



Close Brothers Group plc

CLOSE BROTHERS GROUP PLC EXPANDS INTO DERIVATIVES WITH ACQUISITION OF INTEREST IN MAKO, AN EXCHANGE TRADED DERIVATIVES MARKET MAKER

Close Brothers Group plc (“Close Brothers”), the specialist merchant banking group, is to acquire a 49.9% interest in Mako Global Derivatives Executive, LLP (“Mako”), an exchange traded derivatives market making group. The remainder of Mako will continue to be owned by the current management and employees. The consideration includes a further injection of capital by Close Brothers to fund future growth.

Mako’s core activity is trading listed options servicing a broad cross section of the bank and broker community. Mako is a key provider of pricing and liquidity in the main European equity indices (including the Eurostoxx, FTSE, DAX & AEX) and the global fixed income markets (including Bund, Bobl, Schatz, Short Sterling, Euribor and US Treasury options). Additional business lines include Investment Management and Sales Trading.

As a volatility trader, Mako avoids being directly exposed to movements in the underlying fixed income and equity markets. Additionally, Mako has a market making, rather than a positional trading focus, and has developed a specialised range of proprietary software applications, analytical tools and risk management methodologies to enable the business to generate returns in both turbulent and steady markets. These largely uncorrelated returns provide diversification benefits to Close Brothers, whilst at the same time avoiding the specific risks of over the counter derivatives trading.

Commenting on the deal, Colin Keogh, Chief Executive of Close Brothers Group, said:

“For some time we have been looking to extend our securities business beyond the cash equity and bond markets into the fast growing area of derivatives. Mako is the ideal opportunity to do this, whilst complementing other areas of our business. The company has a solid management team, a strong culture and is in an exciting market with high growth potential.”

David Segel, Chief Executive of Mako, welcomed the Close Brothers investment:

“This is a terrific development for Mako and we look forward to growing a strong partnership with Close Brothers. With this substantial increase in capital Mako will aggressively pursue opportunities in electronic trading of derivatives in the equities, fixed income and commodities markets globally. As well, the addition of both capital and expertise will reinforce Mako’s already strong position in our core proprietary trading and investment management businesses.”

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Notes to editors:

1. Mako was founded in 1999 by CEO David Segel and Chief Technology Officer Kevin Sweet, who between them have 35 years' of experience in the derivatives market. The business employs around 100 people, predominantly in London.
2. The financial terms of the transaction have not been disclosed. Under the terms of the transaction, Colin Keogh will join the Mako Board. The investment is subject to receipt of regulatory clearance and certain other terms.
3. Within the global derivatives market, the vast majority of deals are struck over the counter ('OTC'). OTC contracts allow customisation and innovation and consequently generate higher margins for providers, but involve material counterparty risk and new product development risks. Mako focuses on the exchange traded segment of the derivatives market. Exchange traded derivatives are standardised contracts which have daily settlement prices published by the relevant exchange. Additionally, counterparty credit risk is minimised as parties contract through a central clearing house.
4. Global growth in the turnover of exchange traded derivatives has been impressive; since 2000 turnover has increased at c.30% per annum. Fixed income products comprise the majority (c. 88% by turnover) of the exchange traded derivatives market, with equity index products and currency making up the remainder (c. 11% and 1% respectively).
5. Statistical information on the derivatives market is available at the website of the Bank for International Settlements, at www.bis.org.