

MATRIX

Matrix Group Limited

Pillar 3 disclosures

As at March 2012

1. BACKGROUND

Matrix Group Limited and its subsidiary undertakings (the “Group”) operate under the Basel II capital adequacy framework. This consists of three “pillars”:

- Pillar 1 is a formal set of rules for calculating the minimum capital required by the Group to cover potential losses arising from credit, market and operational risks.
- Pillar 2 focuses on the Group’s internal capital adequacy assessment and this covers other risks (such as business risk) as well as the three risk types covered by Pillar 1.
- Pillar 3 aims to encourage market discipline through the public disclosure of the Group’s risk and capital profile. The information disclosed includes qualitative information (about the Group’s risk governance and risk and capital management processes) and quantitative information (about its risk exposures and capital). The quantitative disclosures provide data on the calculation of risk and capital resources and requirements as set out in Pillar 1.

The UK Financial Services Authority (“FSA”) supervises the Group on a consolidated basis and has set out its Pillar 3 regulations within its “Prudential Sourcebook for Banks, Building Societies and Investment Firms” (“BIPRU” Chapter 11). These disclosures are made in conformity with those requirements.

2. SCOPE

The Group’s business is conducted through three divisions: Asset Management, Corporate Capital, and Property. The Asset Management division’s activities include alternative funds, UCITS, investment management, and investment solutions. The Corporate Capital division’s services include advice, capital raising, securities sales, market making and research. The Property division raises equity and debt finance for commercial property and syndicates and manages commercial property investments. Senior management considers that this diversified business model is sound and capable of withstanding economic stresses and downturns.

The Pillar 3 disclosures herein are made at Group level and take into account the following subsidiaries of the Group, each of which is authorised and regulated by the FSA:

	Firm	Division/Principal Activity
1.	Matrix Corporate Capital LLP	Corporate Capital Division: Advice, capital raising, securities sales, market making and research.
2.	Matrix Alternative Asset Management LLP	Asset Management Division: Provision of investment management services for single manager hedge funds and advisory services to institutional clients.

3.	Matrix Money Management Limited	Asset Management Division: Promotion of off-shore funds and the provision of investment management services for funds of funds, hedge funds, UCITS funds and structured products, predominantly for institutions and to professional intermediaries.
4.	Matrix Private Equity Partners LLP ¹	Asset Management Division: Advises funds, primarily venture capital trusts (VCTs).
5.	Matrix-Securities Limited	Service company and marketing of financial products.
6.	Prime Rate Capital Management LLP ²	Asset Management Division: Specialist investment manager and authorised corporate director of AAA-rated liquidity funds, enhanced cash funds and bond funds to institutional and other investors.
7.	Matrix Property Fund Management LLP	Property Division: Raises equity and debt finance to acquire commercial property as well as syndicating and managing commercial property investments.

The quantitative disclosures are being made in conjunction with the Matrix Group Limited Annual Report for the year ended 30 June 2011. Disclosures under Pillar 3 are made at least annually and generally in line with the publication of the Annual Accounts.

Due consideration has been given to the materiality of all required disclosures and to the question as to whether to withhold any of the required disclosures on the basis that they contain proprietary or confidential information.

It should be noted that these disclosures do not constitute financial statements of the Group, or of any Group entity, and should not be relied on in making investment decisions in relation to the Group, or of any Group entity. The Group has not and is not required to have the Pillar 3 disclosures audited by external auditors.

3. RISK MANAGEMENT OVERVIEW

The main categories of risk which require consideration are the following:

- Market & Credit risk;
- Capital & Liquidity risk;
- Operational risk;
- Regulatory & Legal risk; and
- Reputational risk.

¹ Subject to relevant approvals by the FSA, Matrix will cease to be a member of Matrix Private Equity Partners LLP at the end of Q2 2012.

² Prime Rate Capital Management LLP was subject to a sale and purchase agreement in December 2011. Subject to the relevant approvals by the FSA, the sale is expected to be completed in Q1 2012.

The Group places considerable weight on the management of exposures to risk. Its risk management policies are designed to identify, monitor, mitigate and control such exposures to ensure that the activities of the Group's operating divisions are managed within the risk tolerances of the Group Board.

Risk exposures are identified, monitored and controlled by the heads of each division. This is performed in conjunction with senior management from Finance, Legal and Compliance & Assurance, along with the relevant committees that form part of the governance structure. Responsibility for the approval of all risk management policies and for setting the overall risk appetite and tolerance levels rests with the Group Board. The Group Board has appointed a Group Risk Committee to review and ensure the Matrix Group entities operate appropriate risk identification and mitigation procedures. The core responsibilities are to:

1. Assess and report on the effectiveness of the Group's internal control systems in managing risks; and
2. Provide an appropriate level of reporting of the status of risk within the Matrix Group; and
3. Act on issues as and when they arise.

The committee meets on a regular basis and receives reports concerning the overall risk exposure of the Group covering areas such as exposures to market risk, credit risk, liquidity risk and operational risk. The Group has also established divisional risk and executive committees which are in turn responsible for the oversight of risk management within their areas.

The Group has a programme of insurances designed to reduce its exposure to liability and to protect its assets. These are provided by third party insurers and are designed to financially mitigate the economic consequences of risks. Any significant changes in the risk profile of the Group are taken into account by tailoring the insurance programmes to the Group's risk exposures. This approach is designed to maximise breadth of cover and certainty of response in respect of key third party liabilities, loss of assets, business interruption and people-related exposures.

4. THE RISK MANAGEMENT FRAMEWORK

Matrix Group's Board of Directors takes ultimate responsibility for managing the risks undertaken in all the businesses and for the risk management framework and policies. For each business, we:

- Identify the risks to which the capital of the business is exposed;
- Establish and operate policies which are appropriate to the size, nature and complexity of the business activities;
- Monitor and assess the risks, processes and controls designed to mitigate the exposure;
- Enhance the processes and controls based on the results from monitoring and assessment, including relevant changes in activities and the business environment.

The Risk Management Framework governance structure includes the following committees that meet on a regular basis:

- Group Board
- Divisional Executive Committees
- Group Remuneration Committee
- Group Risk Committee
- Divisional Risk Committees
- Divisional, entity and functional business review meetings

5. MARKET RISK

This is the risk of loss as a result of adverse market movements affecting the value of investments held by a firm.

The Group engages in a diversified range of activities within the financial services industry, with the majority of transactions undertaken within the UK.

The impact of poor economic conditions on the markets the Group operates in have the potential to adversely impact the Group's financial performance and prospects, as well as increasing other risks. The Group's exposure to market risk is mainly in its trading book arising from the Market Making activities of Corporate Capital. The Group distinguishes between day-to-day business conducted in the market and own balance sheet investments.

Where relevant, currency is generally bought or sold at the time of trading in order to meet the amounts due or receivable on settlement.

6. CREDIT RISK

This is the risk of loss as a result of the non-payment of a debtor. The Group has adopted the 'Standardised Approach' in respect of credit risk.

The main credit risk in the Group is the non-payment of fees and own funds cash holdings at banks. The Group seeks to deal only with creditworthy counterparties.

Within the Corporate Capital division the credit risk associated with securities transactions is limited by the fact that counterparty receivable balances are settled on a delivery versus payment basis.

Outstanding corporate finance fees are monitored closely. Strict payment terms are written into engagement letters. Transactional fees are normally required to be paid prior to deal completion/deal announcement or, in the case of fund raisings, are netted off the funds raised thereby mitigating credit risk. In the case of retained clients, fees are billed quarterly.

The Group's cash and cash equivalents are held with a range of banks, most of which are major UK clearing banks currently supported by a government guarantee. The Group's main banker is Barclays Bank plc.

7. LIQUIDITY RISK

This is the risk that a business will be unable to meet its financial obligations as they fall due. Each operating company in the Group has its own cash resources which are available to Group when required. Some also have banking facilities structured to meet their obligations at all times.

Ultimate responsibility for liquidity management rests with the Group Board. The Group manages liquidity risk by maintaining cash reserves, banking facilities and borrowing facilities to meet its forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

8. OPERATIONAL RISK

This is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. The Group has adopted the Basic Indicator Approach in respect of operational risk.

The Group seeks to avoid, mitigate, manage or transfer operational risk in order to attain acceptable residual levels. This objective is implemented largely through the maintenance of appropriate systems, processes and controls. The Group employs experienced staff, maintains clear segregation of duties and clear lines of escalation. Relevant operational procedures are documented and staff are provided with appropriate training. Outsourced relationships are monitored to ensure adherence to contractual obligations. Business continuity plans are in place and are subject to periodic review and testing. Operational risk is further mitigated by professional indemnity insurance.

9. REMUNERATION CODE

In accordance with the FSA requirements, the Group's Remuneration Policy and its adherence to the FSA Remuneration code are set out in this Pillar 3 disclosure.

The Matrix Board has delegated the responsibility for the Remuneration Policy and its operation to the Remuneration Committee. The policy is designed to enable the Group to operate in accordance with the FSA's requirements and sound practices, taking into account its structure. The Policy is set out in greater detail in the Appendix, including both qualitative and quantitative information.

10. REPUTATION RISK

This is the risk of an event occurring which could adversely affect a Group or an individual entity's reputation. The effect could be for instance a loss of confidence by clients, which could in turn affect the ability to generate income.

The Group considers a loss of reputation to be a significant risk to a business operating in the financial services sector. The Group believes that the risk to its reputation would arise as a result of a failure to manage the Group's other risks and therefore always endeavours to always act with integrity and places the highest importance on risk management at all levels of the organisation. It strives to demonstrate this commitment to maintaining the highest level of integrity through its culture, the dedication of senior management time and resources to ensure all employees are aware of the need to display the highest ethical standards in their day to day work and interaction with its clients, regulators and other stakeholders.

11. RISK APPETITE

The establishment of Group's risk appetite and tolerance is the responsibility of the Group Board. In addition to the implementation of the policy set by the Group Board, significant new business developments and changes are subject to Board approval. The Group Board, through its appointment of the Group Risk Committee and Divisional Risk and Executive Committees is provided with the relevant management information to enable it to conduct its oversight and governance responsibilities appropriately. Through the composition of the Group's Board it has a comprehensive understanding of the risks throughout the business.

Matrix is a privately owned company in which a majority of the shareholders are directors, partners and employees of the Group. In addition, Group Board members hold a majority of the shares, and all Group Board members, along with other key management, are either shareholders or have share options. Consequently, the interests of the shareholders are aligned with the interests of the management and employees of the Group.

Matrix Group uses its short lines of communication to agree new policies, procedures or business developments quickly and if necessary at short notice. Any new developments will always be made in the context of the current and future risks, cash and profits projection.

Reviews of financial cover required for potential risk are undertaken periodically.

12. CAPITAL ADEQUACY

Capital Resources are defined under a number of different tests including regulatory, accounting and internal economic capital criteria. Each of the different tests permits or requires certain additions or deductions, and these are summarised below:

- Goodwill is deducted 100% from regulatory capital;
- The employee benefit trust is derecognised and is therefore deducted 100% from capital;
- Losses in respect of entities outside the scope of consolidated supervision are excluded from reserves.

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Matrix Group Limited – Pillar 3 disclosures

As at 30 June 2011 the Group had £7.703 million of regulatory capital in place after deductions once accounting for post balance sheet disclosures as disclosed in the financial statements for the year to 30 June 2011. This was compared with a requirement of £6.921 million, resulting in a £0.782 million surplus. Details are set out below.

	£'000
Capital Resources	
Tier 1 capital	6,141
Deductions from tier 1 capital	<u>(1,938)</u>
Tier 1 capital after deductions	4,203
Tier 2 capital	3,500
Tier 3 capital	-
Total capital after deductions	<u>7,703</u>
Capital requirement	
Credit risk requirement	2,617
Operational risk requirement	3,805
Market / position risk requirement	499
Total capital requirement	<u>6,921</u>
Surplus capital resources	<u>782</u>

Note: The capital resources figures are updated on an annual basis, in conjunction with the issue of the Group statutory accounts.

APPENDIX

REMUNERATION CODE

In accordance with the FSA requirements, the Group's Remuneration Policy and its adherence to the FSA Remuneration code is disclosed in this section of the Pillar 3.

This qualitative section sets out in overview the basis, structure and processes around the establishment and operation of the Group's Remuneration Policy.

- **Remuneration Committee**

The Matrix Board has established a Remuneration Committee and delegated to it the responsibility for the Remuneration Policy. The Remuneration Committee reports to the Matrix Board.

The Remuneration Committee is responsible for and has the objective of overseeing the Group's remuneration framework and approach to remuneration in a manner designed to be consistent with the Remuneration Policy, promoting effective risk management, sound practices and to facilitate the strategy and requirements of the business. The mandate of the Remuneration Committee includes determining the firm's policy on remuneration, assessments of arrangements relating to LLPs, remuneration of employees and directors, the application of incentive schemes and the making of recommendations to the Employee Benefit Trust. The Remuneration Committee will also decide on the delegation of decision making to relevant executive Committees, as and where appropriate.

The Remuneration Committee is composed of the Chairman and CEO of the Group, along with representatives of the Senior Management team. The Remuneration Committee is supported and advised by other stakeholders including Human Resources, Compliance, Finance and the business heads.

- **Remuneration Policy**

The Remuneration Policy sets out Matrix's approach on remuneration. It has been documented in a manner designed to ensure that:-

- There are core principles setting out how Matrix rewards its people, what it values and what it rewards.
- Reward policies and practices are driven by and promote the strategy and requirements of the business.
- Reward policies and practices comply with the requirements of the UK FSA's Remuneration Code.
- Reward policies and practices are designed to promote and maintain a sound capital base for the Group.
- There is a framework to guide reward practices in different parts of the business, establishing how much consistency there should be.
- Remuneration principles and practices are consistent with and promote sound and effective risk management and do not encourage risk-taking that exceeds the risk appetite and tolerance.
- There is clear accountability and ownership for reward decisions.

The Remuneration Policy is subject to review and where appropriate updating, on at least an annual basis.

- **Remuneration Structure**

The remuneration structure has been established as follows and is considered to meet the objectives of the Remuneration Policy.

- a) **LLP Members:**

- LLP member remuneration is determined by the relevant LLP deed. This will give rise to a combination of drawings and profit share, based on the financial year. Any changes in the drawings will be subject to the assessment and approval of the Remuneration Committee.

- b) **Employees:**

- Employee remuneration (including directors') consists of a combination of base salary reflecting roles and responsibilities, variable pay which is generally structured as bonus or commission and employee benefits. The Group has the ability, if deemed appropriate, to also utilise incentive schemes such as share options. The Remuneration Committee will assess and approve the remuneration of employees.

- **Decision Making Process**

Matrix is of the view that total remuneration should take into account the competition for talent in an industry where successful people are rewarded and mobile. The Group and the LLPs compensate individuals through both fixed and variable compensation. The assessment by the Remuneration Committee will take into account the performance of the individual, comparisons with peer group entities within the industry, the experience of the individual, the level of responsibility, the capital base, the financial performance (of the entity and Group) and the business outlook.

Matrix operates on an annual cycle with regards to remuneration assessment. Due to the nature of the industry, it may also be necessary on occasion to make changes to the remuneration during the periods between the annual cycle. In such cases the Remuneration Committee will be required to conduct its decision making process in accordance with the same objectives and requirements.

During this decision making process the Remuneration Committee will assess proposals, with the relevant supporting information/analysis and determine, if appropriate, changes are made to the remuneration. The Remuneration Committee's decision making process will operate in accordance with the above and in a manner designed to meet the regulatory, legal and contractual requirements arising from the structure of the Group and its entities.

- **Link between Pay and Performance**

The Remuneration Policy recognises there is a direct link between remuneration and the performance of the individual, the relevant entities and where relevant the Group.

The basis for fixed remuneration is designed to reflect role and responsibilities, taking into account the economics of the entity. Base salaries are primarily decided by a review of relevant market data for the external peer group for the role and comparisons with the internal peer group.

The policy for variable compensation is to recognise corporate performance and individual achievement. LLP variable remuneration will be entirely correlated to the P&L of the relevant business unit within the LLP. In originally establishing the LLP profit share, Matrix will have taken into account the relevant factors such as regulatory capital, long term sustainability of the business and other such requirements.

Employees may be eligible for a discretionary bonus. Each year the size of the bonus pool is determined by the Remuneration Committee based on a review of the profitability of the Group, its capital base, business outlook, plus specific influences for that year and an assessment of bonus levels required to reward and retain staff. Individual bonus awards from the bonus pool are primarily based on the individual's performance during the year including information from the annual performance review. Awards are proposed by each business division, then considered and where appropriate approved by the Remuneration Committee.

- **Code Staff**

In considering who is to be defined as Code Staff, Matrix has taken into account the various individuals' seniority, their regulated status and whether the individuals' have a material impact on the firm's risk profile. Matrix has deemed the Code Staff to fall into the following categories.

- Individuals who are Board Directors of the Matrix Group, plus members of the Group Remuneration Committee, the Group and Divisional Executive Committee, as they are able to set levels of risk within the Group;
- Individuals who are members of Group or Divisional Risk Committees, as they are able to assess and set risk tolerance with significant matters being escalated to the relevant Executive Committee;
- The Head of HR;
- FSA registered Compliance staff

The Remuneration Committee will review, assess and approve the list of Code Staff on an annual basis to ensure that it remains current and appropriate. New joiners and staff who change functions/roles will be reviewed and assessed as to whether they are to be classified as Code Staff.

- **Quantitative Disclosure**

The Group is required to disclose aggregate quantitative remuneration for its Code Staff. Matrix has provided below the information relating to the financial year ended 30 June 2011. Comparative quantitative data has not been provided as this is the first year of disclosure. This information has been split between fixed and variable compensation paid to Senior Management Code Staff and Other Code Staff.

	Senior Management £'000	Other Code Staff £'000	Total £'000
Fixed Compensation	2,045	1,343	3,388
Variable Compensation	878	222	1,100
Total Compensation	2,923	1,565	4,488

	Senior Management	Other Code Staff	Total
Number of Code Staff	14	15	29

Fixed compensation includes base salary and benefits and, in the case of LLP members, the draws taken during the period.

Variable compensation includes amounts payable or awarded in respect of the financial year ending 30 June 2011. The payment relates to performance, comprising of cash bonuses, profit shares arising from LLPs and other discretionary awards granted during the financial year outside of the annual performance review.