

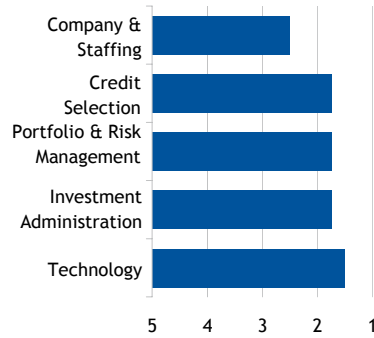
Market Sector
Country
Full Rating Report

Avoca Capital Holdings

Asset Manager Rating



Rating Criteria



Source: Fitch

'M2' Description

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

Analysts

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Related Research

Applicable Criteria

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

Other Research

- [Credit Management Quarterly - Q210 \(June 2010\)](#)
- [European CLO Management Industry Update \(June 2010\)](#)

Summary

Fitch Ratings affirmed the Asset Manager Rating assigned to Avoca Capital Holdings (Avoca) at 'M2+' on 11 June 2010. This rating covers all of its Dublin and London-based European leveraged loan and collateralised loan obligation (CLO) asset management activities.

The rating affirmation reflects Avoca's resilience and capacity to adapt in the face of the challenging market environment over the past year. Specifically, it has demonstrated its ability to raise assets under management (AuM) by around 40% since December 2008 through CLO acquisitions and new segregated mandates, which distinguishes the asset manager from its peers.

Avoca has demonstrated resilient operational profitability despite the adverse effects of the financial crisis on the industry. It benefits from a stable, committed and experienced team, which featured a key marketing and strategy recruit in 2010. The company continues to operate a robust credit selection process, with an enhanced top-down input facilitated by the presence of an in-house economist since 2008, and the addition and automation of further data sources to the proprietary credit research system in 2010.

Its portfolio management was augmented in 2010 through the further formalisation of sub-teams, particularly a dedicated and well-resourced workout function. Investment administration remains highly efficient, and a function of an experienced team and appropriate systems. Avoca has also invested heavily in technology in recent years, resulting in a sophisticated and fully integrated combination of proprietary and off-the-shelf systems. A customer relationship management module was added in 2010, along with other improvements.

Avoca is a privately-held company. However, Fitch notes the commitment of the two co-founders and joint CEOs of the business, and the increasing employee equity participation. While the company does not have a separate control function, the agency views Avoca's control environment as very strong and risks are adequately managed.

Manager Profile

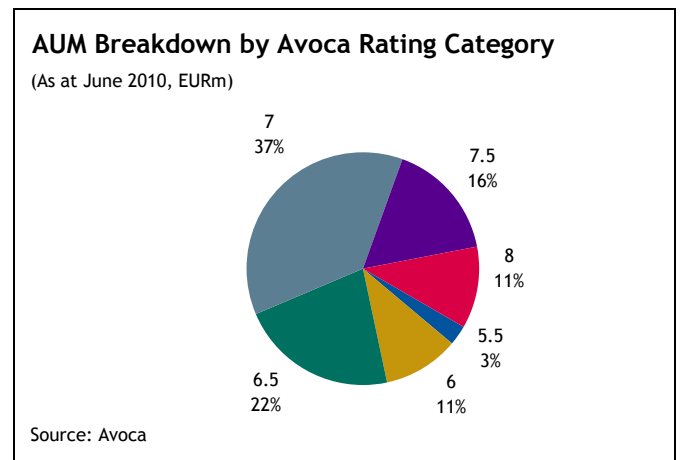
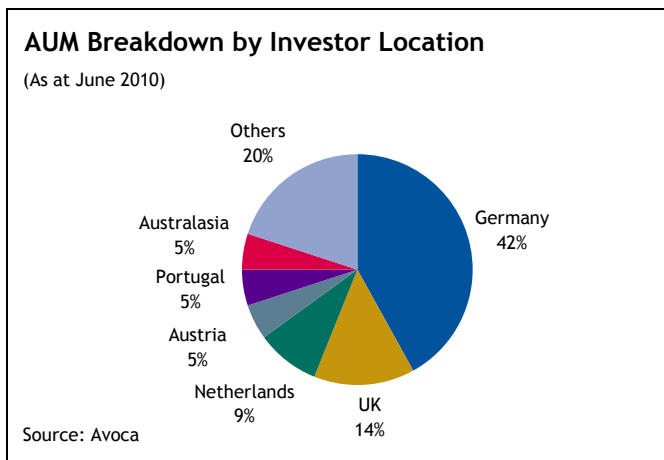
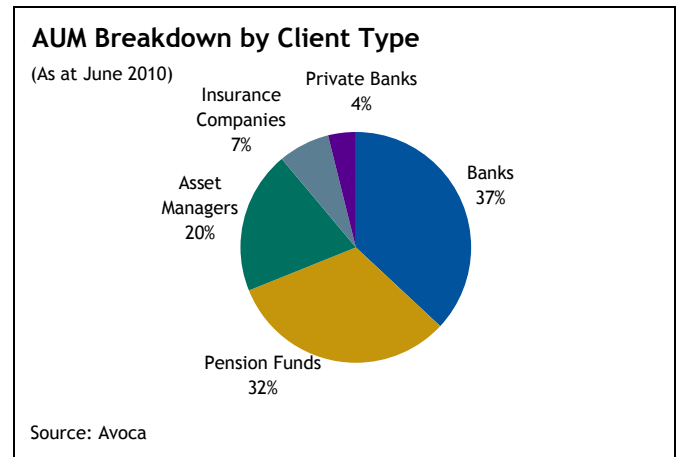
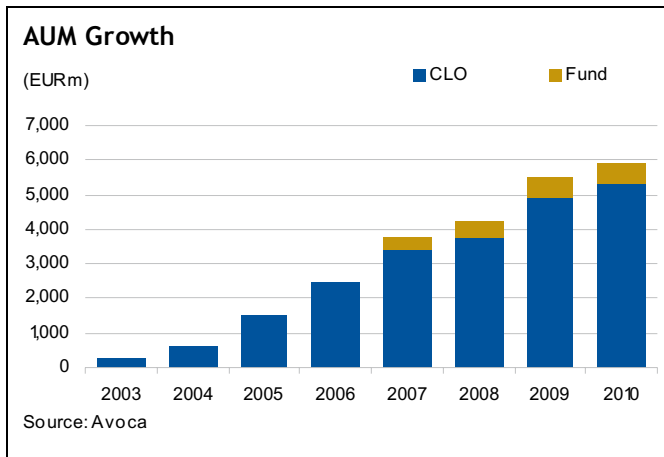
Avoca Capital Holdings

Avoca is a specialised asset manager focussed on European leveraged loan investment and management through CLOs, funds and mandates. As of July 2010, its AuM were around EUR6bn (2009: EUR5.5bn) through 10 CLOs and three funds / mandates. Founded in 2002, Avoca is owned and managed 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.

Address	75 St. Stephens Green Dublin 2 Ireland	Parent/affiliates	Independent: owned by co-founders / CEOs and key staff
Website	www.avocacapital.ie	Co-CEOs	Alan Burke, Donal Daly
Type of organisation	Asset management company	CFO	Michael Gilleran
Year founded	2002	COO	Clayton Perry
Domicile, place of incorporation	Ireland	Key staff	Eddie O'Neill (Head of Credit) Deborah Mintern (Head of Credit Management) Stephen Tang (Head of New Business Origination) Ali Allahbakhani (Senior Portfolio Manager)
Registration(s)/jurisdiction(s)	IFR, FSA	# of portfolio managers	3 + 4 other managing directors and 2 co-CEOs
Ownership	Majority privately held by two co-founders and co-CEOs	# of employees	37

Assets under Management



Avoca Capital Holdings

Rating
M2+

Key Rating Drivers

Strengths

- Resilient profitability driven by continued growth of business through CLO acquisitions and growth in new fund and mandate assets.
- Very good depth and organisation of staff, including key marketing hires in 2010.
- Robust fundamental credit analysis process, now benefiting from an increased top-down focus.
- Best-in-class IT platform based on a combination of proprietary analytics integrated to off-the-shelf administration systems.

Challenges

- To continue demonstrating its commitment to the business in light of its lack of an institutional sponsor.
- To maintain the robust control environment as AuM continue to grow and in light of the absence of an independent risk management function.

Score
2.50

Company & Staffing

Avoca is a robust, mature leveraged loan management franchise, benefiting from a senior and highly stable staff. One of the few CLO managers to successfully raise new assets through the crisis, resulting in sustained profitability and differentiating it from its peers.

- Founded in 2002 and majority privately held by two co-founders and CEOs; increased employee equity participation in 2010.
- Remained profitable in 2009, in spite of reduced subordinated fee income on some CLOs, which are now largely performing once again and a one-off impairment charge taken on a loan to a sister investment company.
- Organisational CLO management experience since 2002, co-founder CLO experience dating back to 1998 (pre-Avoca).
- Expansion of the business in 2009 and 2010 through CLO acquisitions and the raising of fund and mandate assets, along with the opening of a London office staffed by portfolio managers of acquired CLOs and a key, newly hired marketing professional.
- Absence of independent risk management function mitigated by close management oversight and involvement in business.
- Clear separation of responsibility between front and middle/ back office functions; average investment staff experience of c. 10 years.

Credit Selection

1.75

Robust investment process supported by comprehensive credit research focussed on strictly defined investment universe criteria.

- Clearly defined investment universe focussing on secured debt investment in European LBOs with EV in excess of EUR500m.
- Macroeconomic/ top-down inputs to investment process facilitated by staff economist and enhanced data sources.
- Fundamental credit analysis based on management meetings and conservative financial modelling, resulting in detailed research reports.
- Credit committee comprising senior staff for all credit decisions; specific quorum requirements depending on type of decision.

Portfolio and Risk Management

1.75

Very sound, credit-intensive portfolio monitoring process, supporting a conservative, consistent portfolio management process, yet sufficiently reactive to allow appropriate response to market conditions.

- Primary focus on credit risk management given that main structure under management is CLO (term-financed).
- Surveillance process includes monthly credit updates along with quarterly full portfolio reviews.
- Buy-and-hold investor: sell decisions taken early for credit reasons over profit taking.
- Dedicated workout group, demonstrating an established presence at numerous steering committees.

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.
- Scalability of processes reflected through integration of acquired CLOs to business in 2009 and 2010.
- Continuity of relationship with trustee (Deutsche Bank) on all Avoca CLOs, resulting in established information flows.

Technology

1.50

Best-in-class IT systems based on combination of proprietary analytics (CreditMon) and third-party loan administration system, providing very good fit to business requirements.

- Continued development of IT systems, including addition of customer relationship management module in 2010.
- Flexible web- and Excel-based reporting from a proprietary credit monitoring database, fully integrated to CDO Sentry.
- Full integration between all systems based on an open system architecture.
- Disaster recovery and business continuity planning in place, with the London office opened in 2010 acting as a remote location.

Company & Staffing

Shareholding & Financial Standing

- Founded in 2002 and majority privately held by two co-founders and CEOs.
- Increased employee equity participation in 2010.

Avoca was founded in Ireland in 2002 by Dónal Daly and Alan Burke. The company remains majority held by the co-founders. However, four further members of the senior management team have held ownership stakes in the business since inception. In 2010, the COO became a shareholder and an additional eight senior staff will be made shareholders in the business. The co-CEOs are recognised as key persons in the documentation of Avoca's earlier CLOs under management.

Avoca's revenues are primarily driven by management fees from the CLOs under management, which form the bulk of its asset base (see below). 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 (i.e. 'CCC' or below) assets in the portfolio and/or lower asset valuations.

Due to market conditions, a number of Avoca's CLOs cut off subordinated fee payments in 2009. However, in the first half of 2010, five out of eight of Avoca's CLOs under management made subordinated fee payments. At least one more CLO is expected to resume subordinated fee payments in the fourth quarter of 2010. While subordinated fee income was reduced, the addition of new funds, raising of assets in existing funds and the acquisition of CLOs from other managers (see *Experience in the Asset Management Industry* below) contributed to revenues being maintained.

- Remained profitable in 2009, in spite of reduced subordinated fee income on some CLOs, which are now largely performing once again.

Avoca has been highly profitable since inception. However, in 2009, profits were reduced by a one-off impairment charge taken on a loan to a sister investment company. The company did not need to materially reduce its cost base, which is majority staff-related.

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 around six months of its cost base plus interest expense in cash on the balance sheet at any one time.

Experience in the Asset Management Industry

- Organisational CLO management experience since 2002.
- Co-founder CLO experience dating back to 1998 with AIB.

Avoca is one of the largest and longest established CLO managers in Europe. According to data compiled by Fitch, it was the fourth-largest CLO manager in Europe as of June 2010 (see the special report: "*European CLO Asset Managers: Industry Update*", dated 10 June 2010 and available at www.fitchratings.com). Avoca launched its first CLO in December 2003. However, the experience of the co-founders in CLO management dates back to 1998 when both worked on the Tara Hill and Clare Island CLOs at Allied Irish Bank (AIB).

In addition to having one of the longest CLO management track records in Europe, it is 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. As of July 2010, it managed a total of eight Avoca CLOs and three CLOs acquired from other managers (see the *Appendix* for a list of all funds and CLOs managed by Avoca as of July 2010).

Its asset performance has been consistently strong over the years, with one of the lowest average default rates in the industry, according to data compiled by Citigroup as of December 2009.

In Fitch's opinion, Avoca is highly committed to leveraged loan management. The financial crisis, starting in 2007, caused arbitrage CLO issuance in Europe to cease. While some CLO managers effectively ceased activity (as discussed in the report listed above), Avoca actively responded to market conditions by beginning to

transition its business from a CLO management focus to a leveraged loan credit management focus. To that end, it has been active on two fronts:

- acquisition of replacement/ successor CLO management mandates from other managers; and
- raising funds through non-CLO vehicles.

- Expansion of the business in 2009 and 2010 through CLO acquisitions and the raising of fund and mandate assets.
- London office opened in March 2010 staffed by portfolio managers of acquired CLOs and key marketing recruit.

Avoca has been successful on both fronts. In 2009, it became servicing agent on CLIO European CLO (EUR840m) and replacement manager on Lombard Street CLO (EUR350m) and in 2010 it became replacement manager of ACA Euro CLO 2007-1 B.V. (EUR400m). The addition of these CLOs also allowed Avoca to add key personnel from the previous manager to its staff (see *Staffing* below). The two most recently acquired CLOs are managed from Avoca's new London office, which was opened in March 2010 and also serves as the base location of its key new marketing recruit.

On the fund side, Avoca has raised assets in existing funds and also launched new funds. Its first fund, Avoca Credit Opportunities (launched in August 2007) increased by EUR100m to EUR400m, with all inflows coming from existing investors. It also launched a new fund, Absalon Credit Fund in July 2009, which currently manages EUR150m on behalf of a number of European pension funds, but is planned to increase to EUR300m to EUR500m. As of July 2010, Avoca's total AuM were around EUR6bn. While its AuM remain concentrated in CLOs, the addition of new funds and mandates highlights the progress Avoca has made in transitioning its business to a broader leveraged loan credit management franchise.

Avoca is focussed on continuing the development of its business along the lines of the progress made in 2008 and 2009. Specifically, it is focussing on further consolidation opportunities in the industry, adding new managed accounts and broadening its offering to include products such as qualifying investment funds. Its primary focus remains on expanding its leveraged loan management expertise (its core competence). However, in the medium term, it may look to add specific credit teams or personnel to manage high yield of credit long-short type products.

An important aspect of developing Avoca's business has been the increased focus it has placed on developing and maintaining its investor base. The company's existing investor base comprises around 200 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. Nonetheless, Avoca has actively pursued a number of marketing initiatives targeted at attracting new investors.

To that end, it has added a senior marketing professional, Clayton Perry, based in the new London office, who forms the marketing team along with the co-CEOs. The marketing team has been actively meeting with existing and potential investors worldwide and sought to raise Avoca's profile with investment consultants and other market participants. Indeed, the company has enhanced its focus on building the Avoca brand, a somewhat novel concept for a CLO manager, but an important attribute of a more diversified credit management business.

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 the chief compliance officer. Indeed, the business has been built for scale, with the control environment intended to mirror that of a large investment management business.

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. As an independent manager, its business model does not incorporate any inherent conflicts of interest and, indeed, provides it with sufficient strategic flexibility to anticipate and respond to market events.

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.

- Absence of independent risk management function mitigated by close management oversight and involvement in business.

Risk management is a function of the senior management team, which provides close and active oversight of the business. At a business level, a process review was conducted in 2008 and a risk-mapping exercise was completed in 2009. Avoca has not suffered any operational losses to date, demonstrating the effectiveness of its operational risk control.

The presence of a business analyst on-staff ensures processes remain current and efficient. The senior management team benefits from very good access to information through the risk reporting enabled by Avoca's IT systems (see *Technology*). Various challenge mechanisms exist throughout the investment process to ensure that (credit) risk is managed appropriately. 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 the credit funds are exchange-listed and feature independent directors (typically provided by the arranging legal counsel) at the fund board level.

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 Avoca's CLOs. 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. Dónal Daly and Alan Burke, the two co-CEOs and co-founders of the company, are actively involved in almost every aspect of the business. In Fitch's opinion, both individuals are committed to the business.

While both individuals remain central to Avoca's operations, potential reliance on them was mitigated in 2010 through a slight reorganisation of the senior team and the devolution of some responsibility to the credit committee.

Key organisational changes included:

- Eddie O'Neill, appointed head of credit and chair of the credit committee;
- Stephen Tang, appointed head of business origination;
- Deborah Mintern, appointed head of credit management; and
- Ali Allahbachani, appointed senior portfolio manager of all Avoca funds and CLOs.

Each of these individuals is now responsible for a specific team. For example, Deborah Mintern leads the credit management unit of four staff, including one other managing director and a dedicated insolvency practitioner and leverages a further four staff from the credit team. Effectively each team is responsible for a

- Clear separation of responsibility between front and middle/ back office functions.
- Average investment professional experience of c. 10 years.

different aspect of Avoca's business, resulting in less dependence on the two co-CEOs and therefore allowing them to focus on marketing activities. The devolution of certain decisions to the credit committee (which no longer necessarily requires the presence of the co-CEOs) further enhances this framework (see *Credit Selection* below).

Avoca further strengthened its marketing function in 2010 through the recruitment of Clayton Perry from Broadchalk Advisors. Based in London, Clayton Perry is COO of Avoca, taking primary responsibility for business development and marketing. Along with the two co-CEOs, this set-up equips the company with a highly senior marketing team. It is currently hiring a head of investor relations, which will further strengthen the business development and marketing team.

Organisationally, Avoca is clearly separated between the credit function (front office) and the back-/middle-office function, comprising 20 and 14 people, respectively, for a total of 37 staff (including the COO and two co-CEOs) as of July 2010. The company expects to add further staff in 2010, notably to investor relations and potentially in other areas (Avoca plans to add an in-house legal function in 2011), which it expects will bring it up to around 40 staff by end-2010. In Fitch's opinion, Avoca has deep staffing resources across the organisation, therefore providing it with sufficient capacity to expand the business without necessitating additional resources.

Headcount

(as of July 2010)

Senior Management	3
Credit Function	20
Back/ Middle Office Function	14
Loan Administration	9
Finance/ Control	4
IT	1
Total	37

Source: Avoca

Staff turnover at Avoca has been exceptionally low, reflecting the long-term commitment of staff and the company's competitive compensation and retention structure. An additional eight senior staff will be made equity shareholders in the company in 2010, along with the existing four equity holders, the COO and the co-CEOs.

Portfolio Management

Ali Allahbachani acts as lead portfolio manager on all Avoca CLOs and funds, supported by the other senior members of the credit function and by two additional portfolio managers recruited from the managers of the CLOs acquired by Avoca. In addition to raising AuM, with the acquisition of these CLOs, Avoca was able to selectively retain staff from the replaced managers.

This resulted in Avoca adding two experienced portfolio managers to its staff in 2010, both of whom are based in London and are responsible for managing the acquired CLOs and supporting the management of Avoca's existing CLOs and funds. Portfolio managers also have research responsibilities, with the new portfolio managers taking a specific role with the new assets acquired with the new CLOs. Portfolio managers typically have 11 to 13 years of relevant experience. In Fitch's opinion, reliance on any one portfolio manager is mitigated by Avoca's team structure and the seniority of its staff.

Credit Research

The credit research team reflects a good breadth of experience levels, ranging from graduate-type experience levels to the 10+ years relevant leveraged finance

experience of the managing directors. The team also represents good depth of staff with Avoca maintaining 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 has allowed Avoca to execute close portfolio monitoring since the crisis began, in the context of very low primary issuance. Avoca's depth of credit research staff positions it well for growth, allowing for a substantial increase in AuM before additional staff would be required.

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

Overall, Avoca's 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:

- company profile: enterprise value in excess of EUR500m, leading market position, above-average EBITDA margins and stable operating profile;
- experienced and committed private equity sponsors;
- Western Europe: stronger creditor protection rights;
- stable industry profile; and
- experienced company management.

In accessing the market, Avoca benefits from strong and established relationships with key market participants, notably Deutsche Bank, although it uses a total of 25 counterparties. At the peak of the CLO bull market in 2007, Avoca was able to obtain allocations close to the commitments it made, a reflection of its size and relationships with key players. This was evidenced through the shorter ramp-up times for its CLOs compared to some peers.

Sector and Macroeconomic Research

Avoca's core competence is fundamental, bottom-up credit analysis. All credit research staff are generalists, with a sponsoring managing director for each investment, who also retains surveillance responsibility for that transaction.

In 2008, Avoca added an economist to the staff, thus enhancing the economic rigour of the top-down element of the investment process. The economist's key function is to gather and present key macroeconomic data, which is 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. The presence and role of an on-staff economist distinguishes Avoca somewhat from its peers and has helped it to make sector allocation decisions.

- Clearly-defined investment universe focussing on secured debt investment in European LBOs with EV in excess of EUR500m.

- Macroeconomic/ top-down inputs to investment process facilitated by staff economist and enhanced data sources.

Underwriting and Credit Analysis

Avoca's 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:

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

- review of the information memorandum;
- site visits and meetings with the management team;
- review of the due diligence package;
- financial modelling of the transaction, including the analysis of several cases, including the Avoca case; and
- 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.

Relative Value and Liquidity Analysis

Relative value and liquidity analysis is incorporated at the level of the credit committee. Portfolio managers monitor market trading levels. Fundamentally, however, Avoca is a longer-term investor.

Credit and Investment Approval

Credit and investment approval is a function of the credit committee. The credit committee consists of the five managing directors and the two co-CEOs, with a quorum of four out of the seven members. In 2010, certain responsibility was devolved to the credit committee, with only the more important credit decisions requiring the presence of the co-CEOs (new investments, material disposals, portfolio reviews and trading limit reviews). This move had two key effects: firstly, it removed the potential for the co-CEOs to act as bottlenecks in an otherwise efficient process and secondly it reduced the overall reliance on the co-CEOs. The continued presence of the co-CEOs at the more important credit committee meetings ensures they have continued close oversight of the business and continue to guide Avoca's credit philosophy.

- Credit committee comprising senior staff for all credit and investment decisions.
- Specific quorum requirements depending on type of decision.

The committee (and, indeed, Avoca) itself is conservative, as demonstrated by acceptance/ rejection statistics: in 2009, there were 34 issues (reflecting the very low issuance during the year), of which 23 reached the credit committee and five were accepted, resulting in a 15% acceptance rate. Since 2004, the acceptance rate has been around 25% on average. Avoca's strict credit selection has crystallised into the good performance of its invested assets.

- Primary focus on credit risk management given that main structure under management is CLO (term-financed).

The committee's decision is twofold: providing both credit and investment level approval. The committee also determines allocation between funds, in accordance with written procedures. Currently, Avoca is invested in around 150 different issuers, which have increased with the addition of the acquired CLOs.

Portfolio and Risk Management

Investment Risk Management

Avoca operates a robust investment risk framework formalised in frequent (quarterly) portfolio reviews. 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 focussed on first-level controls, i.e. risk management at the level of the credit analysts and portfolio managers. Responsibility for the monitoring of each 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 June 2010 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 the transaction is under close scrutiny for any signs of potential deterioration and red means the transaction 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 quarterly basis, the credit committee meets and conducts a full portfolio review. Previously, portfolio reviews were conducted semi-annually, but the frequency was increased in response to current market conditions. This review considers the performance of every invested company, based on reports generated from Avoca's core credit monitoring system.

Fitch notes that the continued improvements in Avoca's IT infrastructure since 2008 have had a marked impact on Avoca's overall credit risk monitoring process, notably through the implementation of standardised monitoring systems and the ability to generate management and portfolio review reports from the systems now in place.

Liquidity Risk Management

All loans are marked-to-market daily through Loan Pricing Corporation and Markit. Liquidity risk is monitored at the level of the credit committee, being a more important issue in one of the funds (Absalon) given that the CLOs and the Avoca Credit Opportunities fund are term-financed. Redemption on Absalon is quarterly with 60 days notice. For future funds, Avoca may consider putting a liquidity provision facility in place to mitigate settlement risk.

Portfolio Construction/ Adjustment and Trading

Avoca's investment style is conservative and credit focussed within a buy-and-hold approach. Avoca itself describes its investment philosophy as "high conviction, high concentration". As can be expected, Avoca 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. Funds are more discretionary, but again bottom-up focussed within the fund's guidelines.

- Surveillance process includes monthly credit updates along with quarterly full portfolio reviews.

- Buy-and-hold investor: sell decisions taken early for credit reasons over profit taking.

As a buy-and-hold investor, Avoca's philosophy 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.

Avoca has good market access for trading, based on its strong and established relationships with dealers and other market participants and its ability to fund large ticket sizes. Trade execution is a function of the loan administration team, governed by well-documented procedures, which are clearly adhered to, as evidenced by no operational losses to date.

The credit management team formed in 2009 formalises 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 work-out process rather than selling early on. The team has extensive experience and, as of May 2010, was involved in at least five work-out situations, frequently sitting on and actively participating in the steering committee.

Investment Administration

Reporting & Communication

Avoca actively communicates with its investors via a range of media, including comprehensive supplemental monthly CLO and fund reporting, quarterly special commentary (considering, for example, the "Great Debate" on inflation and deflation in May 2010) and a dedicated investor website completed in 2009. 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. Thanks to enhancements to Avoca's IT infrastructure and reporting capabilities from its core credit monitoring system, the turnaround time on supplemental reports is rapid at around eight days on average.

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. In Fitch's opinion, business levels could be increased substantially without requiring additional resources, as evidenced by the efficiency with which the acquired CLOs were integrated to Avoca's administrative set-up and the successful set-up and launch of funds and managed accounts. Nonetheless, Avoca's administrative resources may be increasingly tested with an increase in both number and complexity of funds and dedicated mandates under management.

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

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

- Dedicated work-out group, demonstrating an established presence at numerous steering committees.

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

- CDO Sentry as core loan administration system.
- Scalability of processes reflected through integration of acquired CLOs to business in 2009 and 2010.

- Continuity of relationship with trustee (Deutsche Bank) on all Avoca CLOs, resulting in established information flows.

Technology

Front Office

In Fitch's opinion, Avoca's front-office IT infrastructure is best-in-class, effectively industrialising the analysis and monitoring of credits.

Since 2008, Avoca has made substantial progress in developing its front-office IT infrastructure, notably through the addition of a customer relationship management (CRM) module (see below). The front-office IT infrastructure 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 decision was taken to develop this system in-house, rather than buy an off-the-shelf system, due to the desire to tailor the data and reporting exactly to Avoca's needs, and to allow for full control in the evolution and expansion of the system over time. Avoca's aims in developing the system were clearly defined: to generate efficiencies, with data only being entered once, and to allow rapid and flexible reporting from these data.

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 input to this system via an Excel-based front-end. However, much of this is initial static data, as the ongoing monthly surveillance requires the entry of considerably less data, albeit covering all relevant information from management accounts and budgets. In addition to simply recording these data, the system 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. A calendar function allows analysts and management to monitor progress on updating the system and the status of management accounts from invested companies.

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 quarterly 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).

While the system was first piloted and implemented in 2009, progress has not stopped. In 2010, a key addition was a CRM module. User access rights control access to this module, allowing the marketing team and managing directors to view client data, while analysts are restricted to credit relevant data. The system tracks all interaction with clients and acts as a repository for contact information. Web-based access to CreditMon and the CRM module allows the marketing team and managing directors to easily and quickly access client information and CLO/ fund data when travelling. Lastly, the CRM system also links to Avoca's investor website, allowing it to track and analyse investor utilisation of the website.

- Continued development of IT systems, including addition of customer relationship management module in 2010.

- Flexible web- and Excel-based reporting from a credit monitoring database, integrated to CDO Sentry.

Other features of the system include centralised storage of news feeds on all issuers and a log of credit committee meetings and decisions. Future plans for the system include the development of a portfolio management tool to help identify relative value opportunities and a trading tool that replicates the compliance testing functionality of CDO Sentry, allowing portfolio managers to quickly test the impact of potential trades or series of trades on portfolio performance and compliance status. Lastly, Avoca plans to continue the integration of macroeconomic data feeds to the system and to build a tool to compare and contrast between top-down economic data and the bottom-up issuer data collected in the system.

Middle & Back Office

Avoca operates CDO Sentry, provided by ClearStructure Financial Technology (previously Atlantic Information Services LLP), as its core CLO and fund administration tool. CDO Sentry was implemented in 2008 as a result of which a priority for Avoca was to transition its CLOs from spreadsheet-based compliance models to CDO Sentry. This exercise provided the administration team with a recent experience in setting up and modelling CLOs in CDO Sentry, which has been a contributory factor to the speed with which Avoca has incorporated acquired CLOs to its systems. Indeed, Fitch notes that the addition of CDO Sentry substantially increased the capacity of the loan administration team, which remains well staffed, therefore positioning Avoca for growth without requiring additional resources.

CDO Sentry itself is an industry standard tool for CLO and loan administration and management, providing all required functionality.

Data Management

All 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.

Avoca has implemented a project to back-fill management account and budget data for all issuers for all available years. This project is ongoing but will ultimately provide the company with an enhanced ability to perform time-series analysis and detect trends.

Integration

Avoca's IT infrastructure is seamlessly integrated. CreditMon, the front-office tool, is integrated both to the CRM module and to the back-office tool, CDO Sentry. Indeed, early on, Avoca took the decision to build a fully integrated IT architecture. To that end, one of the key reasons for selecting CDO Sentry as its core back-office tool was the fact that CDO Sentry is an open system, allowing it to be integrated to other systems relatively easily. By developing the front office system in a programming environment that was compatible with CDO Sentry, Avoca has been able to part-buy and part-develop a fully integrated system. Fitch views positively the long-term strategic view Avoca has demonstrated in its IT infrastructure design, which has resulted in a competitive advantage for the company in this area.

IT Security

Avoca operates appropriate disaster recovery and business continuity planning practices. The opening of the London office in 2010 provided the company with a permanently staffed and fully operational remote operating location. Furthermore,

• Full integration between all systems with flexible reporting functionality via multiple formats (web, Excel).

• Disaster recovery and business continuity planning in place, with the London office opened in 2010 acting as a remote location.

it has installed a high capacity data link between its Dublin base and the London satellite office, which allows it to replicate data between the two offices, thus precluding the possibility of data loss should either office suffer a disaster.

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

Appendix

Key Staff Biographies

Name	Experience
<p>Alan Burke, Joint Chief Executive, B.Comm, M.Acc, FCA</p>	<p>Alan is joint 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>
<p>Dónal Daly, Joint Chief Executive, B.Eng, MBA</p>	<p>Dónal is joint chief executive 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>
<p>Clayton Perry, Chief Operating Officer, B.Comm (Economics), M.Sc Economics</p>	<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.</p> <p>He holds an economics degree from the University of Otago and a Masters from the London School of Economics.</p>
<p>Deborah Mintern, Managing Director, B.Comm, M.Acc, FCA</p>	<p>Deborah is head of credit management and portfolio Monitoring. In her current role, she oversees the performance of the c. 200 loans carried in the Avoca portfolios. She is also head of the restructuring team and is a member of the Avoca Capital credit committee.</p> <p>Deborah has been with Avoca Capital since inception in 2002, initially working on sourcing and analysing leveraged loan opportunities. From 2007-2009, Deborah was head of investor relations and research, where she developed Avoca's investor reporting procedures.</p> <p>Deborah was previously an associate director in AIB acquisition finance, specialising in structuring, arranging, underwriting and taking participations in senior and mezzanine debt for European leveraged finance transactions.</p> <p>Deborah qualified as a chartered accountant with Arthur Andersen and has a BComm from University College Cork and a Masters in accounting from University College Dublin.</p>

Key Staff Biographies (cont/d)

Name	Experience
<p>Eddie O'Neill, Managing Director, B.A. (Economics & Politics), MBS (International Business)</p>	<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>
<p>Stephen Tang, Managing Director, B.Sc (Management), M.Acc, FCA</p>	<p>Stephen is head of new business 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>
<p>Ali Allahbakhani, Managing Director, B.A. (Accounting & Finance), ACA, AMCT</p>	<p>Ali is the senior portfolio manager at Avoca with specific responsibility for secondary trading and fund compliance and performance. Ali is a member of the Avoca Capital credit committee.</p> <p>Ali joined Avoca in 2005, initially on the investment analysis side. Between 2007 and 2008, he was the portfolio manager for the Credit Opportunities Fund.</p> <p>Ali was previously an associate director with AIB. Ali was part of the bank's European leveraged finance team in Dublin and London where he was responsible for the origination, structuring and execution of senior and mezzanine debt transactions.</p> <p>Ali qualified as a chartered accountant with KPMG. He holds a B.A in accounting and finance from Dublin City University and is also an associate member of the Association of Corporate Treasurers.</p>

**Key Staff Biographies
(cont/d)**

Experience

Michael Gilleran,
Chief Financial Officer,
BComm, DPA, FCA

David Feeley,
Head of IT,
B.Comm, M.Acc, FCA

Key Staff Biographies (cont/d)

Experience

Michael is chief financial officer and oversees all financial, business risk management and regulatory compliance activities in Avoca.

Michael joined Avoca Capital in 2006 from Bank of Ireland asset management, where he had been head of finance for seven years. His previous roles included finance and operations roles in the technology and food industries.

Michael is a chartered accountant, having qualified with PricewaterhouseCoopers. He holds a BComm from University College Cork and a DPA from University College Dublin.

David is head of IT at Avoca with responsibility for developing all of its information systems.

David was with Goldman Sachs London between 1997 and 2008 where he became head of financial technology for Europe. This role involved leading the teams responsible for internal and external financial and regulatory reporting.

David qualified as a chartered accountant with Arthur Andersen and holds a BComm from University College Galway and a Masters in accounting from University College Dublin.

Source: Avoca

Main Funds Managed

Funds (as of July 2010)	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	473	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	150	Credit fund
Lombard Street CLO I plc	Dec 2009	350	CLO
ACA Euro CLO 2007-1 plc	Apr 2010	400	CLO

Source: Avoca

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