

ZAIS Group Investment Advisors Limited

Pillar 3 Disclosures for the year ended 31 December 2008

Table of Contents

1. Overview	3
Background	3
Structure	3
Principal Activities	3
2. Scope and Basis of Disclosures	4
Scope	4
Basis of Disclosures	4
3. Frequency and location of Disclosure	5
4. Verification	5
5. Risk Management Objectives and Policies	5
Governance and Structure	5
Management	5
Regular Board-Meetings	6
Committees	6
Financial Reporting/Audit	6
Financial Reporting to the Regulator	6
Internal Audit / Independent Control Audit	6
Compliance	6
Significant Risks	6
Credit & Counterparty Risk	6
Market, Interest Rate, & Foreign Exchange Rate Risks	7
Operational Risk	7
Business Risk & Performance Risk	7
6. Capital Allocation	7

1. Overview

Background

The European Union (EU) Capital Requirements Directive (CRD) implements the Basel capital adequacy framework (Basel II) and applies it to all investment firms, building societies and banks. The CRD was formally adopted by the EU on 14 June 2006 and became effective in Ireland on 1 January 2007.

The implementation of the CRD required regulated firms to make significant changes to the way they calculate their capital requirements including the application of the concepts of minimum capital requirements (Pillar 1) and supervisory review processes (Pillar 2) in the determination of those requirements. The disclosure requirements of Pillar 3 complement the capital requirements described in Pillar 1 and Pillar 2 and seek to promote greater market discipline and transparency through the disclosure of key information about risk exposures and risk management processes.

ZAIS Group Investment Advisors Limited ('ZGIAL' or 'the Company') adopted the Pillar 1 standardised approach to credit risk with effect from 1 January 2008 and is subject to the Pillar 2 and Pillar 3 requirements from that date. The Company has availed of a waiver from the requirement to calculate an operational risk charge and instead complies with a 'fixed overhead' or 'expenditure requirement' in line with the provisions of the CRD. The disclosures made in this document are on a solo Company basis.

Structure

ZGIAL, incorporated in Dublin on 9th November 2001, is a wholly owned subsidiary of ZAIS Group, LLC ("the parent"). ZAIS Group, LLC is organised in Delaware USA as a limited liability company and commenced operations on 1st July 1997. ZGIAL together with the parent are referred to as the "ZAIS Group" throughout this document.

ZAIS Group, LLC is registered with the United States Securities and Exchange Commission as an investment advisor under the US Investment Advisers Act of 1940, as amended. ZAIS Group, LLC provides investment advisory and asset management services to investment companies as well as certain other financial services. It is a specialized structured credit investment firm and looks at both quantitative and qualitative aspects of prospective investments to find the best overall opportunities in the marketplace.

Principal Activities

The Company is authorised by the Financial Regulator to:

- provide investment advice;
- act as a discretionary portfolio manager; and

- receive and transmit orders on behalf of investors.

ZGIAL's principal business activities are:

Portfolio Management

ZGIAL provides investment advice to clients in relation to portfolio structure and management. The structured credit funds and CDOs can be in different forms, including collective investment schemes. The structured credit funds and CDOs will generally contain structured finance assets and ZGIAL will develop the initial and ongoing strategy for purchasing of the portfolio of investment, act as the discretionary portfolio manager on an ongoing basis including recommendations and execution in relation to the purchase and disposal of assets and advice and execution in relation to hedging strategy.

Marketing of structured credit funds and CDOs / funds under management to third parties

In conjunction with its services as investment manager, ZGIAL also distributes notes / shares of structured credit funds and CDOs for which it acts as investment manager to existing and potential investors. In some cases, the parent will act as the investment manager and ZGIAL will act as sub-distributor or in certain instance as a sub-advisor and sub-distributor, as the case may be. ZGIAL provides the investors with marketing material in relation to the structured credit funds and CDOs and will then put the potential investor in contact with the appropriate administrator, should the investor wish to subscribe to the notes or shares. ZGIAL may market to clients directly or it may use intermediaries or sub-distributors.

2. Scope and Basis of Disclosures

Scope

ZGIAL is regulated by the Financial Regulator in Ireland. These Pillar 3 disclosures have been prepared as at 31 December 2008, which is the Company's accounting reference date and financial year-end.

Basis of Disclosures

The Pillar 3 disclosures presented here include both the quantitative and qualitative information as required by the CRD.

Not all the Pillar 3 disclosure requirements apply to ZGIAL. As this document has been produced solely for the purposes of providing information on the capital adequacy and risk management of the Company, any disclosure requirements that do not apply have not been included. Also, under Regulation 73 of Statutory Instrument 660 of 2006 and Part I of Annex XII to Directive 2006/48/EC, firms do not have to disclose information that is proprietary or confidential. Disclosures which are not regarded as

material have not been included in this document. Definitions of material, proprietary and confidential are as follows

- **Material Information:** Information shall be regarded as material in disclosures if its 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.
- **Proprietary Information:** Information shall be regarded as proprietary to a credit institution if sharing that information with the public would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render a credit institution's investments therein less valuable.
- **Confidential Information:** Information shall be regarded as confidential if there are obligations to customers or other counterparty relationships binding a credit institution to confidentiality.

3. Frequency and location of Disclosure

Disclosures will be updated on an annual basis and made available via the website as soon as practicable, (www.zaisgroup.com).

4. Verification

This document has not been subject to audit by the Company's external auditors. The Pillar 3 disclosures have been reviewed by the Company's co-heads and approved by the Board.

5. Risk Management Objectives and Policies

Governance and Structure

The Company is owned by ZAIS Group LLC which is the only shareholder of ZAIS Group Investment Advisors Limited. The Board is responsible for the performance of the Company and putting in place arrangements designed to secure compliance with internal policies and procedures and regulatory and compliance obligations. The Company has a set of policies and processes in place by which the Company is directed, administered and controlled.

Management

The day to day management of the Company is the responsibility of the Managing Director and the executive Director (referred to as the co-heads) subject to:

- (i) Board of Directors prior approval with respect to Major Decisions and
- (ii) any other matters, authorisations or requirement specified by law.

Regular Board-Meetings

The Board of Directors meets at regular intervals to discuss major decisions of the Company, business strategy, new ventures, etc. The Board oversees both the compliance and the risk management functions of the organisation.

Committees

Given the small size of the Company, there are no committees within the organisation. All major decisions are made by the Board.

Financial Reporting/Audit

ZGIAL has outsourced the preparation of the company's financial statements to an Accounting Firm. The Accounting Firm's obligations are set in an engagement letter. The Accounting Firm provides financial reports to the Managing Director, the Compliance Officer and to ZAIS Group LLC, directly.

ZGIAL has appointed a recognized audit firm to review the annual accounts and give an independent view.

Financial Reporting to the Regulator

Quarterly Returns to the Regulator are prepared and reviewed by either two Directors or a Director and an authorized signatory for the Company.

Internal Audit / Independent Control Audit

Given the nature, scale and complexity of our business, the Board has decided not to establish an independent internal audit function. Instead the Company has appointed an external service provider to carry out a biennial review of specific target areas, in order to provide an extra layer of independent control.

Compliance

The Compliance Officer is responsible for the compliance function and is not involved in the business activities. The Compliance Officer ensures that appropriate risk management policies and controls are in place. The Compliance Officer reports directly to the Board.

Significant Risks

The most significant types of risks to which the Company is exposed are discussed below:

Credit & Counterparty Risk

Credit & counterparty risk is the risk of loss due to debtor/counterparty default or inability to meet its obligation. ZGIAL's credit and counterparty risk lies mainly in the event that a client or group of clients default on the payment of fees. ZGIAL has a number of mitigants in place to address this potential risk and does not believe this risk to be material.

Market, Interest Rate, & Foreign Exchange Rate Risks

Market, interest rate and foreign exchange rate risks are the risks to a firm's condition resulting from adverse movement in market rates or prices such as interest rates, foreign exchange rates or equity prices. ZGIAL has very limited exposure to risks of this nature and consequently considers these risks to be immaterial.

Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or external events.¹ Specifically in the Portfolio Management line of business the key risk ZGIAL faces would be that trades are executed incorrectly or not on a timely basis. ZGIAL has a number of mitigants in place designed to address this and other operational risk and does not consider operational risk to be material.

Business Risk & Performance Risk

The Company is subject to the normal business and performance risks, which are monitored by the Board on an ongoing basis.

6. Capital Allocation

The firm is required to maintain own funds as the higher of:

- Its initial capital requirement of €125,000
- A capital charge against credit risk relating to its balance sheet assets.
- The firm's fixed overhead requirement. This requirement is based on a quarter of the preceding year's audited fixed overheads

The firm maintains own funds in excess of either Pillar 1 or Pillar 2 requirements and has a minimum capital requirement of €467,381 which is a quarter of the preceding year's audited fixed overheads. The firm has adopted the standardised approach to credit risk. The firm avails of a waiver from the requirement to calculate an operational risk charge and calculates a fixed overhead requirement instead.

The firm's capital requirements as at 31 December 2008 are summarised below:

¹ Source: Basel Committee on Banking Supervision

Basis for Capital Requirement	Capital Allocated as at 31 December 2008
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Initial Capital Requirement €125,000

Expenditure requirement: €467,381

Capital Against Risks:

Credit Risk €92,422

FX Risk €210,299

Other Market Risk -

Operational Risk N/A

Pillar 2	Not required
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Higher of expenditure requirement and sum of risks €467,381

The Company has not broken its credit risk capital charge down further since this is not considered material given that the expenditure requirement is the higher requirement. An assessment of the adequacy of the ZGIAL's capital requirement under Pillar 2 has been carried out by the Company and the Company has formed the view that the expenditure requirement is sufficient to cover the risks identified given the mitigants in place.

Composition of Own Funds

The Capital resources of the company are made up of the Ordinary Share Capital, Capital Contribution and the Profit and Loss reserve account. The capital therefore all qualifies as Tier 1 capital.

Own Funds as at 31st December 2008	
Ordinary share capital	€250,000
Capital contribution	€150,000
Revenue Reserves	€1,968,554
Total Tier 1 Capital	€2,368,554

Tier 2 Capital	-
Tier 3 Capital	-
Own Funds	€2,368,554

As at 31st December 2008, and throughout the year, the Company has complied with the capital requirements as required by the Financial Regulator.