

Ivy Asset Management (U.K.) Limited
Pillar 3 Disclosures for the year ended 31st December 2009
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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 for a consolidated group and for those parts of the group covered by the Basel II framework. Pending implementation of the Basel II framework by The Bank of New York Mellon Corporation, there is currently no comparable disclosure provided on a consolidated basis by the firm's parent undertaking. As such, this disclosure has been prepared for the UK regulated entity.

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.

These disclosures will henceforth be published annually as at the company Accounting Reference Date, 31st December and publication will take place as soon as practicable and additionally during the year as market or business conditions dictate.

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.

The company undertakes no obligation to revise or to update any forward looking or other statement contained within this paper regardless of whether or not those statements are affected as a result of new information or future events.

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

Contents

	Page
1. Introduction.....	4
2. Risk Management Objectives and Policies.....	5
3. Scope and Application of Directive Requirements.....	9
4. Capital Resources.....	9
5. Capital Requirements & Adequacy.....	10
6. Credit Risk.....	11
7. Market Risk.....	11
8. Operational Risk.....	11
9. Other Risks.....	11

1. Introduction

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. The company first published Pillar 3 disclosures for the year ended 31st December 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 the company'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, 2009.

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

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) fee 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. 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.

2.1.6. Liquidity Risk

BNYM firms are required to have in place robust strategies, policies, processes and systems to identify, measure, manage and monitor the liquidity risks to which they may be exposed, including intra-day liquidity risk. Firms must have reliable management information to ensure appropriate and timely forward-looking information on the liquidity risk of the firm and early warning indicators to identify increases in liquidity risk.

Senior management is responsible for establishing appropriate liquidity risk tolerances; for approving, reviewing and updating the firm's approach to managing liquidity risk; and for reviewing the firm's liquidity position including compliance with the UK FSA liquidity adequacy rule and regularly reporting this information to the governing body.

Ivy is self sufficient in terms of liquidity resources and funding. In outline, Ivy has a low appetite for liquidity risk in keeping with its business model. The firm receives investment management and performance fees, pays out overheads and other expenses and holds surplus cash balances with group companies. The firm does not hold client cash on its balance sheet, has no retail deposits and does not make loans to clients. The firm does not have any off balance sheet or derivatives exposures.

Sources of liquidity risk are mostly inter group and franchise viability related. On a day to day basis, liquidity and funding requirements are managed under delegated authority by BNY Mellon London branch Treasury on behalf of the firm.

As a Regulated Limited Licence firm, Ivy falls under an EMEA Programme designed to ensure that it complies with new FSA Liquidity Standards (PS 09/16) issued in October 2009 (BIPRU 12). This is

an ongoing programme of work designed to upgrade and embed senior management governance and oversight capability, and to establish procedures around measurement and monitoring of risk. The first reporting requirement to FSA under BIPRU 12 is in January 2011.

In summary, FSA Systems and Control requirements oblige the firm's governing body (ie Board of Directors (BOD)) to express and check conformity with the firm's liquidity risk appetite. The outputs of the firm's Stress testing inform the governing body's decisions on whether the firm's liquidity risk appetite should be amended and form the basis of a Contingency Funding Plan.

In this matter, a common Liquidity Risk Management Framework (LRM) and Operating Model applies to all regulated firms in UK including Ivy, customised to fit local circumstances and proportionate to and reflective of individual firms' business model. In overview, the LRM framework sets out the principles and elements of the regime and the components thereof. In meeting these requirements, regulated firms have in place the following:

- A regime of senior management oversight and governance (including defining risk strategy, setting risk appetite and tolerance (limits and triggers)) and tracking performance;
- A firm Liquidity Policy that conforms with Group requirements (including pricing of liquidity, management of intra-day liquidity risk and funding diversification and market access);
- A regime of periodic reporting to senior management of contractual Mismatch Cash flow data under normal conditions across a 12 month time horizon plus firm-specific liquidity ratios and metrics including an assessment of the likely survival period.

Currently, steps are being taken to embed Stress Testing within each regulated UK firm including Ivy. This is an ongoing programme of work which will result in an upgraded Contingency Funding Plan by end of Q2 2010. Stress testing at the firm level will cover idiosyncratic, market wide and combination (worst case) events with behavioural assumptions that are approved by the BOD and which are modelled across short term (up to two weeks) and protracted (from two weeks to 3 months) time horizons.

At 31st December 2009, Ivy had a strong liquidity base. The firm does not have any collateral positions to manage, nor is it necessary for it to actively manage liquidity across legal entities, business lines or currencies.

As regards global liquidity management, BNYM enjoys a strong base of core client deposits for its funding which arises from its role as a leading asset custodian and trustee. BNYM does not rely on either retail funding or wholesale funding in its business model. Asset/liability management is managed globally through treasury activities in key financial centres, such as New York, London and Brussels, and is driven by client cash needs and transactions.

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

The purpose of the company's risk measurement and reporting systems is to ensure that all risks and exposures are comprehensively captured, with all of the attributes necessary to support robust decision making by senior management and risk mitigation within approved risk appetite levels.

Risk measurement and reporting systems are subject to a robust governance framework, to ensure that their design is fit for purpose and that they are functioning properly and that controls are effective. Risk systems development is a key responsibility of group IT while the operation and development of risk management systems and processes are subject to oversight by various levels of management up to the Board of Directors.

The measurement and monitoring of the major risks encountered by the company including operational risks, are increasingly delivered by central systems or, where for sound business reasons this is not the case, through structures and processes that support comprehensive oversight by senior management.

There is regular reporting on risk to business line management, to specialist functions and to the senior management of the company.

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.

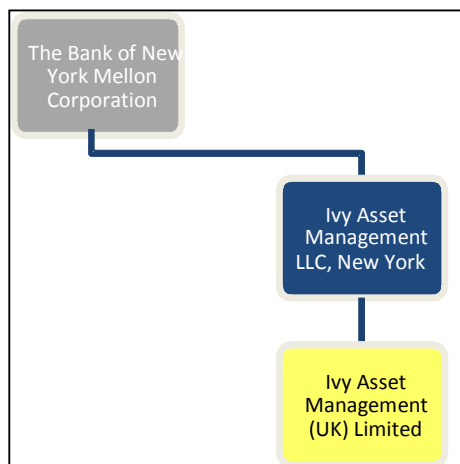
The Management Committee comprises senior members across Ivy's Investments, Client Development and Finance departments. The committee's mandate is to play an important role in setting Ivy's strategic objectives and key decision making paramount to the firm's success.

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.

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 2009, 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 2009 and 31 December 2008. The company had no Innovative Tier 1 capital nor any Tier 2 or Tier 3 capital as at 31st December 2009.

Capital Resources (unaudited)	Notes	31st December 2009	31st December 2008
		£000's	£000's
Tier 1 capital			
Called up share capital		9,525	9,525
Retained earnings and other reserves	1	-1,446	-3,009
Interim Net Losses		-1,949	
Total capital resources after deductions	2	6,130	6,516

1. Unaudited Profits are not reported to FSA as part of Tier one capital. As of the date of this report, 2009 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 2009

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 2009, Ivy had a regulatory capital requirement of GBP 1.2 million giving surplus capital of GBP 4.9 million (2008 regulatory capital GBP 1.0 million and surplus 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 minimum capital requirements by exposure class as at 31st December 2009 and 31st December 2008.

Exposure class (unaudited)	31st December 2009	31st December 2008
	£000's	£000's
Credit risk - standardised approach		
Short term claims on Institutions & Corporates	107	99
Other Items	115	457
Total (1)	222	556

Market Risk		
Foreign currency Position Risk Requirement	41	419
Total (2)	41	419

Total 1+2	263	975
Fixed Overhead Requirement (3)	1,205	953
Total requirements (Higher of 1+2 or 3)	1,205	975
Capital surplus	4,925	5,541
Solvency ratio (%)		
Capital resources / Capital requirements	508.71%	668.31%

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.

Comparing year end 2008 to 2009, Balance Sheet assets have reduced from £11.6m to £7.6m resulting in a lower foreign currency hedging position. This is due to reduced assets under management in turn

generating lower revenue share payments for Ivy from Ivy Asset Management LLC.

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 2009, the company had no impaired assets for which a specific or general provision had been raised (2008 nil). 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 2009 (2008 nil).

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. Ivy settles the inter-company payable/receivable balances as soon as reasonably practical in order to reduce the amount of time the balance is exposed to these currency fluctuations.

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

8. Operational Risk

There is no regulatory capital requirement for operational risk as Ivy is 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 Finance, 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.

APPENDIX 7

Glossary of terms

The following terms are used in this paper

- **ALCO** Asset and Liability Committee
- **ALM** Asset and Liability Management
- **ARROW** FSA's Advanced Risk Response Operating Framework
- **Basel II** The June 2006 capital adequacy framework issued by the Basel Committee on Banking Supervision in the form of the 'International Convergence of Capital Measurement and Capital Standards'.
- **BIPRU** The FSA's rules, as set out in Prudential Sourcebook for Banks, Building Societies and Investment Firms.
- **Core equity tier 1 capital** Tier 1 capital less innovative tier 1 securities and preference shares.
- **CRD** Capital Requirements Directive
- **Credit risk mitigation** A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantees and credit protection.
- **ECAI** External Credit Assessment Institution, such as Moody's Investors Service, Standard & Poor's Ratings Group or Fitch Group.
- **Economic capital** An internal assessment of the amount of capital required to protect against potential unexpected future losses arising from business activities, across a defined time horizon and confidence interval.
- **Equity risk** The risk arising from positions, either long or short, in equities or equity-based instruments, which create exposure to a change in the market price of the equities or equity instruments.
- **Exposure** A claim, contingent claim or position which carries a risk of financial loss.
- **Exposure value** Exposure at default (EAD).
- **FSA** The Financial Services Authority of the United Kingdom.
- **IFRS** International Financial Reporting Standards.
- **Institutions** Under the Standardised approach, Institutions are classified as credit institutions or investment firms.
- **Internal Capital Adequacy Assessment Process (ICAAP)** The Group's own assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.
- **Risk appetite** A definition of the types and quantum of risks to which the firm wishes to be exposed.
- **Risk-weighted asset (RWA)** Calculated by assigning a degree of risk expressed as a percentage (risk weight) to an exposure in accordance with the applicable Standardised approach rules.
- **Standardised approach** In relation to credit risk, a method for calculating credit risk capital requirements using ECAI ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.
- **Tier 1 and Tier 1 capital** Have the meanings given to such terms in the General Prudential Sourcebook (as set out in the FSA's Handbook).
- **Tier 2 capital** Has the meaning given to this term in the General Prudential Sourcebook (as set out in the FSA's Handbook).

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