



# Avoca Capital

## European Leveraged Loan CDO Asset Manager Profile

Avoca Capital (Avoca) is a Dublin-based, privately owned, structured credit manager, focused on European leveraged loan collateralised loan obligations (CLOs). The company was founded in 2002 by Donal Daly and Alan Burke, formerly CLO investment director and director of acquisition finance, respectively, at Allied Irish Banks plc. As of April 2008, Avoca's assets under management (AUM) were EUR3.8bn, over 90% of which was invested in CLOs of European leveraged loans.

Avoca's CAM2+ rating reflects the company's depth of experience in CLO management since 2002 and leading market position as the fifth largest European CLO managers by AUM. It also reflects the comprehensive credit research supporting the clearly articulated and consistent investment process, the depth and experience of staff and the very good performance of all CLOs to date, while recognising the planned enhancements to Avoca's IT platform.

## European Leveraged Loan CDOs Under Management

(As of April 2008)

Name	Closing	Structure	Primary Asset	Original Size (EUR)
Avoca CLO II	Nov 2004	Cash flow	European secured leveraged loans	360,000,000
Avoca CLO III	Mar 2005	Cash flow	European secured leveraged loans	400,000,000
Avoca CLO IV	Jan 2006	Cash flow	European secured leveraged loans	450,000,000
Avoca CLO V	Jun 2006	Cash flow	European secured leveraged loans	500,000,000
Avoca CLO VI	Nov 2006	Cash flow	European secured leveraged loans	500,000,000
Avoca CLO VII	Apr 2007	Cash flow	European secured leveraged loans	700,000,000
Avoca CLO VIII	Aug 2007	Cash flow	European secured leveraged loans	500,000,000
Avoca Credit Opportunities Fund	Aug 2007	Market Value	European secured leveraged loans	367,500,000
<b>Total</b>				<b>3,777,500,000</b>

Avoca CLO I (EUR300m) was called in December 2006 at a 17.0% equity IRR.

### Corporate Information

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### Corporate and CDO Contacts

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### Corporate Structure

Year Founded: 2002  
Business Form: Private Company  
Registered: IFSRA  
Employees: 33  
CEOs: 2  
Managing Directors: 5  
Analysts: 13  
Administration: 10  
Compliance/ Other: 3

### Analyst Contacts

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### Strengths

- Focused business strategy with adherence to core competencies in leveraged finance.
- Affirmed position in the European CLO market, resulting from size and first mover advantage.
- Highly documented credit-intensive research practices, supporting consistent and stable investment strategies.
- Senior management experience and leadership.
- Excellent stability of team, a reflection of long-term commitment of staff and compensation/retention structure.
- Very good performance delivered on all CLOs to date.

### Challenges and Mitigants

- To continue to mitigate IT and operational risks resulting from the current reliance on spreadsheets for key business processes. Mitigated by the planned system enhancements and strong control environment.
- To deliver the planned system enhancements in a timely and efficient fashion, mitigated by the deliberate and diligent approach to system development and addition of a dedicated IT director.
- To maintain the good performance track record in more difficult market conditions. Avoca shows a good level of preparation in regards to managing portfolios in a downturn.

## Company and Management Experience — '2+'

- Significant and successful credit experience in CLOs and leveraged finance market since 2003 as a company and since 1999 for the managing directors. Donal Daly and Alan Burke, founders and CIOs, have 17 and 11 years' leveraged finance experience respectively, partially acquired as directors of acquisition finance at Allied Irish Banks plc.
- Long-term commitment to the European CLO market, focused on maximising the value of the business franchise.
- Solid, focused business strategy, which has resulted in a leading position within the European CLO market.
- Highly profitable with a growing capital base, although lacking in institutional support.

## Staffing — '1'

- Avoca consists of 34 people, divided between the front-office teams (leveraged finance team, two managing directors (MDs) and portfolio management team (three MDs), supported by 13 credit analysts) and the 14-person fund administration and compliance team.
- Credit analysts/portfolio managers are experienced leveraged finance professionals with a banking and finance background. MDs have an average of eight years' experience in leveraged finance, partly

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acquired at AIB Acquisition Finance.

- Good backup of MDs (five) by associate directors (five) and associates (eight), limiting key person risk and favouring training and professional development.
- Very low account load per analyst (seven names on average), with analysts primarily focusing on surveillance and secondary re-analysis in the context of weak primary flow.
- Operations, IT, risk and compliance functions are independently owned by an experienced chief operating officer, Michael Gilleran, hired in September 2006, supported by a financial controller and accounts assistant. Avoca is in the late stages of recruiting a dedicated IT director.
- The 10 person administration team provides support in the areas of fund administration, cash management, trade support, investor reporting and compliance, thus enabling analysts to focus on their research efforts.
- Excellent stability of staff since inception with only one departure, principally because of the team's long-term commitment and the compensation and retention structure.

## Procedures and Controls — '2+'

- Very good documentation of operating procedures, research, and investment decisions, reinforced by an external business process review in 2006.
- Clear segregation between business and support/control responsibilities.
- Company-wide control environment adequately mitigates inherent operational risk, arising from manually intensive and spreadsheet-based fund administration processes.
- Robust control of credit risk through strict credit research practices, approval process and monitoring.
- Close management and control oversight through management information and hands-on approach at key stages of the investment process.

## Portfolio Management — '1-'

- Clearly articulated investment process consistently implemented and adhered to.
- Comprehensive credit research on focused and strictly defined investment universe criteria and subsequent effective screening at an early stage.
- High quality of preliminary assessments and full credit applications, documenting comprehensively the results of the due diligence.
- High quality and in-depth financial modelling with overall conservative assumptions.
- Good access to deal flow based on (ticket) size, established relations with arrangers and private equity sponsors.
- Disciplined investment decision-making process at key stages, resulting in focussed asset selection. Credit approval and fund allocation is formalised by Avoca's credit committee, consisting of the CIOs and managing directors.
- Ongoing individual loan portfolio monitoring of Avoca's 105 loans under management based on ad hoc credit grading updates, monthly formal reviews, and quarterly monitoring through macro reviews at the portfolio level.
- No workout specialist as Avoca aims to avoid workout situations, but individuals such as Donal Daly have workout experience.

## CDO Administration — '2'

- Sufficient loans and CDO administration capabilities, based on manually intensive spreadsheet-based processes.
- Effective workflows, oversight, and controls have been established through a long-term relationship with the trustee.
- Avoca is about to begin testing CDO Sentry as the core CDO administrative system as a replacement to the current spreadsheet-based solutions. Fitch views this development positively.
- Best-in-class investor reporting among the CLO managers reviewed by Fitch Ratings in Europe.

## Technology — '3+'

- Avoca developed its own in-house CDO systems, models and databases using spreadsheets. These were independently reviewed and validated by a consulting firm in 2006.
- Avoca has adopted a diligent and deliberate approach to its IT development. During 2007 it invested heavily in IT hardware, and as of March 2008, is beginning to test or build software solutions to support the areas of portfolio management, fund administration (CDO Sentry, provided by Atlantic Information Systems) and client relationship management.
- While the planned system enhancements have not yet been implemented, Fitch believes that when implemented, these systems will result in substantial improvements to the scalability of Avoca's critical processes and reduced data integrity risk.

## CDO Performance — '2+'

- Overall very good performance of all Avoca CLOs over an increasingly substantial period of time.
- Avoca I realised a 17% net equity internal rate of return (IRR), which compares very favourably with the other realised equity IRRs known to Fitch in Europe. Equity distributions to the other CLOs have been in line with or above expectations to date.
- All of the rated notes have been consistently affirmed to date.
- No breaches of any portfolio quality tests to date. Par has been built across all portfolios.
- Portfolio quality has remained stable: there have been no defaults and there are no 'CCC' or below rated assets in any CLO.
- New issue reports and additional performance information on all Fitch-rated Avoca CLOs are available at [www.fitchratings.com](http://www.fitchratings.com).