

PRESS RELEASE

For immediate release

ARE THE BEST OPPORTUNITIES NOW IN ALTERNATIVE CREDIT FUNDS?

Ramon Pons, Head of Credit Strategies at Matrix Money Management believes the corporate bond rally is coming to an end and that the risk/reward of investing in long-only bonds is no longer as attractive and that investors should switch out of long-only bond funds into alternative credit funds.

At the beginning of 2009 corporate bonds looked extremely attractive, with low prices and high yields of over 20%. Throughout 2009 bond funds have seen record cash flows from retail investors and delivered excellent performance, but corporate bond prices have rallied and prices now have further to fall if either a company's fundamentals or economic fundamentals turn out weaker than expected, so from here the opportunity for upside seems limited.

Additionally, a rising number of companies are defaulting or getting into financial difficulty, meaning the bonds become "distressed" (i.e. the company is likely to default on its coupon payments or enter bankruptcy protection). The key reasons that Alternative Credit Managers can benefit from bonds becoming distressed are:

- 1) Bankruptcies or near bankruptcies are not always the end of the road for a company nor are they the end of the road for bond holders (although they probably are for equity holders). A company normally enters into bankruptcy because it cannot repay its debt. However in most cases companies continue operating their business while they restructure their debts. Long only bond funds do not like owning temporarily illiquid bonds and therefore normally sell them for whatever they can get prior to any re-structuring. Alternative Credit Managers who normally have much deeper resources for analysing the quality of each bond and in some cases lend their expertise to the management, helping them to re-structure their debt, can be royally rewarded for this role.

The following example shows how this can work in practice;

A big company currently in bankruptcy is LyondellBasell. It is the world's third-largest petrochemical company, whose products range from fuels to chemicals and plastics. The company employs 16,000 employees, has a robust business model and had revenues of \$54 billion in 2008.

Basell (a private equity company from the Netherlands) took over Lyondell (a US company) via a \$12.7 billion 2007 leveraged buyout that left the company very highly leveraged. Lyondell was forced to file for bankruptcy just 13 months later in January 2009, when it found it couldn't handle its heavy debt load amid a drop in demand for chemicals.

The company is now being reorganised but it is not going to be liquidated. Following the announcement that the company was entering bankruptcy the price of the company's bonds maturing in 2010 with a coupon of 10.25% (which was not being paid) fell below 20 cents. The price fell because bond holders were concerned with

the potential low recovery on the bonds and decided to sell their bonds at distressed prices to alternative credit funds.

Since then, the price of the bond has steadily recovered and is now trading above 60 cents (i.e. a 200% return from its lowest price for alternative credit funds). This means that the market believes bond holders will get new debt from LyondellBasell, following a restructuring, that has a market price of over 60 cents.

- 2) Alternative Credit Managers also have a further tool in their kit bag which is not available to long only bond managers. They can “go short” a bond that the manager thinks is likely to fall in price. They have two options; either they can short the bond and make money as the price falls or they can enter into a Credit Default Swap (CDS) on the bond. This is effectively insurance whereby the fund will be paid the full value of the bond (ie par) in the event that the company defaults and/or enters bankruptcy.

Commenting on the potential for the Matrix Credit Opportunities Fund, its CIO, Stuart Ratcliff, said:

“We believe that the long-only bond party may now be drawing to a close and with corporate bond yields falling to pre-Lehman bankruptcy levels, there may be downside dangers to holding bonds. We believe that diversifying into alternative credit funds may benefit investors. It may seem counterintuitive to traditional investors but alternative fund managers who invest in bonds actually like recessionary environments as they provide lots of opportunities to make good investment returns. The Matrix Credit Opportunities Fund has invested in a portfolio of 12 funds managed by underlying investment teams that specialise in looking for money making opportunities which result from companies that get into distress. We believe that in this environment, the Matrix Credit Opportunities Fund could generate annual returns of between 15-20%, regardless of equity or corporate bond market direction.”

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NOTES FOR EDITORS

Matrix Credit Opportunities Fund

- Minimum investment £10,000
- SIPP, SSAS, offshore bonds, charities and trusts will be able to invest in both of the above funds.
- All Share Classes listed on the Irish Stock Exchange
- Institutional Sterling, US Dollar and Euro Share Classes annual management fee 1.5%
- Retail Sterling, US Dollar and Euro Share Classes annual management fee 1.9% with 0.4% trail for IFAs
- 10% Performance Fee
- Initial charge 5%

Matrix Group is a privately owned financial services business founded in 1987 whose areas of expertise include Asset Management, Corporate Capital, Property and Specialised Finance. To date Matrix has raised around £7.5 billion for its investment products and currently has circa £2.5 billion of funds under management. Matrix's staff of around 200 are based in the West End of London at One Vine Street.

Matrix Group Limited is the holding company for the following business activities:

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- Cash Funds
- Hedge Funds
- Private Client Investment Management
- Private Equity
- VCT Services

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- Corporate Broking
- Corporate Finance
- Market Making
- Primary and Secondary Issues
- Research

Property:

- Development
- Investment
- Management

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- Project Finance
- Structured Finance