

## **FITCH AFFIRMS AVOCA CAPITAL'S ASSET MANAGER RATING AT 'M2+'**

Fitch Ratings-London-08 July 2011: Fitch Ratings has affirmed Avoca Capital's (Avoca) Asset Manager Rating at 'M2+'. The rating covers all of Avoca's credit asset management activities.

The rating affirmation reflects Avoca's continued corporate stability, the measured and well-controlled development of its business, deep investment experience and its robust IT platform. The affirmation also takes into account the increased diversification of Avoca's business through the recent acquisition of two long-short credit hedge funds, while recognising the risks entailed in this expansion. In Fitch's opinion, there is a strong cultural fit between the acquired credit hedge fund teams and Avoca. Furthermore, the agency considers the acquisition strategically sound, in the context of increasing pressure on specialised asset managers.

The ongoing challenge facing Avoca is to continue diversifying its business away from collateralised loan obligation (CLO) management (which continues to represent the majority of its assets under management (AUM) and fee income) and to build AUM and fee income from funds and mandates. It has already made solid progress in this regard through launching and growing funds and mandates since 2007 and the recent acquisition of the credit hedge funds. Integrating the credit hedge funds to Avoca's IT architecture and developing the risk management framework for these funds represents an important near-term challenge for Avoca.

Avoca's Company and Staffing score reflects its long private credit management experience, continued and robust profitability, deep resources and the stability of both senior management and the investment teams. The score also factors in some of the risks associated with the integration of five staff and two credit hedge funds from Liontrust PLC (Liontrust), completed in July 2011. Fitch notes that the resulting potential corporate governance-related risks are well managed. Avoca has established Chinese walls (operationally and geographically) between its private- and public-debt investment activities and teams. Furthermore, it is in the process of adding dedicated compliance personnel to oversee the credit hedge funds and public debt investment activities, to complement its existing compliance and control framework and personnel.

Avoca's Credit Selection score reflects its robust credit selection and monitoring process and the high quality of its fundamental credit analysis, supported by an extensive database of firm, sector and industry statistics. The credit selection process for the credit hedge funds is more opportunistic than Avoca's established process for the historic loan business, reflecting the credit hedge funds' shorter-term investment horizon. The process is based on a screening of the investment universe to focus fundamental and scenario-based credit analysis on a limited number of investment opportunities. The credit hedge fund investment committee comprises senior members of the team acquired from Liontrust and Avoca's CEO, Alan Burke. In Fitch's opinion, the credit hedge fund investment process provides an adequate match to the funds' investment objectives and the resources of the investment team acquired from Liontrust (two senior portfolio managers and two research analysts).

The Portfolio Management score reflects the sound portfolio management process, implemented by an experienced team of senior portfolio managers. Avoca does not operate an independent risk management team. However, a combination of detailed and frequent portfolio and credit reviews, robust IT infrastructure and senior management oversight ensures that investment risks are appropriately managed.

The score for Administration reflects Avoca's sound, established and tested administrative capabilities. One specialised credit hedge fund operations manager joined Avoca as part of the acquisition of these funds. In this category in particular, Fitch recognises the strength of Avoca's fund reporting capability, notably in terms of efficiency, flexibility and timeliness.

Fitch considers Avoca's IT infrastructure a key strength, as reflected in its score in the Technology category. It has developed a robust fully-integrated IT architecture comprising proprietary and third-party systems.

In accordance with the applicable criteria report 'Reviewing and Credit Asset Managers', dated 27 July 2009 at [www.fitchratings.com](http://www.fitchratings.com), Avoca's 'M2+' rating is based on the following category scores, which represents a scale from 1 to 5, with 1 as the highest possible score:

Company & Staffing: 2.50  
Credit Selection: 1.75  
Portfolio & Risk Management: 1.75  
Investment Administration: 1.75  
Technology: 1.50

Asset manager operations in the 'M2' category demonstrate low vulnerability to operational and investment management failure.

Avoca is a Dublin and London-based privately-owned credit manager, founded in 2002. As at July 2011, Avoca's AUM were approximately EU6bn comprising CLOs (approximately EUR4.9bn) and funds and dedicated mandates, including the two recently acquired credit hedge funds (approximately EUR1.1bn).

The rating may be sensitive to material adverse changes to any of the aforementioned rating drivers. A material deviation from Fitch guidelines for any key rating driver could cause Fitch to lower the rating. For additional information about Fitch's asset manager ratings guidelines, please review the criteria referenced below, which can be found on Fitch's website at [www.fitchratings.com](http://www.fitchratings.com).

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Additional information is available at [www.fitchratings.com](http://www.fitchratings.com).

The sources of information used to assess this rating were the public domain and Avoca.

Applicable criteria, 'Reviewing and Rating Asset Managers', dated 13 August 2010 and 'Reviewing and Rating Credit Asset Managers', dated 27 July 2009 are available at [www.fitchratings.com](http://www.fitchratings.com).

Applicable Criteria and Related Research:

Reviewing and Rating Asset Managers

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=547947](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=547947)

Reviewing and Rating Credit Asset Managers

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=459814](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=459814)

European Leveraged Loan CLO Tracker

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=635630](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=635630)

Sector Update - Credit Asset Management

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=610166](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=610166)

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