

FITCH AFFIRMS ALCENTRA LTD'S ASSET MANAGER RATING AT 'M1'

Fitch Ratings-London-19 July 2012: Fitch Ratings has affirmed Alcentra Ltd's (Alcentra) Asset Manager Rating at 'M1'. The rating covers Alcentra's European credit asset management operations.

KEY RATING DRIVERS

The affirmation reflects the strength and stability of Alcentra's sub-investment grade business. It takes into account the progress in transitioning its business towards a more diversified range of credit products and in growing the number of mandates managed. This is illustrated by the launch of the Alcentra European Floating Rate Income Fund (AEFRIF) in March 2012, which has just declared its first dividend payment to investors.

Alcentra's key strengths include its deep sub-investment grade credit investment experience, large volume of stable, term-financed assets under management, ability to retain key and well qualified staff, and robust two-stage credit process.

The main challenges facing Alcentra are raising further assets and developing new product lines in uncertain market conditions, hiring suitably qualified staff as new expertise is required and to incrementally upgrade front office systems to cope with new mandates and asset types.

COMPANY AND STAFFING

Alcentra operates as an independent subsidiary of The Bank of New York Mellon Corporation (BNY; 'AA-/Stable/'F1+'). During the past year, BNY has demonstrated its commitment to Alcentra through the provision of seed capital. Alcentra is highly profitable. In 2011, nearly all subordinated CLO fees payments were recouped, after being shut-off in 2008 and 2009. Alcentra's staffing has remained stable with a good breadth and depth of experience. Nevertheless there is a potential for key person risk for senior management, which Fitch believes is mitigated by widespread sharing of expertise, use of committees and dedicated analyst team support.

CREDIT SELECTION

In Fitch's opinion, credit selection is disciplined and driven by thorough and well-established investment processes. Alcentra's two-stage credit approval process consists of a preliminary screening of a credit, followed by a more detailed analyst report, which is presented to the investment committee. The investment committee consists of highly experienced staff, is properly documented and is accountable for decisions made. A formal review of all credits is conducted on a quarterly basis.

PORTFOLIO AND RISK MANAGEMENT

Alcentra's portfolio and risk monitoring is efficient, aided by the front-office Everest system. The portfolio construction process is disciplined and conservative for CLOs, whereas more flexibility is allowed when managing credit funds (especially the Alcentra Global Special Situations Fund) and mandates where appropriate. A monthly risk-committee, chaired by the CIO, formalises the risk management process. The risk-committee reports directly to the Board of Alcentra, and has the power to oblige portfolio manager action where required.

INVESTMENT ADMINISTRATION

The company's investment administration is supported by Alcentra's robust systems and its qualified operations staff. The back and middle office system, Wall Street Office (WSO), is used for CLO administration, and other tools, such as Intex, are used for its structured credit funds. In Fitch's opinion, the robustness of systems and qualification of staff has been shown by the administration of AEFRIF, Alcentra's first daily NAV product.

TECHNOLOGY

Alcentra's technology score reflects the adaptability of the front-office Everest system, which allows access to real time, customisable data flows, for both portfolio and risk management purposes. Everest allows a straight-through process via WSO, the industry standard software for loans. Intex is utilised for structured credit analysis.

COMPANY PROFILE

Based in both Europe and the US, Alcentra is an asset management firm focused on sub-investment grade debt. Formed in March 2003 in Europe, it was acquired in 2005 by BNY. Senior management and other employees currently retain a 3% stake in the company. As of 30 April 2012, Alcentra had around EUR9bn of European assets under management, of which around 85% was in CLOs. Alcentra employs 40 people in London, including four portfolio managers and 13 credit specialists, in addition to the three members of senior management.

Alcentra's 'M1' rating is based on the following category scores, which represent a scale from 1 to 5, with 1 as the highest possible score. All category scores are unchanged from 2011 levels. Asset manager operations in the 'M1' category demonstrate the lowest vulnerability to operational and investment management failure.

Company and Staffing: 2.00

Credit Selection: 1.50

Portfolio and Risk Management: 1.75

Investment Administration: 1.75

Technology: 1.75

RATING SENSITIVITY

The rating may be sensitive to material adverse changes to any of the aforementioned rating drivers. A material deviation from Fitch guidelines for any key rating driver could cause the rating to be lowered by Fitch. For additional information about Fitch's asset manager ratings guidelines, please review the criteria referenced below.

Contacts:

Primary Analyst
Richard Woodrow, CFA
Analyst
+44 20 3530 1388
Fitch Ratings Limited
30 North Colonnade
London, E14 5GN

Secondary Analyst
Alastair Sewell
Director
+44 20 3530 1147

Committee Chairperson
Ian Rasmussen
Senior Director
+1 212 908 0232

Media Relations: Michelle James, London, Tel: +44 0203 530 1574, Email: Michelle.James@fitchratings.com.

Additional information is available at www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

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

Applicable criteria, 'Reviewing and Rating Asset Managers', dated 13 August 2010 and 'Reviewing and Rating Credit Asset Managers', dated 27 July 2009 are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Reviewing and Rating Asset Managers

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=547947

Reviewing and Rating Credit Asset Managers

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=459814

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.