure is not necessary.