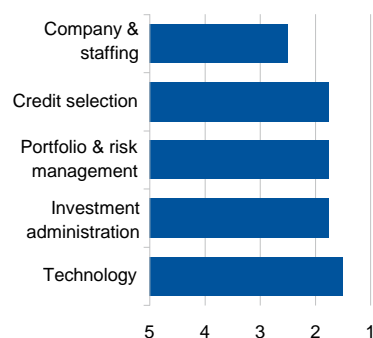


Avoca Capital Holdings

Full Rating Report



Rating Criteria



Source: Fitch

'M2' Description

Strong: Asset manager operations demonstrating low vulnerability to operational and investment management failure.

Key Rating Drivers

Continued Corporate Stability: Key decision makers have been consistent over time, and there has been a very low level of staff turnover. Avoca Capital Holdings (Avoca) has continuously invested in the business, building a well organised and resourced organisation. It is highly profitable and its balance sheet is sound.

Well-Controlled Business Development: Assets under management (AUM) have grown steadily to around EUR6bn at July 2011. The growth in AUM has corresponded to an increasing depth of resources in terms of staff, systems and processes. Fitch Ratings considers the control environment well organised and efficient for the scale of the business

Deep Investment Experience: Avoca's experience in its core asset class, European loans, and its core investment vehicle, collateralised loan obligations (CLOs), dates back to 2003. Its fund management experience dates back to 2007. Historically its core focus has been private debt investment, with small public debt buckets in its investment vehicles.

Successful Business Diversification: Avoca has pursued both organic and inorganic growth, having launched or acquired CLOs and more recently launched or acquired funds. It recently acquired a team and two long-short credit hedge funds from Liontrust PLC (Liontrust) in June 2011, which substantially increased its focus on high-yield bonds (ie, public debt).

Robust Credit Selection Processes: Avoca focuses on fundamental credit analysis across the business, with a more trading orientated approach in the newly acquired credit hedge funds and more buy-and-hold orientated approach in the term-financed CLOs. The investment processes are clearly articulated with well documented outputs.

Comprehensive Investment Monitoring: The private credit surveillance processes are based on monthly individual credit monitoring and semi annual full portfolio reviews. Public credit surveillance is continuous and serves as the basis for trading activity and portfolio rebalancing.

Very Strong IT Platform: Fitch considers Avoca's IT platform best-in-class. It is based on an open-architecture integrating proprietary and off-the-shelf systems. Fitch views positively the continual developments and enhancements to the platform over time.

New Fund Integration: Avoca's key challenge for 2011 is integrating the recently acquired credit hedge funds to the business in terms of IT systems and the risk management framework.

Manager Profile

Independent Credit Asset Manager: Avoca is a Dublin and London-based privately-owned specialised credit manager, founded in 2002. At July 2011 its AUM totalled about EUR6bn, comprising CLOs (about EUR4.9bn) and funds and dedicated mandates (about EUR1.1bn). It employed 43 staff as of July 2011.

Fitch affirmed the Credit Asset Manager Rating assigned to Avoca at 'M2+' on 8 July 2011.

Analysts

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Manager Profile

Avoca Capital Holdings

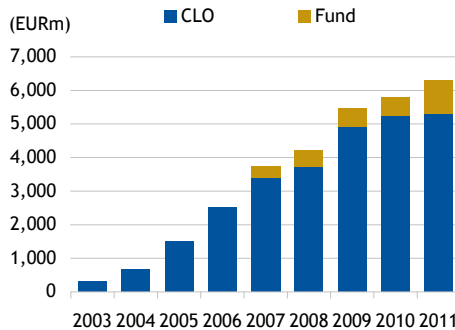
Avoca is a specialised asset manager focused on European leveraged loan investment and management through CLOs, funds and mandates, with a recently added credit hedge fund offer acquired from Liontrust. As of July 2011, its AUM totalled around EUR6.0bn (2010: EUR6.0bn) through 10 CLOs and three funds / mandates. Founded in 2002, Avoca is owned by the two co-founders and senior staff.

Avoca's investment philosophy is to focus on credit fundamentals, with a lower diversification/ high conviction approach to portfolio construction. It focuses on secured investment in market-leading companies in stable industries with an enterprise value (EV) in excess of EUR500m and above average EBITDA margins. Its expansion to long-short credit funds introduces a new dimension to its core activities.

Address	75 St. Stephens Green, Dublin 2, Ireland	Chairman	Dónal Daly
Website	www.avocacapital.ie	CEO	Alan Burke
Year founded	2002	COO	Clayton Perry
Domicile, place of incorporation	Ireland	CFO	Michael Gilleran
Registrations/ jurisdictions	Ireland, UK/IFR, FSA	Key portfolio managers	Eddie O'Neill (Head of Private Credit) Stephen Tang (Head of Private Credit Origination) Simon Thorp (CIO Fixed Income) James Sclater (Senior Portfolio Manager)
Ownership	Co-founders & senior staff	No of portfolio managers	8
Parent/affiliates	Independent	No of employees	43

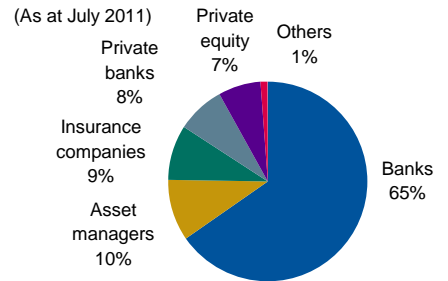
Assets under Management

AUM Growth



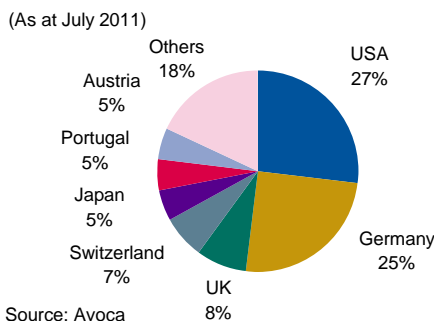
Source: Avoca

AUM Breakdown (Debt) by Client Type



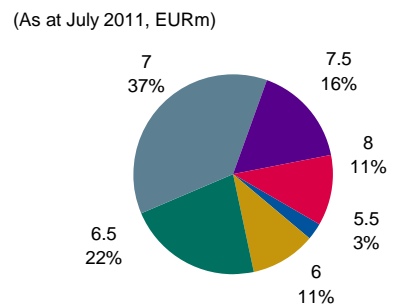
Source: Avoca

AUM Breakdown (Debt) by Investor Location



Source: Avoca

AUM Breakdown by Avoca Rating Category



Source: Avoca

Related Criteria

[Reviewing and Rating Asset Managers \(August 2010\)](#)

[Reviewing and Rating Credit Asset Managers \(July 2009\)](#)

Avoca Capital Holdings

Rating
M2+

Key Rating Drivers

Strengths

- Successful and continued diversification of the business (notably through acquisition of two credit hedge funds in 2011) resulting in improved future revenue generation potential.
- Measured and well controlled development of the business supported by ongoing corporate stability and very good depth and organisation of staff.
- Best-in-class IT platform based on a combination of proprietary analytics integrated to off-the-shelf administration systems.

Challenges

- To continue diversifying its business away from CLO management and to build AUM and fee income from funds and mandates.
- To integrate the credit hedge funds to Avoca's IT architecture and develop the risk management framework for these funds.

Score
2.50

Company & Staffing

Rapidly becoming a broad-based credit asset manager with deep CLO AUM revenue base.

- Majority privately held by co-founders; equity participation by senior staff.
- Profitable, benefitting from resumption of subordinated CLO management fee payments.
- CLO management experience since 2002, fund management experience since 2007.
- Clear separation of public and private debt investment processes and teams; absence of independent risk management function mitigated by close oversight of business.
- Front and middle/ back office responsibilities well defined and separated; average investment staff experience of around 10 years. Added five credit hedge fund staff in 2011.

Credit Selection

1.75

Robust private credit investment process supported by comprehensive credit research.

- Strictly defined private credit investment universe focussing on secured debt (loan) investment in European LBOs with EV in excess of EUR500m.
- Macroeconomic/ top-down inputs to investment process facilitated by staff economist and robust data sources, including detailed sector analytics and indicators.
- Fundamental private credit analysis based on management meetings and conservative financial modelling, resulting in detailed research reports.
- Credit hedge funds focus on public credit; process seeks to identify credit trends and event-driven investment scenarios.

Portfolio Management

1.75

Sound portfolio management processes based on focussed portfolio monitoring.

- Credit risk management focus for term-financed CLOs and funds – primarily buy-and-hold.
- Private credit surveillance based on monthly credit updates and semi annual portfolio reviews.
- Public credit monitoring continuous with active trading; greater relative value focus.
- Dedicated workout group, demonstrating an established steering committee presence.

Investment Administration

1.75

Efficient administration supported by robust systems and procedures.

- Provision of supplemental monthly fund reports, quarterly special comments and a dedicated investor website.
- CDO Sentry as core loan administration system, proprietary "SSS" administrative system acquired with credit hedge funds.
- Well resourced and experienced administrative team; dedicated credit hedge fund operations staff in 2011.

Technology

1.50

Robust open-architecture IT platform providing very good fit to business requirements.

- Fully integrated open-architecture IT platform demonstrating continual improvement.
- Flexible web- and Excel-based reporting from a proprietary private credit monitoring database ("CreditMon"), fully integrated to CDO Sentry as loan administration system.
- Focus for 2011 is integration and development of credit hedge fund systems and tools.

Source : Fitch

Company & Staffing

Shareholding & Financial Standing

Majority privately held by co-founders; equity participation by senior staff.

Avoca is an independent asset manager, majority owned by the two co-founders with limited equity participation by other senior staff. It was founded in Ireland in 2002 by Dónal Daly and Alan Burke, Chairman and CEO respectively. As of July 2011 a total of nine senior staff members were equity holders in the business, while the co-founders remain majority shareholders. Avoca opened a London office in 2010.

Avoca's revenues are primarily driven by management fees from the CLOs under management. CLO fees consist of a senior (typically smaller) and a subordinated (typically larger) component, with subordinated fees temporarily cut off if certain conditions arise, notably relating to the presence of larger proportions of low rated (ie 'CCC' or below) assets in the portfolio and/or lower asset valuations.

Fitch expects Avoca's revenues in 2011 to be positively affected by the resumption of subordinated fee payments. Between 2009 and 2010 a number of Avoca's CLOs ceased subordinated fee payments due to market conditions. As of July 2011 seven of Avoca's 10 CLOs under management were making subordinated fee payments, with a further CLO expected to resume subordinated fee payments in 2011, along with the repayment of missed fee payments which have accrued.

Profitable, benefitting from resumption of subordinated CLO management fee payments.

Avoca has been highly profitable since inception. Fund management fees have increased in importance as part of the asset-mix; however, as the majority of Avoca's AUM remain CLOs, it is CLO management fees that drive revenues. The potential for performance fee generation increased in 2011 with the acquisition of two credit hedge funds (see *below*).

Avoca's balance sheet is robust given that it is a relatively small, independent company. In terms of its liquidity, Fitch estimates that the company maintains an average of around four months of its cost base plus interest expense in cash on the balance sheet at any one time.

Experience in the Asset Management Industry

CLO management experience since 2002, fund management experience since 2007.

Avoca's experience in its core asset class, European leveraged loans, is deep, dating back to 2003 when it launched its first CLO (Avoca CLO I B.V.). Since then it has launched a further eight CLOs and acquired an additional three as replacement manager mandates. According to data compiled by Fitch, Avoca was the fourth largest CLO manager in Europe as of June 2010 (see the special report: "[European CLO Management Industry Update \(Brighter Prospects for Select Top-Tier Managers\)](#)", dated 10 June 2010 and available at www.fitchratings.com).

Avoca has been managing funds since 2007, when it launched its first unlevered fund (Avoca Credit Opportunities Fund). Since then, it has launched one more unlevered fund and a commingled fund. As of July 2011 Avoca was in the process of marketing a new qualifying investment fund.

In 2011 Avoca significantly diversified its product offer through the addition of two credit hedge funds and a credit hedge fund team from Liontrust. Avoca paid a reported¹ GBP3.1 million for two credit hedge funds, with a combined AUM of approximately EUR80 million and a team of five experienced staff. The transaction completed in June 2011. The Credit Fund was launched in 2000 and is a Cayman-registered long-short fund that can use leverage. The Absolute Return Fund was launched in March 2010 and complies with UCITS² III, which restricts the amount of leverage the fund can apply and contains other provisions such as weekly liquidity (compared to monthly liquidity in the Credit Fund). Both funds focus primarily on high yield bonds.

¹ Reported by FT Adviser, 15 June 2011

² UCITS: Undertakings for Collective Investment in Transferable Securities

Fitch believes there is a good cultural fit between Avoca and the credit hedge fund team. Fitch identified *artefact and behaviour*³ similarities between key decision making and investment personnel at Avoca and in the credit hedge fund teams, notably in terms of presentation and narrative description of investment processes and philosophies. Furthermore, Fitch believes that the “values” it inferred from its discussions with both Avoca and the credit hedge fund personnel are congruous.

The addition of the credit hedge funds demonstrates Avoca’s commitment to the strategic development of its business – Fitch considers the move strategically sound. The agency counts only one arbitrage CLO issued in Europe since 2008 (see: “[Lessons European CLO Managers Can Learn from EOS Transaction](#)”, dated 30 September 2010 and available at www.fitchratings.com). In the absence of material new CLO issuance, CLO managers need to diversify their product offer and become broader credit asset managers to continue growing. Fitch views positively the initiatives Avoca is considering to further diversify and grow its business.

Avoca has made good progress in diversifying its business and Fitch expects it to continue its diversification efforts further in a measured fashion. In 2007 it diversified in terms of investment vehicle, with the addition of unleveraged commingled funds. In 2009 it diversified its strategy, through its early-mover activities in seeking out and acquiring replacement CLO manager mandates. In 2011 it diversified again, both in terms of investment vehicle, with the long-short, leveraged, offshore and UCITS credit hedge funds, and in terms of asset class, with the core focus of the credit hedge funds being high yield corporate bonds. Avoca has historically managed small high yield bond buckets in its CLOs but never before as a core focus.

Avoca’s CLO performance has been consistently strong. Its default rate has been substantially lower than the market default rate over time and research by Citigroup Inc. as of December 2010 indicates that Avoca’s average default rate by CLO manager was the lowest in Europe. It is also one of the few CLO managers in Europe with a realised CLO management performance record: Avoca CLO I was called in December 2006 for a 17% internal rate of return to equity noteholders.

Fund returns have exceeded benchmark returns in both Absalon and the Avoca Credit Opportunities fund since 2009. The newly acquired Credit Fund has consistently outperformed its benchmark since 2002 and has delivered positive absolute returns every year since 2002. The newly acquired Absolute Return Credit Fund was only launched in April 2010 so has only a limited track record to date.

Avoca’s investor base comprises around 150 purely institutional investors from 25 different countries. The majority of its investors are banks, followed by pension funds and asset managers, reflecting the fact that most are CLO investors. In 2010 and 2011 Avoca added a number of new investors in its funds, in addition to attracting inflows from existing investors. The addition of the credit hedge funds in 2011 will bring additional investors and the potential for cross-selling between Avoca’s products.

Corporate Independence & Governance

Overall, Fitch considers Avoca’s control environment as well organised and efficient for the size of the company. Controls are formalised through well documented and frequently reviewed procedures manuals, under the auspices of Michael Gilleran as compliance officer. Indeed, the business has been built for scale, with the control environment intended to mirror that of a large investment management business.

In Fitch’s opinion Avoca has adequately addressed the compliance risk associated with private and public debt investment. While Avoca already had experience of managing both private and

³ After Schein’s 2004 model of organisational culture

Clear separation of public and private debt investment processes and teams; absence of independent risk management function mitigated by close oversight of business.

public debt information, it was largely focused on private debt (leveraged loans) until it acquired the credit hedge funds, which focus almost entirely on public debt (high yield corporate bonds). It has specific procedures in place determining how information is managed, thus ensuring there is no spill-over of information between the private and public sides. More fundamentally it has physically separated the private and public debt investment teams and processes, basing the former exclusively in Dublin and the latter exclusively in London.

As a private company majority held by the two co-founders, Avoca does not have independent representation at the company board level. Instead, senior management and the dedicated compliance officer take an active role in monitoring the business and ensuring the control environment is robust.

Avoca has been authorised and regulated by the Irish Financial Regulator since inception and is subject to limited supervision by the UK Financial Services Authority since the London office was opened in 2010.

Risk management is a function of the senior management team, which provides close and active oversight of the business, based on very good information provided through Avoca's IT systems (see *Technology* below). As of Fitch's review of Avoca in 2011, it was in the process of recruiting additional operational risk and compliance personnel to oversee the credit hedge funds and manage the public-private debt divide. Avoca has not suffered any operational losses to date, demonstrating the effectiveness of its operational risk control. In Fitch's opinion, the addition of an independent risk management function would provide additional comfort to investors that the business is well controlled and the governance mechanisms work effectively.

The investment vehicles are primarily Ireland-domiciled CLOs subject to the structural constraints and mechanisms outlined in their offering memoranda. Both of Avoca's existing credit funds are exchange-listed and feature independent directors (typically provided by the arranging legal counsel or corporate service providers) at the fund board level. The credit hedge funds are Luxembourg and Cayman registered (for the UCITS fund (a SICAV structure) and the offshore fund, respectively).

Avoca has established relationships with a number of external parties. KPMG acts as the company's auditor (providing a clean opinion at all annual audits to date) and Deutsche Bank is trustee on all of the CLOs originated by Avoca. This has resulted in very well-established relationships and efficient information flows (see *Investment Administration* below).

Staffing

Senior Management and Organisation

Avoca's senior management team is highly experienced, and has remained stable since the company was founded. As of 2011 Dónal Daly has become chairman, focusing on strategic and investor-relations issues, while Alan Burke, as CEO, focuses on day-to-day management of the business. Clayton Perry, chief operating officer, heads up Avoca's London office and takes responsibility for business development and marketing. The *Appendix* contains biographies for key staff.

Figure 1
Headcount (as of July 2011)

Senior management	3
Credit	20
Back/middle office function	20
Total	43

Source: Avoca

Avoca's organisational structure is well defined, with a clear separation according to investment focus, with the London office (11 staff) responsible for public- and the Dublin office (32 staff) for

Front and middle/ back office responsibilities well defined and separated; average investment staff experience of around 10 years. Added five credit hedge fund staff in 2011.

private-debt investment, along with middle and back office functions. Roles and responsibilities are well defined.

Fitch's believes Avoca has deep staffing resources across the organisation, therefore providing it with sufficient capacity to expand the business without necessitating additional resources.

Staff turnover at Avoca has been low, reflecting the long-term commitment of staff and the company's competitive compensation and retention structure. There was one notable departure in 2010: Maurice Fitzgerald, managing director, left and was not replaced. Overall, Avoca continues to grow: 43 staff in July 2011 (including very senior hires on the credit hedge fund side) compared to 37 in July 2010. As of July 2011, Avoca was actively recruiting additional compliance and control staff, and planned to increase the size of investor relations team with a specific credit hedge fund focus.

Portfolio Management

Eddie O'Neill acts as lead portfolio manager on all Avoca CLOs and loan funds, supported by the other senior members of the private credit function.

Simon Thorp and James Sclater act as co-portfolio managers on the two recently acquired credit hedge funds, supported by investment analysts based in London who are now public credit focused. The London-based portfolio managers typically joined Avoca when Avoca acquired replacement CLO manager mandates.

Credit Research

The credit research team reflects a good breadth of experience levels, ranging from graduate-type experience levels to the 10 or more years' relevant experience of the senior investment professionals. The team also represents good depth of staff, with 12 on the private credit side and four on the public debt side, in addition to the portfolio managers. On the private credit side Avoca maintains one of the lowest ratios of invested companies to analysts seen by Fitch in its reviews of European CLO managers, averaging around eight to 10 companies per analyst. This low capacity utilisation level allows Avoca to execute very close portfolio monitoring.

Back/Middle Office

The back/middle office function is also well staffed, with a good ratio of administrative personnel to CLOs and funds under management. The smooth integration of the acquired CLOs to Avoca's platform in 2009 and 2010 evidences the competence of the administrative team. The addition of a head of IT in 2008 made an important contribution to the development of Avoca's IT infrastructure (described in *Technology* below).

Credit Selection

Credit Universe Screening and Sourcing

Avoca's private credit investment process is clearly articulated and strictly adhered to, which has resulted in a generally good performance of invested credits. It begins with a pre-screening phase, which filters out the majority of issuers and focuses the detailed credit analysis on those issuers where an investment is more probable. The process concludes at the credit committee, which makes credit and investment decisions.

Avoca has formulated a detailed set of criteria, which it uses to evaluate whether any potential investment may be suitable for further analysis. It covers the entire European leveraged loan universe of around 600 issuers. However, only around half of that universe meets the 22 points evaluated in Avoca's investment criteria (known as the "transaction checklist"), which focus on:

1. company profile: enterprise value in excess of EUR500m, leading market position, above-average EBITDA margins and stable operating profile;
2. experienced and committed private equity sponsors;

Strictly defined private credit investment universe focussing on secured debt (loan) investment in European LBOs with EV in excess of EUR500m.

3. Western Europe: stronger creditor protection rights;
4. stable industry profile; and
5. experienced company management.

The public credit investment process is also well articulated and has yielded a strong track record in the credit hedge funds over time. It covers an investment universe of around 400 issuers, with continual screening on an absolute and relative basis. Areas of focus for further analysis include macro trends and event-driven possibilities.

Sector and Macroeconomic Research

Avoca's core competence is fundamental, bottom-up credit analysis. However, through its IT systems (see *below*) it increasingly benefits from detailed sector data. These data are leveraged on both the private and public credit sides of the business, with appropriate controls in place. These data include, for example, sector EBITDA and revenue trends and performance: momentum analyses based on these data.

Avoca has had an economist on staff since 2008, to support the top-down element of the investment process. The economist focuses on specific, topical research such as scenario analyses, which are factored into the investment process both through informing the company's top-down view expressed at the credit committee and in guiding individual analysts as they prepare company research. In Fitch's opinion the presence and role of an on-staff economist distinguishes Avoca from its peers and has helped it to make sector allocation decisions.

Underwriting and Credit Analysis

Avoca's private credit research is high quality, based on thorough fundamental credit analysis and resulting in detailed credit reports. Once an issuer has passed the initial screening criteria, the detailed credit analysis work begins. The credit analysis involves a number of different components:

1. review of the information memorandum;
2. site visits and meetings with the management team;
3. review of the due diligence package;
4. financial modelling of the transaction, including the analysis of several cases, including the Avoca case; and
5. preparation of an "investment paper" summarising the complete analysis.

Concurrent with the credit analysis, numerous key data are recorded in Avoca's core credit monitoring system (around 500 data points are input for a new investment). The investment paper itself follows a standard format, which ensures comparability between investment papers and facilitates the portfolio review process. Investment papers are typically 15-20 pages long, and are, in Fitch's opinion, particularly thorough, reflecting the significant resources Avoca commits to credit analysis. The analysis of a new investment opportunity takes around three weeks, on average.

The result of the analysis and the investment paper is a credit recommendation made to the credit committee, which takes the form of a credit grading. Credit gradings are based on clearly defined criteria, depending on a credit's EBITDA performance against budget and the outputs of Avoca's financial modelling. Fitch notes that the inputs to Avoca's financial models are conservative and the modelling itself is detailed, based on investment papers it has reviewed.

The investment horizon of the public credit investment process is relatively shorter-term, whereas that of the private credit side is longer-term. As a result, the process is more opportunistic. A fundamental credit analysis is conducted on all investment opportunities, focusing on the trend in data analysed, in terms of cash flows and liquidity, among others. The

Macroeconomic/ top-down inputs to investment process facilitated by staff economist and robust data sources, including detailed sector analytics and indicators.

Fundamental private credit analysis based on management meetings and conservative financial modelling, resulting in detailed research reports.

Credit hedge funds focus on public credit; process seeks to identify credit trends and event-driven investment scenarios.

analysis also includes a detailed covenant review. As both funds can go short, the analysis looks for both under- and over-valued securities and for improving and deteriorating credit trends as the basis of investment ideas. Profit-taking and stop-loss limits are clearly defined outputs of the analysis.

Relative Value and Liquidity Analysis

Relative value and liquidity analysis is incorporated at the level of the credit committee on the private credit side. Portfolio managers monitor market trading levels.

On the public credit side liquidity is monitored by the portfolio manager and is an important determinant of position sizing.

Credit and Investment Approval

Private credit approval is a function of the credit committee. The credit committee consists of a defined quorum drawn from the senior staff, chaired by Eddie O'Neill as head of Private Credit. In certain defined situations (purchases, material sales, investment limits) Avoca also holds an investment committee chaired by Alan Burke as CEO. Avoca's acceptance rate at committee is low, reflecting its conservative stance: Since 2004, the acceptance rate has been around 25% on average. Allocation between funds is determined strictly in accordance with written procedures.

Public credit approval results from a daily investment committee in which the entire public credit team participates. Alan Burke participates in the public credit committee, in line with Avoca's recusal policy (designed to prevent information spill-over between the public and private credit sides). The portfolio managers are responsible for the ultimate investment decisions.

Portfolio and Risk Management

Investment Risk Management

Avoca operates a robust investment risk framework formalised in frequent (semi annual) private credit portfolio reviews. The risk monitoring of the credit hedge funds is daily, with active trading and portfolio rebalancing in response to evolving market conditions. As the majority of Avoca's AUM are held through term-financed CLOs, its key risk is credit risk.

Credit Risk Management

Credit risk management is focused on first-level controls, ie risk management at the level of the credit analysts and portfolio managers. Responsibility for the monitoring of each private credit investment is held by the managing director that originally sponsored the transaction. On a monthly basis, management account and budget data are input to the core credit monitoring system, along with analyst comments on the company's performance. A summary report is prepared for the credit committee on a monthly basis, summarising key performance metrics for all credits.

This analysis forms the basis for revising the assigned credit gradings, which are decided by the credit committee (see details of credit grading distribution as of July 2011 in the chart in the *Manager Profile* above). Avoca also operates a traffic light system, which formalises the monitoring status/ intensity of the credit. Under this system, a green means the transaction is performing, amber means it is under close scrutiny for any signs of potential deterioration and red means it shows signs of weakness and may be sold if an appropriate opportunity arises. If any performance deterioration is detected, a case review is triggered, which takes around two days to complete and essentially involves a re-running of the initial analysis.

On a semi annual basis, the credit committee meets and conducts a full portfolio review. This review considers the performance of every invested company, based on reports generated from Avoca's core credit monitoring system.

Credit risk management focus for term-financed CLOs and funds – primarily buy-and-hold.

Private credit surveillance based on monthly credit updates and semi annual portfolio reviews.

Public credit monitoring continuous with active trading; greater relative value focus.

The credit risk monitoring process is well supported by Avoca's robust IT systems, both in terms of ongoing monitoring and periodic portfolio and sector reviews.

Credit monitoring is continuous on the public credit side, with the portfolio reviewed on a daily basis at the investment committee. The team uses a proprietary tool, "Bondviewer", to monitor the investment universe.

Liquidity Risk Management

All loans are marked-to-market daily through Loan Pricing Corporation and Markit. Liquidity risk is monitored by the credit committee (private credit) and the portfolio managers (public credit). Given that the CLOs and the Avoca Credit Opportunities fund are term-financed, they do not face redemption risk. Redemption on Absalon is quarterly with 60 days notice. Of the credit hedge funds, the Credit Fund offers monthly liquidity, while the Credit Absolute Return Fund offers weekly liquidity, in accordance with UCITS.

Portfolio Construction/Adjustment and Trading

Avoca's private credit investment style is conservative and credit focused. It describes its private credit investment philosophy as "high conviction, high concentration". As can be expected, it therefore sacrifices some diversification benefit for the strong credit views it forms.

CLO portfolio construction is bottom-up, driven by Avoca's credit analysis and CLO structural constraints. Compliance with CLO structural guidelines is a function of the loan administration team using CDO Sentry as the core portfolio management and loan administration tool. Hypothetical trade tests are run in CDO Sentry before any asset purchase or disposal.

Avoca's philosophy on the private credit side has been to sell assets early for credit reasons and to take losses where necessary, rather than a primary focus on taking profits. This has resulted in the good performance of Avoca's assets, as commented on above. Sell decisions result from the monthly credit committee on the basis of a case review and a relative value assessment. Its focus is largely buy-and-hold on the private credit side.

On the public credit side, trading is more active, resulting in more frequent portfolio adjustment. Both credit hedge funds are governed by a number of investment restrictions, including UCITS guidelines in the Absolute Return Credit Fund, which define maximum allowable exposures. Additionally, the investment committee defines profit-taking targets and stop-loss limits for each investment which provides a framework for trading. Ongoing liquidity and credit quality analysis guide the timing of investment activity and may also trigger a revision of the original investment thesis and its related profit and loss targets / limits.

The four person credit management team led by Ali Allahbachani as head of Private Credit Management provides Avoca's work-out function. The presence of this team means that the company does not need to sell out of positions if its analysis indicates that greater value may be generated by taking the asset through the workout process rather than selling early on. The team has extensive experience.

Investment Administration

Reporting & Communication

Avoca actively communicates with its investors through a range of media, including comprehensive supplemental monthly CLO and fund reporting, periodic special commentary and a dedicated investor website. The supplemental monthly reports are very detailed and include marked-to-market prices for all loans in the portfolios, along with various summary stratifications of the portfolio and portfolio management commentary and strategy. Fitch notes a high level of efficiency in the production of investor reporting.

Dedicated workout group, demonstrating an established steering committee presence.

Provision of supplemental monthly fund reports, quarterly special comments and a dedicated investor website.

Administration

CLO and fund administration is performed by the loan administration team, a part of the back-/middle-office function, using CDO Sentry as the core loan administration and portfolio management system. The systems in place, in combination with the depth and breadth of available staffing resources, provide a good match to the requirements of the business.

Procedures for reconciling monthly CLO trustee reports are highly efficient, based on long term, established relationships and information flows between Avoca and the trustees (Deutsche Bank, Bank of New York and Bank of America) on all of its CLOs. Cash balances are reconciled daily, while portfolio holdings are reconciled weekly. All reconciliations are signed off by the CFO.

The credit hedge fund team acquired from Liontrust included one dedicated credit hedge fund operations manager with deep experience. Additionally, Avoca operations' staff members were engaged in the due diligence on the credit hedge fund acquisition from an early stage resulting in a smooth transfer of the funds to Avoca from Liontrust. In Fitch's opinion the involvement of Avoca's operations staff with the credit hedge funds, from an early stage, will facilitate the integration of credit hedge fund administrative processes to the Avoca platform and existing workflows.

The credit hedge funds are administered using a proprietary investment administration system ("SSS", see *below*). Independent net asset value (NAV) calculation is provided weekly for the Absolute Return Credit Fund by State Street fund Accounting Services, Luxembourg and monthly by NAV Consulting, Illinois for the Credit Fund. There is a daily interaction with the custodian and prime broker. Icelink is used for electronic credit default swap (CDS) trade matching confirmation.

Valuation is standard for loan management, based on price feeds from Loan Pricing Corporation and Markit.

Technology

Front Office

In Fitch's opinion, Avoca's front-office private credit IT infrastructure is best-in-class, effectively industrialising the analysis and monitoring of credits, based on an integrated, open IT architecture. The agency notes a continual process of enhancing the system over time, such as the addition of a customer relationship management module in 2010 and an enhanced macroeconomic data overlay in 2011.

The front-office IT infrastructure supporting the private credit investment process is based on Avoca's proprietary credit monitoring system, "CreditMon", which captures financial performance data and other analytics and provides comprehensive reporting functionality on these data. The public credit team use "SSS", a proprietary system which includes trade processing, profit & loss calculation and risk analysis functionalities and "Bondviewer" which tracks and presents various data on the investment universe covered (such as Fitch credit ratings, yields and CDS spreads).

CreditMon is a centralised database with both web-based and Excel-based front-ends. As analysts research new credits or perform surveillance on existing credits, key data are entered to the system. For a new transaction, approximately 500 data points are initially input to this system via an Excel-based front-end. Ongoing monthly surveillance requires the entry of considerably less data, albeit covering all relevant information from management accounts and budgets. The system also allows analysts to add commentary and further qualitative analysis. As the system data requirements are standardised, these data provide a sound basis from which to conduct relative performance analysis.

CDO Sentry as core loan administration system, proprietary "SSS" administrative system acquired with credit hedge funds.

Well resourced and experienced administrative team; dedicated credit hedge fund operations staff in 2011.

Fully integrated open-architecture IT platform demonstrating continual improvement.

Flexible web- and Excel-based reporting from a proprietary private credit monitoring database ("CreditMon"), fully integrated to CDO Sentry as loan administration system.

The system has several outputs aimed at increasing the efficiency of Avoca's processes. Users can access the latest data on individual credits, or the system also has a series of pre-prepared reports that can be run to gather data on specific queries, which Avoca runs frequently, but also features an interactive tool to build bespoke reports. For example, one of these reports generates a standard template for the semi annual full portfolio review.

In addition to these reports, the system automatically generates certain fields in the supplemental monthly reporting, drawing on data both from CreditMon and from CDO Sentry (see *Middle & Back Office* below), to which it is integrated. An automatic email is generated daily summarising activity, which serves as a management reporting tool. Lastly, it also plays a role in generating Avoca's marketing materials, such as standard CLO key data fact sheets featuring static data, CLO liability data (from CDO Sentry) and latest asset performance data and trends (from CreditMon).

The Credit Analysis process on the public credit side is expected to be integrated with the existing Avoca CreditMon platform this year.

Middle & Back Office

Avoca operates CDO Sentry, provided by ClearStructure Financial, as its core CLO and fund administration tool. CDO Sentry was implemented in 2008. CDO Sentry itself is an industry standard tool for CLO and loan administration and management, providing all required functionality. The credit hedge funds are administered using "SSS".

Data Management

Private credit data are centrally stored in CreditMon and CDO Sentry. Various data feeds supply these databases, including data from Bloomberg, macroeconomic data from various different sources, loan pricing data from Loan Pricing Corporation and Markit and news feed data. All data are fully integrated to the system.

CreditMon features a series of data validation steps and processes to check the consistency of data entered by analysts in the system. As an additional control, once an analyst has completed an update, the system automatically generates and sends an email to the rest of the credit function, allowing them to review the performance of the credit since the last update and effectively acting as a further level of data validation.

Integration

Avoca's IT infrastructure is seamlessly integrated on the private credit side. The key project for 2011 is the integration of the systems supporting the credit hedge funds to the wider Avoca IT platform. In Fitch's opinion the integration is likely to yield significant efficiency gains and progress rapidly, in light of Avoca's experience in developing systems integrating proprietary and off-the-shelf systems (ie, "CreditMon" and CDO Sentry). Fitch views positively the long-term strategic view Avoca has demonstrated in its IT investment and development priorities.

IT Security

Avoca operates appropriate disaster recovery and business continuity planning practices. The dual office structure, implemented since 2010, provides the company with a permanently staffed and fully operational alternative site at all times. A high capacity data link between the offices, allows it to replicate data between the two offices, thus precluding the possibility of data loss should either suffer a disaster.

Access to the investor website is password controlled, while Avoca staff members have different levels of access rights to the company's systems, depending on roles and business functions.

Focus for 2011 is integration and development of credit hedge fund systems and tools.

Appendix

Figure 1

Key Staff Biographies

Name	Experience
Dónal Daly, Chairman, B.Eng, MBA	<p>Dónal is Chairman at Avoca Capital with responsibility for investment and business strategy, fund-raising and investor relations. Dónal is also the co-chair of the Avoca Capital investment committee.</p> <p>Dónal worked for the AIB Group between 1990 and 2002. Prior to his departure from AIB, he was director of acquisition finance and CLO investment director. In the latter role, he had specific responsibility for the management of AIB's two CLO funds. Prior to AIB, Dónal worked for Aer Lingus in a number of roles, including aeronautical engineering and investment activities.</p> <p>Dónal has a Bachelor of Engineering and an MBA from University College Dublin.</p>
Alan Burke, Chief Executive Officer, B.Comm, M.Acc, FCA	<p>Alan is chief executive at Avoca Capital with responsibility for investment and business strategy, fund-raising and investor relations. Alan is also the co-chair of the Avoca Capital investment committee.</p> <p>Previously, he was a director of acquisition finance in AIB, where he led a team responsible for structuring and arranging senior and mezzanine debt finance for leveraged buyout and acquisition financings. He was also responsible for structuring the bank's CLO funds.</p> <p>Alan qualified as a chartered accountant with Arthur Andersen. He has a BComm from University College Galway and a Masters in accounting from University College Dublin.</p>
Clayton Perry, Chief Operating Officer, B. Comm (Economics), M.Sc Economics	<p>Clayton is the chief operating officer at Avoca with responsibility for business development and marketing.</p> <p>Clayton joined Avoca in January 2010 from Broadchalk Advisors, where he was principal and managing director. Prior to establishing Broadchalk, Clayton worked at Credit Suisse from 1992 to 2008. At Credit Suisse, Clayton worked in the London and New York offices in derivatives and ABS sales. In 2001, he became head of the European CLO business where he was responsible for structuring, arranging and placing CLO transactions and in 2008 he became head of the global CLO business. He holds an economics degree from the University of Otago and a Masters from the London School of Economics.</p>
Eddie O'Neill, Head of Private Credit, B.A. (Economics & Politics), MBS (International Business)	<p>Eddie is head of the credit function at Avoca with responsibility for the strategic management of all Avoca funds. In his current role, he oversees the portfolio management and trading functions of Avoca and is chair of the credit committee. He is also portfolio manager for the Avoca Credit Opportunities Fund and for separate accounts.</p> <p>Eddie joined Avoca Capital at inception in 2002. Between 2005 and 2009, he was the senior portfolio manager responsible for all trading activities in the Avoca funds.</p> <p>Prior to joining Avoca, Eddie was an associate director in AIB acquisition finance. In this role, he was involved in structuring and arranging senior and mezzanine debt for leveraged finance transactions. He was also responsible for the overall management of AIB Bank's leveraged loan portfolio and he developed the secondary trading platform for leveraged loans within the bank.</p> <p>Eddie has a Bachelor of Arts degree in economics and politics from Trinity College and an MBS from University College Dublin.</p>
Stephen Tang, Head of Private Credit Origination, B.Sc (Management), M.Acc, FCA	<p>Stephen is head of private credit origination at Avoca and is responsible for bringing all new investment opportunities to the Avoca credit committee.</p> <p>Stephen joined Avoca Capital at inception in 2002. Between 2002 and 2009, Stephen worked in a number of roles, including investment analysis, trading and portfolio management.</p> <p>Stephen previously worked as an associate director in AIB acquisition finance, where he had responsibility for arranging and structuring senior and mezzanine debt finance for large leveraged buyouts and acquisition financings. He also pioneered the high yield bond business within AIB acquisition finance.</p> <p>Stephen is a chartered accountant having qualified with PricewaterhouseCoopers. He holds a BSc. from Trinity College and a Masters in accounting from University College Dublin.</p>
Simon Thorp, CIO Fixed Income, B.Sc	<p>Simon is jointly responsible for the management of the recently acquired credit hedge funds with James Sclater.</p> <p>Simon joined Avoca in 2011. Prior to joining Avoca he worked at Liontrust since March 2009, managing the Credit Fund and the Absolute Return Fund.</p> <p>Simon has 17 years' fixed income experience. Prior to joining Liontrust, he was founder and CIO at Ilex Asset Management, CEO at Exco plc, co-head of global fixed income at Natwest Markets, head of sterling bond trading at Salomon Brothers, SG Warburg and Akroyd & Smithers.</p> <p>Simon holds a BSc from the University of Keele.</p>
James Sclater, Senior Portfolio Manager, B.A.	<p>James is jointly responsible for the management of the recently acquired credit hedge funds with Simon Thorp.</p> <p>James joined Avoca in 2011. Prior to joining Avoca he co-managed the credit hedge funds at Liontrust since March 2009.</p> <p>James has 10 years' investment experience as senior portfolio manager and partner at Ilex Asset Management from 2002, Cairn Sea Investments and Clifford Chance.</p> <p>James holds a BA from the University of Bristol.</p>

Source: Avoca

Figure 3

Main Funds Managed

Funds (As of end July 2011)	Inception date	AUM (EURm)	Profile
Avoca CLO II B.V.	Nov 2004	360	CLO
Avoca CLO III plc	Mar 2005	400	CLO
Avoca CLO IV plc	Jan 2006	450	CLO
Avoca CLO V plc	Jun 2006	500	CLO
Avoca CLO VI plc	Nov 2006	500	CLO
Avoca CLO VII plc	Apr 2007	700	CLO
Avoca CLO VIII Limited	Aug 2007	500	CLO
Avoca Credit Opportunities plc	Aug 2007	503	Credit fund
Avoca CLO IX Limited	Jun 2008	368	CLO
CLIO European CLO B.V.	Jul 2009	794	CLO
Absalon Credit Fund plc	Aug 2009	300	Credit fund
Lombard Street CLO I plc	Dec 2009	350	CLO
ACA Euro CLO 2007-1 plc	Apr 2010	400	CLO
Mandates	Varies	100	Mandates
Avoca Credit Fund ^a	Jun 200	18	Credit hedge fund (offshore)
Avoca Absolute Return Credit Fund ^a	Apr 2010	65	Credit hedge fund (UCITS)

^a Previously the Liontrust Credit Fund and Liontrust Absolute Return Credit Fund respectively

Source: Avoca

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