

Alcentra Ltd

Full Rating Report



Rating Criteria



Source: Fitch

'M1' Description

Superior: Asset manager operations demonstrating the lowest vulnerability to operational and investment management failure.

Key Rating Drivers

Stable Organisation, Strong Parent: Alcentra Ltd is one of the largest and longest established asset managers of European sub-investment grade credit. It benefits from the support of its parent company, The Bank of New York Mellon Corporation (BNY; 'AA-/Stable/'F1+'), while operating as an independent subsidiary. During the year, BNY has demonstrated its commitment to Alcentra through the provision of seed capital.

Continuing Strong Financial Performance: Alcentra's financial performance and balance sheet remain strong. Nearly all subordinated CLO fee payments have been recouped, after some were shut-off in 2008 and 2009. Alcentra has no debt, with a historically large cash amount on the balance sheet.

Experienced, Stable Team: Alcentra's staffing has remained stable with a good depth and breadth of investment experience, while benefitting from a strong leadership team. Several senior staff members have 20+ years of experience within the industry. David Forbes-Nixon, a founding member, remains chairman and CEO of Alcentra.

Sound Credit Approval Process: Alcentra adopts a robust two-stage credit approval process, consisting of a preliminary credit screening followed by a more detailed analysis process which the credit committee considers. A formal review of all credits is conducted on a quarterly basis.

Strategic Diversification: Alcentra has diversified its business by launching a listed European Loan Fund in 2012, being shortlisted as part of HM Treasury's Business Finance Partnership, and adding several new mandates. On 18 September 2012, it was announced that the High Yield bond team of Standish Mellon Asset Management Company LLC will become part of Alcentra NY LLC effective 1 January 2013. The Alcentra Group's assets are expected to increase from USD15bn to an estimated USD23bn as a result.

Risk Management Framework Strengthened: Fitch believes the introduction of an independent monthly risk committee in 2011 has strengthened the risk management framework at Alcentra. The risk committee reports directly to the board of Alcentra, and has the power to force portfolio manager action where required.

Best-in-Class Investment Administration: Alcentra's investment capabilities revolve around its strong team, use of appropriate systems and its effective processes. Robust controls are in operation, and Alcentra benefits from strong relationships with its various administrators and trustees.

Integrated Systems: In Fitch's opinion, the investment in the front-office system, Everest, has improved productivity. Everest integrates into the back-office system - Wall Street Office - while allowing access to real-time, customisable data flows.

Manager Profile

Sub-Investment Grade Asset Manager: Alcentra is focused on sub-investment grade debt management. Formed in 2002, it was acquired in January 2006 by BNY. As of end-June 2012, Alcentra had around EUR8.9bn of European assets under management (AuM). Alcentra employed 40 staff in London as of August 2012. Fitch affirmed the Credit Asset Manager Rating assigned to Alcentra Ltd at 'M1' on 19 July 2012. The rating covers all of Alcentra's European credit management activities.

Analysts

Richard Woodrow, CFA
+44 203 530 1388
richard.woodrow@fitchratings.com

Alastair Sewell
+44 203 530 1147
alastair.sewell@fitchratings.com

Manager Profile

Alcentra Ltd

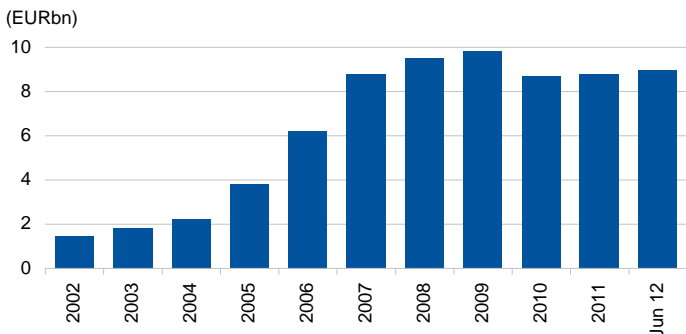
Based in both Europe and the US, Alcentra is an asset management firm focused on sub-investment grade debt. Formed in 2002, it was acquired in January 2006 by BNY. Senior management and other employees retain a 3% stake in the company. Alcentra employs 40 people in London, including four portfolio managers and 13 credit specialists, in addition to its senior management team of three.

Alcentra manages European sub-investment grade debt through CLOs, mezzanine funds, total return funds and managed accounts, with a total AuM of EUR8.9bn, of which 84% is in CLOs. The firm has been an active consolidator of the global CLO management industry, acquiring nine funds in the US and one CLO in Europe to date. It has also developed its non-CLO fund management business through the addition of loan and structured credit funds and the development of a managed account business.

Address	Alcentra Europe 10 Gresham Street, London EC2V 7JD	Parent/affiliates	Alcentra Management (Ireland) Ltd, Alcentra NY LLC, Alcentra Investments Limited (Bermuda)
Web site	www.alcentra.com	CEO	David Forbes-Nixon
Type of organisation	Credit Asset Manager	CFO	Robert Bennett
Year founded	2002	CIO	Paul Hatfield
Domicile, place of incorporation	UK	Key portfolio managers	Graeme Delaney-Smith (Mezzanine) Graham Rainbow (CLO) Damien Miller (Special situations) Hiram Hamilton (Structured Credit)
Registration(s) /Jurisdiction(s) of Alcentra Group Companies	FSA, FSC, IFSRA, CSSF	No. of portfolio managers	4 (+2 in the US)
Ownership	3% executives and employees / 97% Bank of New York Mellon	No. of employees	40 (+16 in the US)

Assets under Management

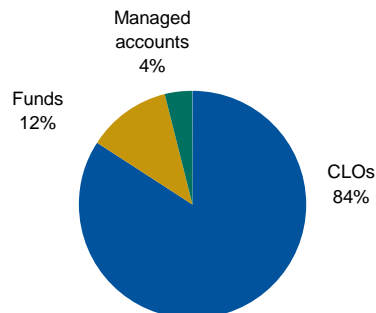
European AuM Development



Source: Alcentra

European AuM Breakdown by Product Type

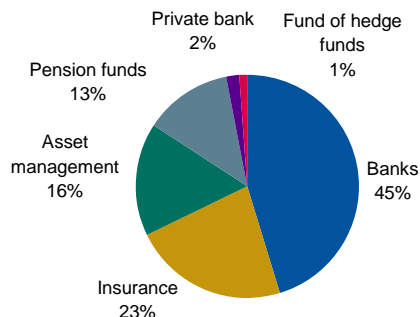
(June 2012)



Source: Alcentra

AuM Breakdown by Investor Type

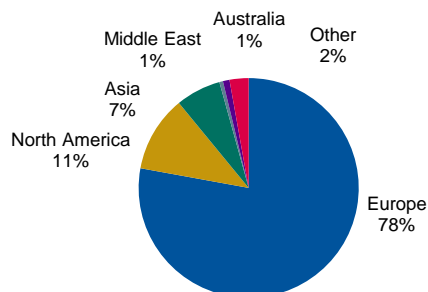
(June 2012)



Source: Alcentra

European AuM Breakdown by Investor Location

(June 2012)



Source: Alcentra

Related Criteria

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

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

Alcentra Ltd

Rating
M1

Key Rating Drivers

Strengths

- Specialised European credit asset manager with deep experience and substantial AuM.
- Tenured and experienced professional team at all levels, demonstrating stability over time.
- Robust, two-stage credit process and stable investment discipline.
- Strengthened, independent risk management framework.
- Integrated front-to-back office system utilising Everest and Wall Street Office (WSO).

Challenges

- To continue diversifying Alcentra's asset base away from CLOs, raising further assets and developing new product lines in uncertain market conditions.
- To attract suitable qualified staff as and when new expertise are needed.
- To incrementally upgrade front office systems to cope with new mandates and asset types as required.

Score
2.00

Company & Staffing

Alcentra is a long established credit asset manager, exhibiting resilient financial performance with a strong continuity of staffing at all levels of the business

- Well capitalised, exhibiting robust financial performance with stable, term-financed asset base.
- 97% owned by parent, BNY, and 3% owned by executives and employees.
- Active consolidator of the CLO industry, having acquired one CLO in Europe and nine in the US to date.
- Average investment staff experience of 15 years, with senior portfolio managers (PMs) exhibiting 20+ years experience.
- Sound governance and control structure, with experienced and stable support teams.

Credit Selection

1.50

Rigorous credit selection process based on robust fundamental credit analysis and access to management

- Two-step credit selection process, via a pre-screening phase and a full due diligence phase.
- Disciplined committee-based process, with PMs taking final investment responsibility. Members of the investment committee have on average 20+ years industry experience.
- Diversified investor base (across investor types and regions), with good access to loan markets due to size, track record and experience within the industry.
- Relative value assessed through price feeds and judgements, formalised at investment committee.

Portfolio and Risk Management

1.75

Stable portfolio management process coupled with an independent risk monitoring committee

- Largely buy and hold approach for CLOs, with a more trading/relative value orientated approach for funds.
- Monthly risk monitoring formalised via credit, liquidity and recovery internal ratings, including the maintenance of a watchlist and quarterly full portfolio reviews.
- An independent monthly risk committee has formalised the risk management process.
- Presence of a dedicated work-out specialist, complemented by knowledge and experience of senior management and analysts.
- Fund allocation and sell decisions are the responsibility of the respective PMs.

Investment Administration

1.75

Best-in-class administrative capabilities reflect the highly qualified staff interacting with appropriate systems and processes

- Concise and relevant supplemental reporting produced to complement trustee reports, accessed via a dedicated investor web site.
- Administration based on WSO, which benefits from two-way flows to the front-office system, Everest.
- Scalability of processes demonstrated through integration of previously acquired CLOs and new mandates to Alcentra's platform.
- Established relationships with the various administrators and trustees utilised. The Alcentra European Floating Rate Income Fund (launched in 2012) is administered by BNP Paribas, a new relationship for Alcentra, which has been managed suitably.
- Strong administrative systems are utilised by experienced and stable staffing.

Technology

1.75

Appropriate technological environment, with integrated front-to-back office systems

- Everest, the front-office system, integrates the front-to-back office trading and portfolio management systems.
- Incremental upgrades to Everest have been implemented in 2012, such as enhanced pricing feeds.
- Fund administration is largely automated via data feeds built into WSO, with front-office analytical tools integrated into Everest.
- Intex is used for structured credit analysis, which allows for a range of data to be evaluated.

Company & Staffing

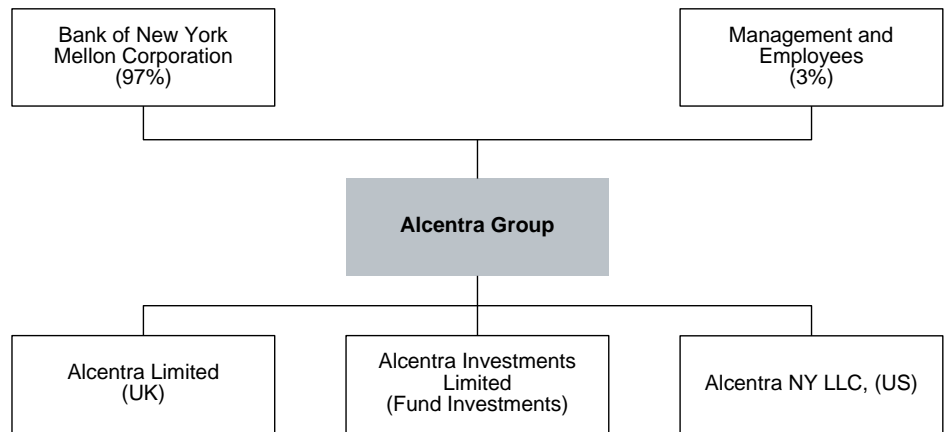
Shareholding & Financial Standing

Fitch views Alcentra’s parent company, BNY, as a strong and stable sponsor. BNY currently owns 97% of the Alcentra Group. Alcentra is one of 18 specialist asset managers owned by BNY.

The Alcentra Group was established in 2002 in the US through the acquisition (by the Alchemy Group and the founding partners) of Imperial Credit Asset Management from Imperial Credit Industries Inc, and of Barclays Capital Asset Management from Barclays Bank Plc in March 2003 in Europe. In 2005, the Alchemy Group, and Alcentra Group management and employees, sold a combined 80% holding in the Alcentra Group to BNY, with Alcentra Group senior staff retaining a 20% stake in the company. Since then, BNY has increased its stake to 97% of the Alcentra Group as of August 2012. The Alcentra Group is incorporated in the US and directly or indirectly owns the entities as depicted in Figure 1 below:

Figure 1

Alcentra Structure Diagram



Source: Alcentra

Fitch’s ‘M1’ Credit Asset Manager Rating is assigned to Alcentra Limited (Alcentra), the UK operating subsidiary of the Alcentra Group, and covers all of Alcentra’s European credit management activities.

In Fitch’s opinion, Alcentra’s financial condition is strong. In 2011 and 2012, the majority of CLO subordinated fee payments missed (due to performance) and accrued in 2009 have been recouped. Alcentra’s revenues are generated mainly through management fees from CLO portfolios. CLOs under management typically pay senior fees and subordinated fees, of which the subordinated fees are the larger portion.

Alcentra controls its cost base by linking remuneration to profitability. Deferred cash bonuses were introduced in 2010. 2011 net profit was similar to profit made in 2010, despite aggregate employee remuneration increasing by around 25% in 2011.

Alcentra retained a significant cash balance at the end of 2011, above historic levels. There is no debt at the Alcentra Ltd level or at the Alcentra Group level, as a previous term loan from BNY has now been fully repaid.

Experience and Asset Structure

Alcentra is one of the largest and longest established European CLO managers. As such, it has deep CLO and secured loan management experience. Alcentra’s investment activities have broadened recently, but have remained based around Alcentra’s core competency of loan

management. Alcentra has launched 18 European CLOs and acquired one European CLO since 2002 (of which one was called in 2006) - see *Appendix 2* for a list of CLOs and funds managed by Alcentra.

Alcentra's main activity remains secured loan management, through its CLOs under management. In 2004, a credit hedge fund was launched (which has now been fully liquidated) which began the process of diversification away from Alcentra's traditional portfolios. In 2007, a global special situations fund was launched, with the European Loan Fund (ELF) and a structured credit fund added in 2009. In 2012, the Alcentra European Floating Rate Income Fund (AEFRIF) was launched, listed on the London Stock Exchange and providing a daily NAV calculation, Alcentra's first such product. The AEFRIF is structured as a close-ended investment company, to allow for investment in loans (which are not eligible within UCITS fund structures.) Alcentra has also been shortlisted as one of seven managers to participate in HM Treasury's Business Finance Partnership, a GBP1.2bn scheme to increase the supply of capital through non-bank lending channels to small and medium sized enterprises, and mid-sized business operating in the UK.

A key challenge for the next 12 months will be to continue to raise assets in newly launched strategies, in addition to the development of new products. Fitch takes comfort from recent mandates received, both within Alcentra's existing fund range and new business areas.

Alcentra's investor base is suitably diversified, reflecting the mixture of investors in its CLOs under management. While developing its non-CLO business, Alcentra has increased its marketing activities to target investors outside of its traditional CLO investor range. In addition to Alcentra's own initiatives, it benefits from access to the BNY sales force. One member of the sales force is dedicated purely to relationships with investment consultants, a key intermediary for pension fund investments.

Corporate Independence & Governance

Alcentra benefits from a robust control environment with well-documented procedures. Controls are largely effected by operational staff through the company's administrative systems (see *Investment Administration* below), which provide management with comprehensive reporting. While no dedicated risk team exists, an independent risk management committee was added in 2011. The head of risk management is Paul Hatfield (CIO) who has no day-to-day portfolio management responsibilities. Alcentra also benefits from the oversight of a dedicated operational risk officer at BNY. There are five directors of the holding company, all of whom are Alcentra or BNY employees.

Fitch takes comfort from the additional oversight that BNY provides, in addition to Alcentra's own governance structure. Alcentra Ltd is FSA regulated and other affiliates are regulated by the SEC or the Irish Financial Regulator. All the funds and CLOs use well respected service providers, including BNY as CLO trustee and hedge fund custodian, Goldman Sachs as prime broker, KPMG as fund auditors, and BNP Paribas as administrator for AEFRIF. Alcentra is audited by BNY's internal audit function biennially.

Staffing

In Fitch's opinion, the senior management team brings consistent and stable leadership to the business. The management team is highly experienced and stable, with an average of over 20 years industry experience and over 10 years company tenure. Overall operational responsibilities are split between the chairman and CEO, David Forbes-Nixon, the CIO, Paul Hatfield, and the CFO/COO, Robert Bennett (see *Appendix 1* for biographies of key staff). The global senior management team is based in London, complemented by the co-heads of the US team (Julian Colville and William Lemberg).

In addition to senior management, Alcentra benefits from a good depth and breadth of staff across the organisation. It currently employs a total of 40 staff in Europe (see Figure 2 below), along with 16 in the US, giving a global headcount of 56 (as of August 2012.)

Figure 2

European Headcount

Function	Number of staff
Senior management	3
European portfolio management/credit	15
Structured credit	2
Fund administration	9
Financial administration	2
Business development	5
Compliance & other	4
Total	40

Source: Alcentra

Alcentra has experienced low staff turnover since inception. The staff retention policy incorporates market rate salaries, in addition to bonus and equity distribution schemes. Continuity of senior staff members is supported by lock-in and non-compete contracts.

Portfolio managers are highly experienced within the industry. Graham Rainbow is the main CLO portfolio manager (and also manages ELF and AEFRIFF), supported by a team of credit analysts. The mezzanine funds are managed by Graeme Delaney-Smith, the special situations fund by Damien Miller and the structured credit funds by Hiram Hamilton. Fitch perceives some key person risk due to the dependency on portfolio managers, especially in the management of the CLO portfolios. However, this is mitigated by the sharing of information and the role that committees play within the investment decision making process.

Alcentra's research team consists of 13 credit research analysts in total (excluding portfolio managers). The average experience of investment professionals at Alcentra is over 14 years. Nine analysts are specialised by industry/country where appropriate, three analysts focus specifically on stressed and distressed credits, and the remaining analyst concentrates on structured credit. Each analyst covers an average of around 18 credits, with few analysts covering above 20 credits. Analysts are responsible for generating investment ideas, presenting to investment committees and the on-going monitoring of investments.

There are five staff members employed in the business development team, headed by Simon Perry. The team is of importance to Alcentra as it continues to market the fund and mandate range to new investors. The team also has a key role in developing the relationship with the BNY sales team, which consists of 50 staff, shared across the 18 specialist asset managers that BNY owns.

The European administration team is well staffed by experienced professionals, led by Stuart Medlen. All staff members have experience of operating the WSO administrative system, which has been integrated into the Everest system. European compliance is headed by James Algar, the European CCO. Compliance is supported by the oversight provided by BNY, with a dedicated compliance officer present.

Credit Selection**Sourcing**

Alcentra is one of the largest and longest standing investors in European secured loans, with a strong track record; as such, it has developed strong relationships with market participants. Alcentra has placed more focus on the secondary market in recent years, where it also benefits from excellent sourcing capabilities.

Credit Research

The credit investment process involves two main steps: an initial pre-screening stage to appropriately narrow down the investment universe; followed by a full due diligence phase which applies a robust bottom-up and top-down analysis framework.

The pre-screening criteria reviews various investment characteristics such as company size, leverage and industry focus, amongst other factors. The pre-screening phase focuses on the key attractions of the investment and the potential key risks, while analysing the background and financial position of the company. The investment suggestion requires unanimous approval from the credit committee before analysis moves to the full due diligence phase.

The full due diligence phase is detailed and of a high quality. A standard methodology is followed, beginning with a top-down analysis of the relevant industry, incorporating macroeconomic views which are formed at the analyst and investment committee level.

The next stage is an analysis of the credit metrics and production of financial forecasts of the company. Alcentra bases its forecasts on a flat EBITDA case and a proprietary Alcentra EBITDA case, as appropriate. Potential recovery rates following an event of default are also forecast by the analyst. Downside cases are analysed to inform on sensitivity risks. The final phase of analysis focuses on a detailed review of the capital structure of the transaction, the transaction security rights, covenants and obligations. The analysis is complemented by management meetings, a review of necessary documentation and the use of external counsel where appropriate.

Alcentra benefits from very good access to management, a function of its size and long track history. The research output is a 15-20 page credit report, including the output of financial models, recovery analysis and the results from Alcentra's own internal credit scoring mechanism. The paper is presented to the investment committee (see members below) by the analyst and a sponsoring portfolio manager.

Figure 3

Investment Committee Members

Committee member	Role	Industry experience (years)
David Forbes-Nixon	CEO/Chairman and Chair of Committee	25
Paul Hatfield	CIO and Head of Risk Management	26
Graham Rainbow	Senior Loan Portfolio Manager	19
Graeme Delaney-Smith	Mezzanine Debt Portfolio Manager	17
Kevin Lennon	Senior Analyst and Head of European Credit	22

Source: Alcentra

The committee decides whether to approve, decline or commence coverage of the investment. A decision to commence coverage will instigate the monitoring of a transaction, although further analysis will need to be performed before investment is considered. Committees are fully documented and approved by authorised signatories.

For structured credit and the special situations funds, the selection process is similar, combining fundamental and technical analysis, supported by Alcentra's wider credit selection process. The technical analysis is driven by the PM, with support from a small pool of stressed and distressed analysts. Price screening tools and stress tests are supported by the use of Intex.

Relative Value Analysis

Relative value is assessed in CLO and mezzanine funds through loan pricing feeds (see *Technology* below), which assist portfolio managers and the credit committee in making investment and disposal decisions. The agency notes that Alcentra's research analysts have become increasingly relative value focussed over time. In the case of special situations funds - which are actively traded - relative value assessments are primarily driven by the experience and trading skills of portfolio managers, in addition to the market access Alcentra possesses.

Portfolio and Risk Management

Portfolio Construction

Alcentra’s portfolio construction process places particular emphasis on sizing opportunities appropriately, to ensure that portfolios are not over-diversified. This exhibits Alcentra’s strong credit convictions, based on the credit selection process outlined above. A formal allocation policy, based on available cash and fund characteristics, has been implemented since 2008. Alcentra adopts a buy-and-hold approach for CLO management, while adopting a more opportunistic approach - based on trading and relative value - for the funds managed. CLO constraints also guide the portfolio construction process.

Trading and Work-Out

Alcentra has good access to the secondary market, which is a function of size and its good relationships with brokers, dealers and bank trading desks. Alcentra employs a dedicated work-out specialist. The role of the specialist is to manage the credit watchlist and to guide the work-out process, should Alcentra wish to participate. Steering committee fees are not the primary motivation, rather the desire to maximise recovery rates.

Risk Monitoring

The front-office team utilise Everest (see *Technology*), which allows real-time monitoring of various risk parameters. Risk monitoring at Alcentra focuses upon credit risk, as the majority of AuM are in CLO/loan or mezzanine products. Liquidity and market risk are also considered for the fund range where appropriate. Credit risk management is driven by the initial selection and ongoing monitoring, with responsibility placed on the credit analysts.

An independent monthly risk committee was introduced in Alcentra in 2011, which reports directly to the board of Alcentra. The committee is chaired by the CIO, and has strengthened and clarified the risk management process. Topics that are discussed include performance, concentration risk and redemption risk, amongst others. No portfolio managers sit on the committee. The committee has the power to oblige portfolio managers to attend a session to address any potential concerns the committee may have, and has the power to force portfolio managers to make trades (which has been used during the past year.)

Figure 4
Risk Committee Members

Committee member	Role
David Forbes-Nixon	CEO/Chairman
Paul Hatfield	CIO and Head of Risk Management
Kevin Lennon	Senior Analyst and Head of European Credit
Robert Bennett	CFO and COO
James Algar	European CCO and Head of Compliance
Stuart Medlen	Head of Transaction Management
Katie Morris	Compliance Assistant

Source: Alcentra

On a daily basis, CLO portfolios are monitored by the administration team to evaluate the impact of purchases, sales, rating actions, prepayments etc on the portfolio. Two weekly packs, one for CLOs and one for funds, are produced and circulated, which provide key metrics across portfolios. WSO is integrated into Everest, allowing two-way data flows between the two systems. All CLO limits are present in WSO.

Credit metrics on each asset are updated on a monthly basis and are input into well designed monitoring spreadsheets, which have been fully integrated into the Everest system. This allows for comparisons against budgeted performance and relevant peer groups. Short summaries (known as “flash notes”), which detail key aspects of performance over the month, as well as credit, liquidity and recovery internal Alcentra ratings, are circulated throughout the team. If weak performance is noted, the flash notes are more detailed, and further action, such as a re-analysis of the due diligence package, may be required.

On a quarterly basis, a formal review of all assets is completed and presented to the credit committee. Credit is scored from 1 to 5, liquidity is assessed from A to D and recovery as a percentage (using Alcentra's internal scoring methodology). If an asset is downgraded to 3 (or below), it is placed on a watchlist. These assets are discussed on a weekly basis with dedicated workout personnel, in conjunction with the relevant analyst.

Alcentra adheres to a disciplined sell philosophy, despite its buy and hold bias. A sale could be considered if a price target is achieved, if credit deterioration occurs, if relative value is identified elsewhere, or if a sale will benefit diversification requirements. Fund allocation decisions and sell decisions rest with the portfolio manager, whose responsibility it is to source best execution. For fund portfolios, Alcentra aims to limit asset-liability mismatches through conservative redemption terms. For example, AEFRIF is a closed-ended vehicle, which eliminates the mismatch. The AEFRIF priced at a 0.4% premium at the end of July 2012.

Investment Administration

Fitch views Alcentra's investment administrative capabilities as excellent, with a combination of well qualified staff and appropriate IT systems in place.

Reporting

Investor reports are updated monthly, and in Fitch's opinion, they provide a concise and timely insight to investors. Fitch views Alcentra as committed to delivering timely and transparent information to all investors. In the case of ELF, CLOs and mezzanine funds, trustee reports are complemented by portfolio commentaries. Prices are provided on all positions in the portfolio, and reports (including portfolio marks) are available to investors on Alcentra's web site, indicating its commitment to transparency. Monthly reports for the special situations fund contain performance data, along with industry positioning and the geographic distribution of investments. For AEFRIF, monthly portfolio commentary is available on Alcentra's website, with details of portfolio holdings, sector and geographical breakdowns.

Administration

The administration team is responsible for back-office functions, such as loan settlements and trustee reconciliations. The depth and experience, and the clear separation of duties and responsibilities within the team, ensure the effectiveness of operational controls.

All of Alcentra's CLO and fund portfolios are set up and modelled in WSO, which is the industry standard loan administration software. All portfolios are monitored from an administrative perspective using a combination of WSO and Everest. The customisable nature of Everest has enhanced the ease of administrative monitoring. Procedures governing WSO usage and maintenance are updated frequently. The addition of acquired CLOs (nine in the US and one in Europe to date) has provided a test of the scalability and efficiency of Alcentra's administrative capabilities. Fitch understands that the acquired CLOs were integrated into Alcentra's systems in a minimal time period, demonstrating the efficiency of procedures.

Relationships with various administrators and trustees are well developed. This is a function of Alcentra's position as a leading client with long-standing relations with BNY. The exception is BNP Paribas, the administrator used for AEFRIF, a new relationship for Alcentra in 2012. BNP Paribas is the industry-leading administrator for listed loan vehicles domiciled in Guernsey. To date, the daily NAV production in conjunction with BNP Paribas has run smoothly, with one dedicated staff member at Alcentra devoted to the administration of this fund.

Trustees utilise the WSO system, ensuring a seamless flow of information with Alcentra. Principal account balances are reconciled with the trustee's records daily, while other balances are reconciled bi-weekly. The administration team also maintain a log of unsettled trades, which are reconciled daily with the trustee.

Alcentra operates robust procedures and controls over trading. The administration team receive a trade ticket from the portfolio manager, which is input into Everest, which in turn feeds into WSO. Alcentra then liaises with the collateral administrator to ensure settlement. Verification of the terms of trade are then confirmed with the trade ticket and the relevant documentation.

Technology

Alcentra's technology provides a strong match to current business requirements, with Everest (front-office) integrated into WSO (back-office), enabling a straight-through process.

Front-Office

Everest, Alcentra's front office system (provided by Black Mountain), offers real-time relative performance analysis, order management and allocation functionality, while remaining customisable for each individual user. All analyst-individual tools have been integrated into Everest, allowing greater ease of data storing and information sharing for credit research, modelling and surveillance purposes, which feed into the credit selection and monitoring processes. WSO was used historically as the data repository for information downloaded to the front-office. Now, data from WSO can be accessed directly from Everest and manipulated with a greater level of productivity.

Alcentra does not use a proprietary cash flow model for stress testing structures. It does however utilise Intex to value the equity of its CLOs under management and in the structured credit fund. Related software complements Intex and helps streamline structured credit analysis.

Middle- and Back-Office

WSO is used across all investment vehicles, and provides a range of CLO administrative tools. In addition to the standard modules (compliance, reporting etc.), Alcentra operates a number of custom WSO modules. Reporting functionality, including trustee reconciliation, is provided via WSO at an asset-, portfolio- and enterprise-wide level. Alcentra utilises WSO Fax, an automated loan feed from Markit, which is built into WSO directly (and therefore into Everest). More recurrent procedures on loans, such as rollovers or pay-downs, are streamlined through the use of tools such as WSO Data and WSO Fax.

Data Management and Integration

Fitch views Alcentra's platform as highly integrated with respect to position keeping, trade settlement, administration and front-office functionality. WSO serves as the backbone to Alcentra's overall data infrastructure, acting as a central repository for data from various service providers, the basis for all administrative processes and the data store for the front-office system, Everest. Numerous external data sources feed into WSO, which in turn flows into Everest, allowing real-time access and monitoring of market data, individual assets and portfolios as a whole.

IT Security

Alcentra does not employ an in-house IT support team, preferring to outsource this function. Consultants are used on a regular basis to provide support and bespoke solutions to Alcentra. Alcentra currently employs a dedicated programmer, primarily to assist with the Everest/WSO integration and future upgrades. Appropriate disaster recovery systems are in place, including a disaster recover centre located in Kent, mirror servers hosted off-site in Reading and daily tape back-ups of all core systems.

Appendix 1

Figure 5
Key Staff Biographies

Name	Experience
<p>David Forbes-Nixon Founding member, Chairman and CEO 25 years' industry experience 15 years' company tenure</p>	<ul style="list-style-type: none"> • Previously Global Head and CIO of BCAM, which he set up, along with the par loan trading business. • Director of the Loan Market Association (LMA) and chair of the LMA valuation committee from its inception in 1996 until 1999. • Three years at Bankers Trust as Vice President and Head of leveraged loan distribution. • Five years at Chemical Bank in structured finance and loan syndication.
<p>Paul Hatfield CIO and Head of Risk Management 26 years' industry experience 11 years' company tenure</p>	<ul style="list-style-type: none"> • Previously Senior Analyst at Intermediate Capital Group, covering building products and construction, aerospace and consumer credits. • Six years at Deutsche Bank (DB) in the London and New York leveraged finance teams. • Previously mezzanine and development capital loan portfolio manager at FennoScandia Bank. • Trained as an accountant at Arthur Andersen.
<p>Robert Bennett CFO & COO 26 years' industry experience 9 years' company tenure</p>	<ul style="list-style-type: none"> • Previously Finance Director, Compliance Officer and Company Secretary for Baffin (UK) Ltd, a property fund manager. • Ten years in the financial markets divisions of Binder Hamlyn and Arthur Andersen. • BSc (Hons.) in Mathematics from Bristol University, and a Chartered Accountant.
<p>Graeme Delaney-Smith Senior Executive Director and Head of Mezzanine Investments 17 years' industry experience 8 years' company tenure</p>	<ul style="list-style-type: none"> • Mezzanine fund portfolio manager. • Previously Senior Deal Executive at ICG. • Five years at Royal Bank of Scotland (RBS), latterly in the leveraged finance team. • MBA from Heriott Watt University Business School, Edinburgh. • Degree from Napier University and a chartered accountant.
<p>Graham Rainbow Managing Director and Senior Loan Portfolio Manager 19 years' industry experience 4 years' company tenure</p>	<ul style="list-style-type: none"> • Board Member of the LMA. • Previously, co-head of the leveraged syndicate desk at Barclays Capital, responsible for underwriting senior, second lien, and mezzanine LBO debt. • 13 years at Barclays Capital in loan trading, credit and sales before joining the Leveraged Finance team in 1998.
<p>Simon Perry Managing Director, Business Development 24 years' industry experience 2 years' company tenure</p>	<ul style="list-style-type: none"> • Responsible for the business development team covering Europe, Middle East and Asia ex Japan. • From 2000 to 2009, Simon was involved in the development of the European CLO market, heading the European CLO business at UBS Investment Bank from 2005 and prior to this, holding the same role at CIBC and Natixis. • Before this, Simon was part of the cross asset class derivatives marketing team at CSFP, at the time, the derivatives specialists within Credit Suisse.
<p>James Algar Director, Head of European Compliance and Chief Compliance Officer 29 years' industry experience 15 years' company tenure</p>	<ul style="list-style-type: none"> • Serves as Chief Compliance Office for Alcentra. • Original member of the Alcentra team, having joined from BCAM. • Previously, Associate Director in transaction management team at BCAM. • Five years at HSBC Investment Bank in specialised finance support. • Further nine years' experience within financial services.
<p>Kevin Lennon Executive Director and Head of Credit 22 years' industry experience 11 years' company tenure</p>	<ul style="list-style-type: none"> • Head of credit and senior analyst covering the food and beverage, retail and leisure and entertainment sectors. • Previously, senior industrial analyst at BCAM and leveraged finance analyst at Fitch Ratings. • Worked for 10 years at Natwest Bank, latterly in the head office credit committee.
<p>Stuart Medlen Executive Director and Head of Transaction Management 12 years' industry experience 8 years' company tenure</p>	<ul style="list-style-type: none"> • Responsible for fund structuring, administrator oversight and interaction with other third parties. • Previously worked as an Assistant Treasurer for JP Morgan's Institutional Trust Services for four years.
<p>Hiram Hamilton Executive Director, Portfolio Manager and Global Head of Structured Products 15 years' industry experience 4 years' company tenure</p>	<ul style="list-style-type: none"> • Portfolio Manager for Structured Credit, who oversees structured products across Alcentra's funds. • Previously Head of CDOs at Morgan Stanley in London where he structured and originated various credit arbitrage vehicles over an eight-year period. • Began his career as an analyst at Prudential Securities in the asset-backed securities group.
<p>Damien Miller Managing Director and Global Head of Special Situations 15 years' industry experience 5 years' company tenure</p>	<ul style="list-style-type: none"> • Dual major in Philosophy and Neuroscience from Bowdoin College. • Manager and trader for all Distressed, High Yield and Equity investments within the Special Situations Group • Previously he was a Director, portfolio manager and trader for the Special Situations Group at Barclays Capital based in New York • Prior to his time in New York, Damien was a senior Distressed analyst for Barclays Capital in London.

Source: Alcentra

Appendix 2

Figure 6
European CLOs Under Management (As of June 2012)

Name	Closing	Structure	Primary asset type	Size (EURm)
Jubilee CDO II	Jun 02	Cash flow	European high yield (HY) loans	468
Jubilee CDO III	Dec 03	Cash flow	European HY loans	150
Jubilee CDO IV	Jul 04	Cash flow	European HY loans	291
Hamlet	Mar 05	Cash flow	European HY loans	232
Jubilee CDO V	May 05	Cash flow	European HY loans	502
Wood Street CLO I	Sept 05	Cash flow	European HY loans	447
Wood Street CLO II	Feb 06	Cash flow	European HY loans	389
Wood Street CLO III	May 06	Cash flow	European HY loans	519
Jubilee CDO VI	Jul 06	Cash flow	European HY loans	396
Jubilee CDO VII	Oct 06	Cash flow	European HY loans	497
Wood Street CLO IV	Dec 06	Cash flow	European HY loans	531
Jubilee CDO I – R	Mar 07	Cash flow	European HY loans	866
Wood Street CLO V	May 07	Cash flow	European HY loans	484
Wood Street CLO VI	Aug 07	Cash flow	European HY loans	322
Jubilee CDO VIII	Dec 07	Cash flow	European HY loans	388
ECF Financing CLO B.V.	Mar 08	Cash flow	European HY loans	426
Jubilee CDO IX	Jun 08	Cash flow	European HY loans	394
Silver Birch CLO I B.V.	Jun 10	Cash flow	European HY loans	233

N.B. Jubilee CDO I was called in December 2006 at a 12.1% internal rate of return to the equity holders
 Source: Alcentra

Figure 7
European Funds Under Management (As of June 2012)

Name	Closing	Structure	Primary asset type	Size (EURm)
Mezzanine Fund I	May 05	Jersey LP	Mezzanine	234
Managed Accounts	n.a.	Accounts	Various	358
Alcentra Group Special Situations Fund	Nov 07	Irish Fund	European HY loans	110
Mezzanine Fund II	Dec 07	Jersey LP	Mezzanine	273
Alcentra European Loan Fund	Jul 09	Lux SICAV	European HY loans	286
Alcentra Structured Credit Opportunities Funds (I & II)	Sep 09	Lux SICAV	CLO equity tranches	57
European Floating Rate Income Fund	Mar 12	Guernsey Close-Ended CIS	European HY loans	100

N.B. The Alcentra European Credit Fund was fully liquidated in 2011
 Source: Alcentra

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