Structured Credit
UK
CDO Asset Manager
Report

Alcentra Limited

Asset Manager Rating

CDO Asset Manager Rating
CAM1-
European Leveraged Loans
FitchRatings
www.fitchratings.com

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Related Research

"Global Criteria for Reviewing and Rating CDO Asset Managers", 2 January 2008, available from www.fitchratings.com

Summary

Alcenta Ltd (Alcentra) is a global asset management firm focused on sub-investment grade debt fund management. It was formed through the acquisition of Barclays Capital Asset Management Limited (BCAM) from Barclays Bank Plc in Europe in March 2003, and the acquisition of Imperial Credit Asset Management from Imperial Credit Industries, Inc. in the US in March 2002. Since January 2006, Alcentra has been 80% owned by The Bank of New York Mellon Corporation and 20% owned by the senior management team and employees.

Alcentra is one of Europe's leading collateralised loan obligation (CLO) managers, having entered the market in 2001; it had 17 European CLOs under management, for EUR7.5bn, as of May 2008. Globally, the Alcentra Group manages a further seven US CLOs, with group assets under management of over USD18bn.

Fitch Ratings affirmed Alcentra's CDO Asset Manager rating for European leveraged loans on 3 June 2008 at 'CAM1-'. The rating affirmation reflects Alcentra's stable position as one of the largest, longest established and most profitable European leveraged loan CDO managers. In Fitch's opinion, Alcentra is well positioned for future growth, in spite of the more challenging market conditions experienced in 2008 to date.

The rating continues to reflect Alcentra's experienced and stable senior management, the depth, breadth and stability of staff across the organisation, and robust credit analysis and investment decision-making processes. Performance continues to be good, at or above peer group averages, and the score recognises Alcentra's best-in-class CDO administrative capabilities.

Strengths

- One of the three largest and longest established European CLO managers.
- Tenured and experienced professional team at all levels.
- Strict and stable investment and credit discipline.
- Best-in-class CDO administration capabilities.

Challenges

- To maintain CLO performance in more challenging markets, mitigated by the long, good performance track record demonstrated to date.
- To raise capital and issue new funds in a more challenging market. Mitigated by Alcentra's leading market position and good track record.

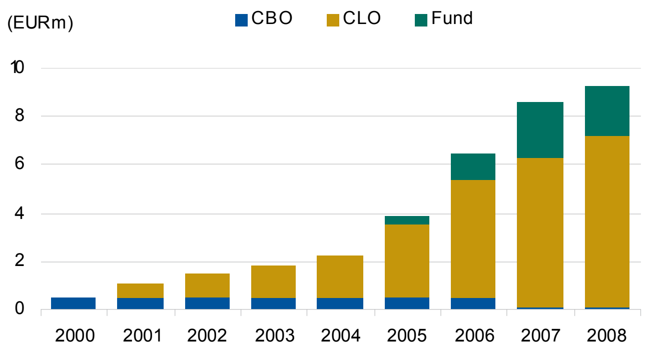
Manager Profile

Alcentra Limited

Address	10 Gresham Street, London, EC2V 7JD	**Ownership**	The Bank of New York Mellon Corporation (80%) and senior management and employees (20%)
Company contact	David Forbes-Nixon +44 20 7367 5002 david.forbes-nixon@alcentra.com	**Chairman and CEO**	David Forbes-Nixon
Website	www.alcentra.com	**CFO and COO**	Robert Bennett
Type of organisation	Limited company	**Managing Director**	Paul Hatfield
Year founded	2001	**President**	Stephen Bruce
Domicile, place of incorporation	UK, USA	**# of portfolio managers**	4, 2 CLO
Registrations	FSA, SEC	**# of employees**	54 worldwide, 34 Europe

Assets Under Management

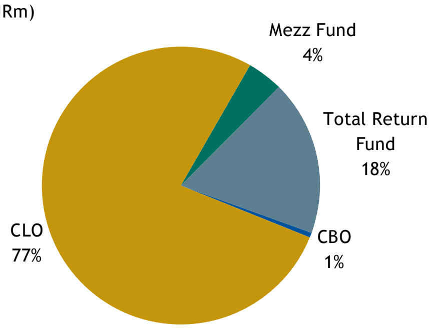
AUM Growth



Source: Alcentra

AUM Breakdown by Product Type

(As at Jun 2008, EURm)



Source: Alcentra

European Leveraged Loan CDOs Under Management (at May 08)

Name	Closing	Structure	Primary asset type	Original size (EURm)
Jubilee CDO II	Jun 02	Cash flow	European High Yield (HY) Loans	460
Jubilee CDO III	Dec 03	Cash flow	European HY Loans	350
Jubilee CDO VI	Jul 04	Cash flow	European HY Loans	410
Hamlet	Mar 05	Cash flow	European HY Loans	300
Jubilee CDO V	May 05	Cash flow	European HY Loans	555
Wood Street CLO I	Sept 05	Cash flow	European HY Loans	460
Wood Street CLO II	Feb 06	Cash flow	European HY Loans	400
Wood Street CLO III	May 06	Cash flow	European HY Loans	550
Jubilee CDO VI	Jul 06	Cash flow	European HY Loans	400
Jubilee CDO VII	Oct 06	Cash flow	European HY Loans	500
Wood Street CLO IV	Dec 06	Cash flow	European HY Loans	450
Jubilee CDO I - R	Mar 07	Cash flow	European HY Loans	900
Wood Street CLO V	May 07	Cash flow	European HY Loans	500
Wood Street CLO VI	Aug 07	Cash flow	European HY Loans	325.8
Jubilee CDO VIII	Dec 07	Cash flow	European HY Loans	400
ECF Financing CLO B.V.	Mar 08	Cash flow	European HY Loans	200
Jubilee CDO IX	Jun 08	Cash flow	European HY Loans	372
			Total	**7,532.8**

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

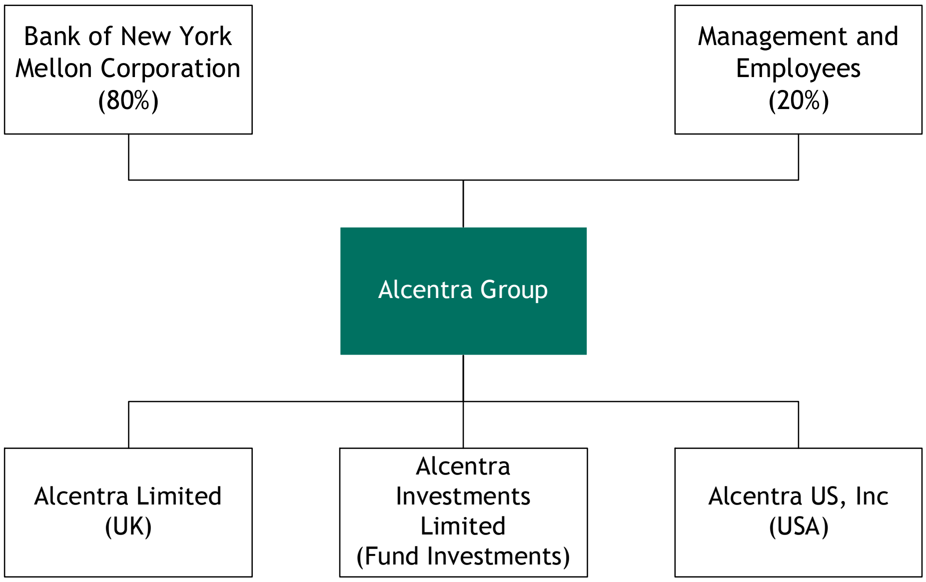
Company and Management Experience, 1

History and Organisation

Alcentra is a global asset management group focussed on sub-investment grade debt fund management. It was established in 2001 through the acquisition - by the Alchemy Group, a private equity group, and the founding partners - of Imperial Credit Asset Management from Imperial Credit Industries Inc in the USA in March 2002, and of Barclays Capital Asset Management (BCAM) from Barclays Bank Plc in Europe in March 2003. In 2005, the Alchemy Group, Alcentra management and employees, sold a combined 80% holding in Alcentra to the Bank of New York Mellon Corporation (BNY Mellon) (with the Alcentra senior managers and staff retaining the remaining 20% stake in the company); the deal was completed in January 2006. The following diagram details Alcentra's simplified corporate structure:

Simplified Corporate Structure: Key Components

Structure Diagram



Source: Alcentra

Alcentra is recognised as one of Europe's leading CLO managers, and management of the CLO product is the core activity. Alcentra calculated that in Q107 its market share was around 4.8%, documenting its established overall position in the European leveraged loan market. According to data compiled by Fitch, Alcentra is the second largest European CLO manager as of June 2008 in terms of notional amounts of CLO paper outstanding, and the largest by number of CLOs under management.

Alcentra focuses on its core competencies: leveraged loans and CLO management, as demonstrated by the continued issuance of CLOs and credit funds to date. Furthermore, Alcentra has always aligned itself with the interests of its investors through co-investment in the equity pieces of its CLOs; this averages 1% per CLO, for a total investment amount of USD160m globally. Given the more challenging market conditions experienced post credit-crunch, Alcentra has limited its pipeline for the rest of 2008, preferring instead to focus on managing its existing portfolio. Nonetheless, it does have issuance plans, including a 90% senior, 10% mezzanine CLO and a low-levered funds or CLOs. Indeed, it remains committed to the CLO business as its core product offering.

CDO and Asset Management Experience

As of June 2008 the Alcentra Group manages over USD18bn globally, with Alcentra Limited, the European arm of the Alcentra group, managing 16 European CLOs representing EUR7bn assets under management (AUM). Alcentra's first CLO, Jubilee I, was launched in 2001, and since then Alcentra has continued to steadily issue CLOs every year to date, in spite of the more difficult, recent market conditions. Growth of the CLO business has increased dramatically since December 2005, with 11 CLOs issued since that time (five in 2006, four in 2007 and two in 2008 to date).

In addition to the CLOs, Alcentra also manages one collateralised bond obligation, Blue Eagle, launched in 2000, and four funds: a European credit fund (a total return fund launched in November 2004, EUR1,180 levered); two mezzanine funds (launched in May 2005 and December 2007 for EUR245m and EUR155m respectively); and a special situations fund (launched in November 2007 for EUR80m). It is also responsible for two total return managed accounts, both launched in 2007 for EUR190m and EUR200m respectively.

In the US, Alcentra has seven CLOs under management from its offices in Los Angeles. While Alcentra ranks as one of the largest CLO managers in Europe, it is substantially smaller in the US. As a result, one of the group's key initiatives is to develop the US business further, in particular by growing US AUM.

Alcentra has one of the longest histories of CLO management in Europe (since 2001). Its experience in leveraged finance asset investment and management goes back further, to 1999, while the core team that went on to found Alcentra was at BCAM.

Senior Management

Alcentra's senior management team continues to bring consistent and stable leadership to the business. In 2008 the management team was slightly reorganised following the decision of Christopher Damico (previously President) to take a back-seat role in the business. David Forbes-Nixon (previously Managing Director and Head of Europe) is now group Chairman and CEO, and Stephen Bruce (previously Managing Director and Head of US) now replaces Mr. Damico as President. In Fitch's opinion, this slight change in management is not expected to have a material impact on the business, with two of the three founding partners remaining in-place.

The management team is highly experienced and long tenured. The European management team has an average of over 20 years' relevant experience and over seven years company tenure. It consists of Mr. Forbes-Nixon, Paul Hatfield and Robert Bennett. Mr. Hatfield was promoted to Managing Director in 2008, taking on board-level responsibility in addition to his role as the main CLO portfolio manager. Mr. Bennett assumed the roles of CFO and COO in 2008, having previously acted as Group Finance Director.

Financial Condition

Fitch's analysis of Alcentra's financial condition was based on an analysis of the full, audited accounts (clean opinion) as of 31 December 2007. Alcentra is a highly profitable business, with continued profit growth and a good financial condition, benefiting from the support of BNY Mellon if necessary.

As an FSA regulated entity, Alcentra Limited is required to hold appropriate levels of regulatory capital. Further, it is increasingly well capitalised, with BNY Mellon holding 80% of the company; the remaining 20% is held by senior management and staff. BNY Mellon is rated 'AA-'/Outlook Positive/'F1+' by Fitch, affirmed 2 July 2007.

Alcentra's score for company and management experience remains stable at '1' , reflecting its long history in leveraged loan and CLO management, its leading market position, the depth of experience of the management team, and the robust financial standing of the company (also factoring in the support provided by BNY Mellon).

Staffing, 1-

Depth, Adequacy and Continuity of Staff

Alcentra benefits from good breadth and depth of staff across the organisation: it employs 54 people worldwide, with 33 people employed in Europe. The European office is split into the following five teams:

- the European portfolio management/credit team of 14, responsible for portfolio management and credit research;
- the European administration team of 12, responsible for CLO and fund administration;
- the financial administration team of three;
- the marketing/strategic planning team of three;
- the credit structuring team of one, added in 2008 and responsible for structuring, new initiatives and equity valuations.

Alcentra is headed up by the management team of David Forbes-Nixon, Robert Bennett and Paul Hatfield (included as part of the portfolio management/credit team). As Chairman and CEO, David Forbes-Nixon also takes overall responsibility for the Alcentra Group, while Stephen Bruce, as President, takes responsibility for Alcentra Inc, the US arm of the group. Biographies of key personnel are detailed in *Appendix B*.

Alcentra has experienced a very low turnover of staff. Over the last year there have been very few departures from the team, which has, in fact grown to 33 staff in Europe from 27. The growth of the team reflects Alcentra's ability to recruit highly qualified staff, its very good compensation structure and, importantly, a demonstrated commitment to matching the demands of increasing AUM to available staff resources. The retention strategy incorporates a market rate salary and bonus, and an equity distribution scheme. Under the equity distribution scheme, members of staff own a 20% holding in the Alcentra Group, according to seniority/tenure, providing a strong incentive (given Alcentra's profitability) for staff to remain with Alcentra long term. Additionally, the founding partners have signed lock-in contracts that prevent them from extracting their personal investment from the firm for a pre-defined period. These contracts are complemented by five year non-compete contracts. Other senior staff members have signed three year lock-in contracts.

Research and Portfolio Management Staff

The portfolio managers are highly experienced and long tenured. CLO portfolio management is the responsibility of Paul Hatfield as the main CLO portfolio manager, with David Forbes-Nixon as co-portfolio manager. Fitch continues to perceive some key person dependency on the CLO portfolio managers, in particular on Paul Hatfield as the main manager; while both have very deep experience (22 years) and long tenure (seven years and founding member respectively), both also have management responsibility, in addition to their portfolio management responsibility. Furthermore there is a substantial volume of CLOs (17) under management. Nonetheless, the CLO portfolio managers are well supported by the senior credit analysts and benefit from the presence of two other portfolio managers. The third portfolio manager, Graeme Delaney-Smith (Head of Mezzanine), who has 15 years' industry experience and four years' company tenure, manages the two mezzanine funds. The fourth and final portfolio manager, Damien Miller (Head of Special Situations) has 11 years' experience and is responsible for the special situations fund.

The portfolio managers are complemented by an equally experienced pool of 10 credit research analysts. Members of the portfolio management/credit team have an average of 11 years' leveraged finance experience. Kevin Lennon, Senior Analyst and Head of Credit, has 19 years' industry experience and seven years' company tenure. Alcentra operates a matrix approach to research, with analysts specialised by industry sector where appropriate. Each analyst covers two sectors and analysts are responsible both for analysing new issues and monitoring loans under management. On average, each analyst has a relatively low workload of around 14 loans, while Alcentra considers 25 loans per analyst to be the maximum (at or before which point further resources would be added to the team). Recruitment to the team has historically been from the leading leveraged finance investment houses. Additionally, Alcentra implemented a graduate training programme in 2006. All staff members have good career development prospects, evidenced by the transfer of one analyst from the administration to the research team in 2007. Training is predominantly on-the-job, although Alcentra will sponsor staff through professional qualifications and other courses delivered by external providers.

In addition to the eight analysts who are specialised by industry sector, Alcentra also has one European specialist and a work-out specialist. Recognising the importance of local jurisdiction knowledge, Alcentra utilises Pascal Meysson's 12 years' industry experience in selecting and monitoring loans to French, Spanish and Belgian companies. The work-out specialist, Derek Jackson, was added to the team as an executive director responsible for stressed and distressed debt in 2006. He has 11 years' industry experience, gained through various accountancy firms where he focussed on the administration of distressed companies. The role of the work-out specialist is currently to monitor the "watch list" (12 loans as of June 2008), taking primary responsibility for these loans from the original analyst (see *Portfolio Management*), and to work these names out should the need arise.

Support and Other Relevant Staff

Alcentra's European administration team is well staffed by 13 experienced professionals. It is led jointly by James Algar and Stuart Medlen. James Algar has 25 years' industry experience and nine years' company tenure, having originally moved over to Alcentra from BCAM at Alcentra's inception, while Stuart Medlen has 10 years' experience and four years' company tenure. They provide effective leadership to the team.

Roles and responsibilities between and within teams are clearly defined. In the administration team analysts are divided appropriately between the following functions:

- CDO administration (three analysts);
- Wall Street Office administration (three analysts);
- Loan settlements (two analysts); and
- Total return fund administration (four analysts).

Analysts in the administration team have an average of eight years' experience and three years' company tenure. All members of staff in the administration team have experience of operating Wall Street Office (WSO), resulting in a good overlap of staff. Historically, Alcentra has mainly recruited administrative personnel from the trustees (complemented by other individuals from the market) with the result that most persons joining the team already have WSO experience.

Alcentra is also fully supported by dedicated financial administration, marketing and structuring teams. The financial administration team supports Robert Bennett as CFO and COO, and was strengthened in 2008 with the addition of another accountant. The marketing/strategic planning team, now of three staff, was also strengthened in 2008 with the addition of two persons with specific CLO sell-side experience. The addition of these staff was in line with recommendations from the last internal audit of Alcentra. Lastly, Alcentra added a credit structuring team in 2008, currently consisting of one person: Hiram Hamilton, who has 10 years' structuring experience. Fitch views positively the strengthening of Alcentra's support teams, and the addition of the structuring team which brings important technical structuring skills in-house.

Alcentra's score of '1-' for staffing is driven by the stability of staffing across Alcentra, complemented by the appropriate growth of staff, both in terms of numbers relative to AUM and the consolidation of relevant support functions. The score continues to reflect the breadth and depth of experience in the core teams, the clear allocation of responsibility and the appropriate levels of back-up staff in place.

Procedures and Controls, 1

Control Organisation Structure

Alcentra benefits from a robust control environment with well documented procedures. The strength of Alcentra's procedures and controls are driven by two key factors: firstly, the Alchemy Group's investment in Alcentra was structured around its exit strategy, initially planned through an IPO. As a result, Alcentra was built in preparation for being launched as a publicly listed and traded company, with all appropriate procedures and controls in place. Ultimately, Alchemy's holding was bought by BNY Mellon, rather than Alcentra becoming a listed company, but nonetheless, the public company controls remain integral to Alcentra. Secondly, as an FSA regulated entity, Alcentra is required to have a full suite of appropriate procedures and controls in place. Alcentra used an external consultant, Resources Compliance, Inc (formerly known as Grainger Consulting, www.compliance.co.uk), to assist it in preparing its procedures in accordance with FSA regulation. In addition to assisting with the preparation procedures, the consultant also provided Alcentra with detailed feedback on its procedures and controls, along with an action plan to enable it to effect these recommendations.

Credit and Operational Risk Management

Credit risk management is a function of the portfolio managers, effected through daily portfolio reviews, monthly updates on individual credit and quarterly full portfolio reviews. Portfolio managers interact closely with the credit and administration teams. Procedures governing all aspects of CLO management and administration are documented in detailed manuals and workflows. These are updated frequently, and include a defined allocation policy added in 2008.

On a day-to-day basis, and at the CDO level, controls are affected through WSO, where, for example, full pre-trade compliance checks are a function of the administration team. The administration team acts as a second level of control on all trades, before the trade ticket is sent to the trustee. Alcentra has implemented systems to generate automatic trade tickets through WSO (see *Technology*). Loan settlements are also a function of the administration team, where detailed check-lists for loan settlement and loan legal documentation have been prepared and are followed in detail. Loan settlement flow charts are regularly updated. The administration team is also responsible for back-office controls, such as daily cash reconciliation with the trustee (see *CDO Administration*). The depth of experience and the clear separation of duties and responsibilities in the administration team ensure the effectiveness of these operational controls.

Compliance and Control

Alcentra is audited by BNY Mellon's internal audit function. According to Alcentra, at the last audit in 2007, a clean opinion was provided, with only very minor findings. Among these findings was a recommendation to add additional marketing staff, which was duly actioned by Alcentra (see *Staffing*). External audit is provided by Ernst & Young (BNY Mellon's auditor). At the last audit, in 2007, a clean opinion was provided.

The Head of Compliance is James Algar, who also heads up the European administration team with Stuart Medlen. Alcentra is overseen by a board of ten, including David Forbes-Nixon, Robert Bennett and eight BNY Mellon members.

The stability of Alcentra's score of '1' for procedures and controls reflects the continued strength of Alcentra's control environment. The agency notes that one year after its initial review of Alcentra, procedures and controls are well adhered to in practice, and are updated appropriately. The score continues to reflect the detailed and appropriate level of documentation covering critical processes and the robust operational control framework delivered through the administration team (evidenced by the clean opinions provided (again) by both internal and external audit).

Portfolio Management, 1-

Alcentra's credit investment and portfolio management processes are both thorough, and executed with the highest standards of care. The investment style is conservative, credit focused and buy and hold, demonstrated through Alcentra's consistent credit strategy.

Portfolio Construction

The investment process involves two steps; an initial pre-screening stage focuses the comprehensive research on a limited number of credits and allows Alcentra to give early feedback to arrangers. The pre-screening criteria cover aspects such as the size of the company - Alcentra prefers to target larger companies with an enterprise value of greater than EUR200m - the capital intensity of the business, and the amount of cash the business can generate, among other factors. A special concern at the pre-screening stage is volatile industries, such as airlines and automobiles, and businesses with significant differences from their peers. In these cases, investments are made on a case-by-case basis. The result of the pre-screening is presented to the credit investment committee by the analyst, at which point the committee requires the analyst's recommendation and the support of one of the portfolio managers to move to the full analysis.

The credit investment committee is highly experienced. It consists of David Forbes-Nixon (CIO and Chairman of the Investment Committee), Paul Hatfield (Senior Portfolio Manager), Graeme Delaney-Smith (Portfolio Manager), Kevin Lennon (Senior Analyst) and Richard Samuel (Senior Analyst). The committee has an average industry experience of over 18 years. The committee decision will either be an approval, a disapproval, or a decision to commence coverage. Should the decision be the latter, the credit will be monitored, but will require further analysis before an investment is considered. Committee decisions are documented and signed off by authorised signatories.

The full due diligence is detailed and of good quality. It follows a standard top-down and bottom-up methodology, beginning with a top-down analysis of the industry (and of the company within the industry), including the market positioning of the company and operational aspects of the company. This stage of the process includes the analysis of the credit metrics and financial forecasts of the company. Alcentra uses a standardised financial model in which the bank case is compared against a flat EBITDA case and a proprietary Alcentra case, as appropriate. Analysts also produce an assessment of the recovery value in the event of default. The second, bottom-up step of the analysis examines the capital structure of the transaction, both at the hold-co and op-co level, and transaction security rights and obligations. This analysis is complemented by meetings with the management of the company, where possible, and by a review of all the loan documentation, using external counsel as appropriate. The output of the analysis is a 15-20 page credit paper which includes the outputs of the financial models, the recovery analysis, and an internal credit rating. The paper is presented to the investment committee, at which the committee will either approve, decline or recommend further monitoring of the credit. This investment committee takes the credit decision, while the actual investment decision is the responsibility of the portfolio manager, in-line with the allocation policy documented by Alcentra in 2008. The sell decision also remains the responsibility of the portfolio managers, based on the credit decisions of the investment committee.

Portfolio Monitoring

Alcentra's portfolio is under constant supervision and analysis, allowing quick reaction to market trends. In the context of weaker primary flow the surveillance process has become more intensive and rigorous at every stage. On a daily basis, the CLO portfolios are monitored by the administration team to evaluate the impact of any purchases, sales, rating actions, prepayments etc on the portfolio. All changes that affect the portfolio are reported on an on-going basis to the portfolio manager, but formalised in thrice-weekly morning meetings. Credit market issues, portfolio trends and news flows are discussed at these meetings. On a monthly basis, financial information (comprising updated credit metrics) on each asset is received and input to well designed, individual spreadsheet-based monitoring sheets that allow for comparison of on-going results against budget and for relative performance analysis between companies in the same industries/sectors. Individual loan models are also updated, and the analyst reviews the trend data and updated model outputs. The outputs of the monthly updates are circulated to the team as "flash notes": short summaries detailing the key components of that company's performance over the month. Where negative deterioration has been detected the "flash note" is more detailed, and further action may be taken as warranted, including a full re-analysis of the due diligence package. The purpose of "flash notes" is to efficiently communicate performance information and to avoid any shocks at the quarterly portfolio reviews. On a quarterly basis, in addition to updating credit metrics in the monitoring sheets, updated budget figures are received and reviewed against current and historic credit metrics. With this information, analysts complete a formal quarterly review of all assets and present an appropriate update of the rating to the credit committee. Alcentra uses rating scales to reflect credit, liquidity and recovery. Credit is scored from 1-5, with 1 being the highest, liquidity from 'A' to 'D', and recovery as a percentage. As of June 2008, most assets were scored 2 for credit (70%), while 25% scored 3. Only 1% of the portfolio scored 4 (ie the lowest credit rating). As soon as an asset is downgraded to '3', it is placed on the watch list, for which Derek Jackson, as the work-out specialist, is responsible. Of the approximately 150 credits Alcentra has under surveillance (as of June 2008), 12 were on the watch list, none of which were considered to be in imminent danger of default by Alcentra. Fitch notes that the number of loans in Alcentra's portfolio has not increased dramatically over the years, in spite of its actual exposure to those assets increasing substantially (in-line with the growth in AUM). This indicates a very deep knowledge of the companies in which it invests and highlights the consistency of Alcentra's selection and monitoring processes.

Sell Discipline and Trading

While Alcentra's stated investment style is buy-to-hold, a disciplined sell philosophy is adhered to. Investments are considered for sale if a spread price target is achieved, if credit deterioration is experienced, if relative value is identified, or if the sale will benefit portfolio diversification. The sell decision resides with the portfolio manager, and no committee approval is required. The portfolio manager is also responsible for sourcing best execution on the intended trade, in the absence of dedicated trading staff. Typically, Alcentra sells stressed assets, or those that are anticipated to become stressed. This is facilitated by the close monitoring of Alcentra's portfolio, and the presence of a dedicated work-out specialist who is responsible for the watch-list. Additionally, Alcentra may sell assets where the information disclosures are poor.

Asset Sourcing and Work-out

Historically, Alcentra has sourced the majority of its assets from the primary market and has one of the best sourcing capabilities in that market in Europe. In Fitch's opinion, CLO management is a majority primary market activity, and assuming new issuance activity returns, Alcentra will be able to benefit from its excellent sourcing capabilities which are driven by a number of interrelated factors, including:

1. Alcentra has a substantial market share, with EUR9bn (European) AUM, accounting for approximately 4.8% of the total European leveraged loan market in 2007, according to Alcentra's calculations. Given the large volume of AUM, Alcentra is able to fund large ticket sizes, up to EUR300m for senior secured positions and up to EUR200m for mezzanine and second-lien positions;
2. Alcentra has one of the longest track records in the European leveraged loan market, thus demonstrating to the market both the credit consistency of its analysis, and its commitment to that market;
3. related to its long investment track record, Alcentra has developed deep and strong relationships with the leading private equity sponsors. These relationships are strong both at an institutional level and at a personal level, driven by the close relationships of senior members with the major players in the private equity community.

Alcentra also has good access to the secondary market through established relationships with leading bank trading desks and other market participants. Clearly, markets have changed and strong primary access is not as important post-credit crunch, given the lack of new primary flow. Nonetheless, it has not dramatically increased its usage of the secondary markets, remaining a fundamentally buy-and-hold investor. Furthermore, it deploys cash appropriately and fully, and has not needed to tap the secondary market given that its portfolios are fully invested, and prepayment rates are low.

Alcentra recruited a work-out specialist, Derek Jackson, in 2006 in preparation for a down-turn in the credit markets. The role of the work-out specialist is to manage the watch list and to guide the work-out process should Alcentra decide to go through that process. Where Alcentra believes it can achieve better recoveries by going through the work-out process it will do so, as compared to an early pre-default sale price. Further support in a work-out situation would be provided by David Forbes-Nixon, Paul Hatfield and Graeme Delaney-Smith, all of whom have had prior work-out experience.

Alcentra's score of '1-' for portfolio management is driven by the thorough investment process, the excellent sourcing capabilities, detailed credit analysis and a robust credit approval process. The score also factors in the strengthening of the surveillance process and the presence of a dedicated work-out specialist.

CDO Administration, 1

Alcentra's CDO administration capabilities are, in Fitch's opinion, best-in-class in Europe. It has a very strong team in place, a well developed and overseen relationship with the trustee on all its CLOs, the use of the industry standard CDO administrative tool, and very good supplemental investor reporting.

Transaction Setup and Modelling

All of Alcentra's CLOs are set up and modelled in WSO, as the industry standard CDO administrative software solution. WSO was rolled out in 2001 as the core CDO administrative system, and has been used on every CLO since then. The latest versions of WSO are installed and operational for all CLOs, resulting in operational efficiencies. The process for adding new deals to WSO is highly efficient. As soon as Alcentra is mandated on a new deal, Financial Computer Software (FCS), a division of JP Morgan and the provider of WSO, is simultaneously mandated to build the model for the deal in WSO. This ensures that the deal compliance model in WSO is in-place and tested by the effective date.

The administration team of 12 professionals (see *Staffing*) is highly experienced and provides very good support to portfolio managers, including daily portfolio compliance monitoring (see *Portfolio Management*). Responsibilities are clearly divided across the main areas of CDO administration, including trade settlement, loan servicing, WSO maintenance, CLO monitoring and reporting, trustee interface and controls. The level of staffing in the administration team continues to provide a good match to AUM, which, coupled with the efficient distribution of staff by function, contributes to an effective, team-based approach.

Trustee Reconciliation

Trustee relationships are well developed, and Alcentra's systems are well integrated with trustee systems. Alcentra uses BNY Mellon Global Corporate Trust (previously JP Morgan Corporate Trust Services) as the trustee on all of its transactions. As a result, Alcentra is a leading client and has a long relationship with the trustee. Similarly to Alcentra's relationship with FCS, this results in Alcentra receiving a very good service from the trustee as a key client. Furthermore, as the trustee also runs WSO as its main administrative tool, the interaction with Alcentra is seamless. The administration team is the key point of contact with the trustee. Principal account balances are tied-out with the trustee daily, while other account balances are reconciled twice weekly. In addition to cash balances, the administration team also maintains a log of unsettled trades, which are reconciled daily with the trustee. Although the reconciliation processes inevitably remain manual, the use of WSO by both parties facilitates the process.

Investor Reporting and Communication

Alcentra is committed to delivering timely and transparent information to all investors. Monthly trustee reports are complemented by portfolio commentaries prepared by the portfolio managers. These typically consist of an overview of the diversity of the portfolio, a comment on any trends in the Weighted Average Rating Factor (WARF), Weighted Average Recovery Rate (WARR) and Weighted Average Spread (WAS), and a brief outlook for the portfolio. Additionally, prices are provided on all positions in the portfolio. In Fitch's opinion these reports provide a concise and timely insight to investors. All trustee reports are distributed by the trustee, and are also available through Alcentra's website at www.alcentra.com. On the website, investors can also access offering circulars, and the latest prices on all positions, which are updated twice monthly. Alcentra actively engages with investor requests for further information, as demonstrated by the strengthening of its marketing team (see *Staffing*), and through its commitment to treating all investors equally (evidenced by the use of its website as the main tool for distributing any additional information).

Alcentra's score of '1' for CDO administration is driven by the use of robust and well-tested CDO administrative systems, the very good support provided by the administration team, the very good interaction with the trustee, and its demonstrated commitment and transparency to its investors.

Technology, 1-

Alcentra's technology is an adequate match to the requirements of CDO management and credit research practices. Its main tools are WSO for CDO administration, complemented by spreadsheet-based solutions for asset analysis and Intex for equity valuation.

Front- to Back-Office Systems

Alcentra does not have, nor in fact need, a sophisticated front-to-back trading or portfolio management system. Instead, its IT requirements are more than adequately met through its core system for portfolio monitoring and loan administration - WSO. Nonetheless, in 2008 it added the Geneva net asset value calculation tool, provided by Advent, for use on the funds.

The spreadsheets used for credit research (modelling) and surveillance are adequate for Alcentra's requirements and are complemented by the portfolio analysis provided through WSO. On the liability side, Alcentra does not have a proprietary cash flow model for stress testing structures. It does, however, have Intex, currently used to value the equity of its CLOs under management. With the addition of Hiram Hamilton as Head of Credit Structuring, Alcentra now has the required skill-set to build its own proprietary cash flow model.

Portfolio Management Systems

WSO is used as the main CDO administrative tool across all CLOs, and was implemented in 2001. As a result, Alcentra has a very long relationship with FCS (the provider of WSO), and, given Alcentra's CDO AUM, is one of FCS's leading clients in Europe. This contributes to Alcentra receiving preferential treatment from FCS, further improving the efficiency of Alcentra's CDO administrative systems and processes.

WSO provides a complete suite of CDO administrative modules, all of which are implemented and tested. These include risk management functions that allow for the tracking of the size of all positions across the portfolio, detailed asset and portfolio tracking functions and cash balance reconciliation functions. In addition to the standard modules (compliance, reporting, etc), FCS has provided a number of custom tools to Alcentra, in response to Alcentra's specific requirements. These include tools such as the "scheduler", which updates all compliance tests daily and drives portfolio manager information packs, and an automatic trade ticket generator that complies with all trustee requirements and precludes the possibility of any human error. Alcentra has installed the latest version of all modules of WSO, resulting in improved run-times and increased operational efficiency. The recently developed WSO internal rate of return calculation tool will be added shortly.

Reporting

Comprehensive reporting functionality, integral to trustee reconciliation, is provided through WSO at individual asset, as well as portfolio and enterprise-wide levels. Additionally, WSO is integrated to front-office systems, including the portfolio manager information packs. These packs, prepared weekly, are spreadsheet-based and driven by data dumps from WSO. These produce snapshots of key metric performance and portfolio diversity; they form the basis for the supplemental portfolio manager commentary reports. Other front-office systems include the asset monitoring spreadsheets that are updated with monthly and quarterly account and budget information on every asset and used for performance monitoring and relative value analysis. Alcentra's models for individual assets are standardised, proprietary, spreadsheet-based tools used for scenario analysis (see *Portfolio Management*). Alcentra subscribes to LoanX and Markit Partners for third-party marks on its loans under management. As of 2008, Alcentra had integrated, automatic price feeds from LoanX to WSO, thus providing more responsive reporting. All portfolio managers and analysts have access to Bloomberg.

Alcentra does not have an in-house IT support team, preferring instead to outsource this function and concentrate on its core competency in CLO and leveraged loan management. Since 2003, Alcentra has used a consultant to provide all IT support, co-ordinated by the office manager. Consultants are used regularly to produce bespoke reports and to aid in projects, such as the automatic integration of LoanX prices to WSO in 2008. Appropriate disaster recovery systems are in place, including a disaster recovery centre located in Kent, daily tape back-ups of all core systems and off-site mirror servers.

Alentra's score of '1-' for technology is driven by the appropriate level of technology for Alcentra's needs, predominantly based around WSO. The score also factors in the use of spreadsheet-based applications for credit research and monitoring, and the addition of the appropriate skill set to develop a proprietary cash flow model.

CDO Performance, 2+

The performance of all Alcentra's CLOs under management continues to be good over a long period of time, and more recently, in a more challenging market environment.

Summary information on all Alcentra's CLOs under management is presented below, with detailed commentary on those transactions that are not rated by Fitch and have more than two years' performance track record. Current information on those CDOs rated by Fitch is available through the agency's CDO SMART surveillance tool at www.fitchratings.com, including performance metrics, time series data and commentary by Fitch analysts.

Jubilee CDO I

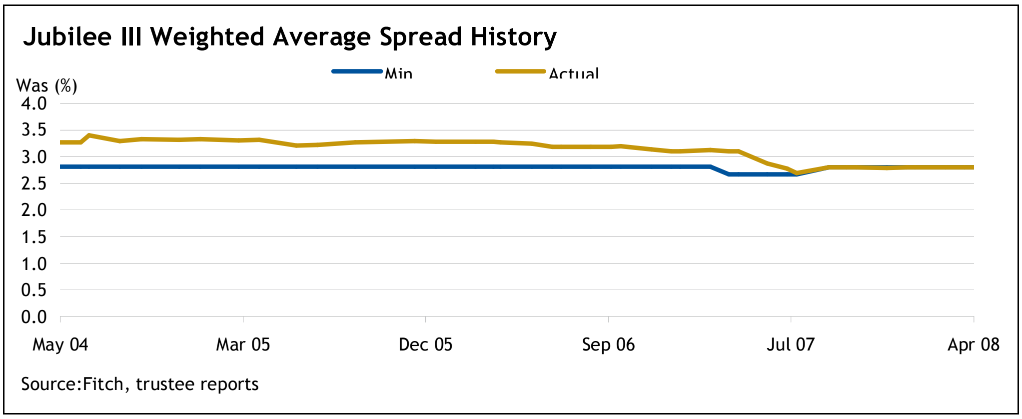
Jubilee CDO I was a EUR482m securitisation of European HY loans that was rated by Fitch and launched in 2001. Jubilee CDO I was called in December 2006 at a 12% equity IRR, with all rated notes paid in full. During the life of the transaction there were no downgrades of any of the rated notes and portfolio stability was delivered. WAS, WARF and WARR levels remained in compliance, as did overcollateralisation (OC) and interest coverage (IC) tests. A low average balance of 1.95% 'CCC' assets was maintained, while defaults were also low, given the vintage, at EUR6.5m. The transaction was kept well invested, with an average cash balance of 7.7%, higher during the ramp-up period and following the end of the reinvestment period.

Jubilee CDO II

Jubilee CDO II is a EUR460m cash flow securitisation of European HY loans (80% senior, 20% mezzanine), that is rated by Fitch and was launched in 2002. A new issue report dated 2 July 2002 is available from www.fitchratings.com, along with further detailed performance data and commentary through the agency's CDO SMART tool. There have been no defaults to date, and the last rating action taken by the agency was an affirmation of all classes of notes on 18 December 2007. The transaction finished its reinvestment period in July 2007 and, as a result, will begin to amortise in due course. Equity performance has been in-line with expectations, although the agency would not expect the transaction to be called unless loan prices move closer to par.

Jubilee CDO III

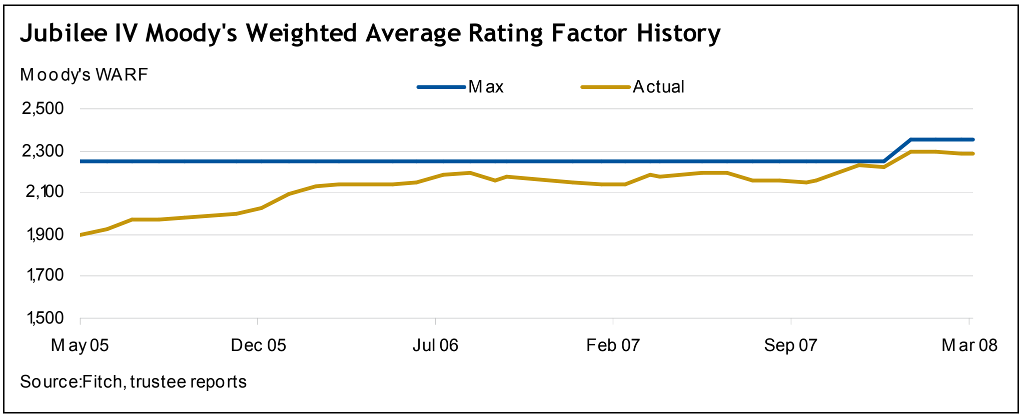
Jubilee CDO III is a EUR350m cash flow securitisation of European HY loans (80% senior, 20% mezzanine) that priced in December 2003 and closed in January 2004. The reinvestment and non-call periods expire in April 2009. Portfolio quality has been stable, with only one default, which has not had a substantial impact either on OC levels or equity performance. As of April 2008, the WAS and Moody's WARF tests were in breach of covenanted levels, while the Moody's WARR was in compliance. The WAS stood at 2.79% compared to a minimum level of 2.80%, its first breach of that test, while the Moody's WARF stood at 2,326 (roughly equivalent to a 'B1' rating) compared to a maximum level of 2,250, and the Moody's WARR stood at 62.58% compared to a minimum level of 62%. The following chart shows the evolution of the WAS in Jubilee CDO III over the life of the transaction to date:



The portfolio has been kept very well invested, averaging 96.5% invested to date. This has translated into strong equity performance, with around 75% of the equity note notional returned to investors after the 15 quarterly distributions up to and including April 2008. Class A-2, B and D were upgraded by Standard & Poor's in July 2007, and there have been no rating actions on any of the other rated notes.

Jubilee CDO IV

Jubilee CDO IV is a EUR410m cash flow securitisation of European HY loans consisting of 75% senior loans, a maximum of 20% mezzanine loans and a 5% HY bond bucket. Jubilee CDO IV priced in July 2004 and closed in August 2004, with the ramp-up completed in only four months, compared to a nine month covenant. The six year reinvestment period expires in 2010. Portfolio quality has remained consistently stable and there have been no defaults to date. OC and IC levels have remained stable, with the class E OC at 108.96% compared to a minimum test level of 103.5% as of April 2008. The WAS, Moody's WARF and WARR were also all in compliance with covenanted levels. The following chart details the performance of the Moody's WARF over time, which stood at 2,284 (approximately equivalent to a 'B1' rating) compared to a maximum level of 2,350 as of April 2008:
The portfolio has also been kept very well invested, averaging around 95.5% invested to date. Equity performance has been particularly strong in this transaction, with well over 100% of the equity notional returned to investors after seven semi-annual distributions up to and including April 2008. This is among the strongest CLO equity performances known to the agency in Europe. There have been no downgrades of any of the rated notes to date.



Hamlet I

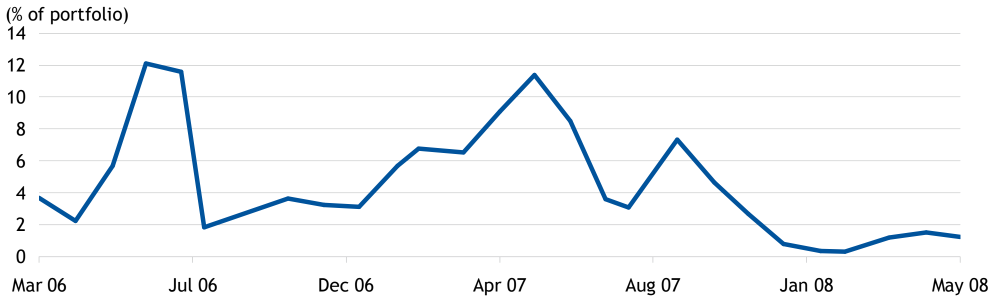
Hamlet I is a EUR300m low levered (4X) fund that priced in March 2005 and closed in April 2005. The portfolio consists of 100% senior loans and was fully ramped up after only three months, compared against a 13 month covenanted period.

Jubilee CDO V

Jubilee CDO V is a EUR555m CLO that priced in May 2005 and closed in June 2005, with a minimum of 75% senior loans, a maximum of 25% mezzanine loans and a 5% HY bond bucket. The deal was ramped up in three months, compared to the covenanted seven months. Jubilee CDO V has demonstrated good performance to date. Portfolio quality has been stable, with no defaults and currently no 'CCC' assets in the portfolio. Additionally the WAS, Moody's WARR and Moody's WARF are all in compliance with covenanted levels. As of May 2008, the WAS stood at 2.89%, compared to a test level of 2.51%, while the weighted average additional PIK interest test stood at 4.01% compared to a minimum level of 3.50%. The Moody's WARF was 2,285 (again, approximately equivalent to a 'B1' rating) compared to a minimum level of 2,350, and the Moody's WARR stood at 57.3% compared to a minimum level of 56.5%.

The portfolio has been kept well invested at around 95% to date, as documented in the following chart:

Jubilee V Principal Cash Balance History



Source:Fitch, trustee reports

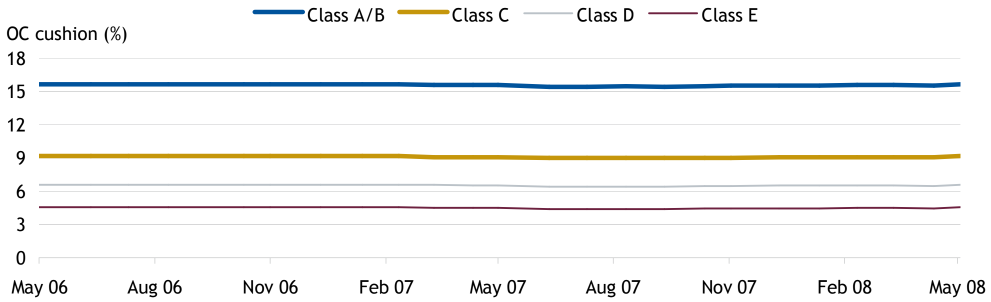
This chart demonstrates Alcentra's appropriate deployment of cash since May 2007. In particular post credit crunch it has reduced its cash balance substantially, having taken advantage of the availability of low priced assets.

There have been no downgrades of the rated notes and as of the February 2008 distribution date, over 40% of the equity notional had been returned to investors after five semi-annual coupons.

Wood Street CLO I

Wood Street CLO I is a EUR460.65m CLO that priced and closed in September 2005, with a minimum of 90% senior and a maximum of 10% mezzanine loans, and a 5% HY bond bucket. The transaction was ramped up in four months, compared to a covenanted level of eight months. The performance of the transaction has been very stable to date, as demonstrated by, for example, the stability of the OC ratios over time:

Wood Street I OC Cushion History



Source:Fitch, trustee reports

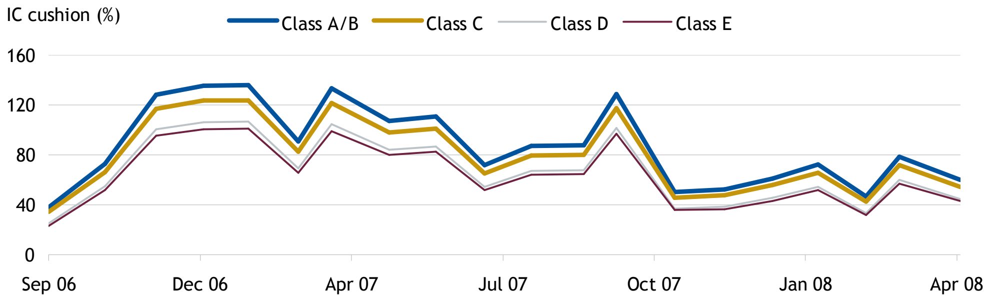
The key portfolio metrics (WAS, Moody's WARF and WARR) are also in compliance with covenanted levels, along with all of the portfolio profile tests. There have been no defaults, although almost 1% of the portfolio was rated 'CCC' as of May 2008. The portfolio has been kept well invested, with an average cash balance of around 6% (currently at a lower level of 3.8% principal cash).

On the liability side, there have been no downgrades of the rated notes and equity performance has been on target. Almost 38% of the equity note notional has been returned to shareholders after five semi-annual distributions up to and including May 2008.

Wood Street CLO II

Wood Street CLO II is a EUR400m CLO that priced in February 2006 and closed in March 2006, with a minimum of 90% senior and a maximum of 10% mezzanine loans. The transaction was ramped up in four months, compared to a covenanted level of six months. Once again, the agency notes that Alcentra has delivered very stable performance to date. There have been no defaults, although approximately 1% of the portfolio was rated 'CCC' as of April 2008. However, OC and IC levels are in compliance with covenanted levels. The following chart highlights the IC cushion over time in Wood Street II:

Wood Street II IC Cushion History



Source:Fitch, trustee reports

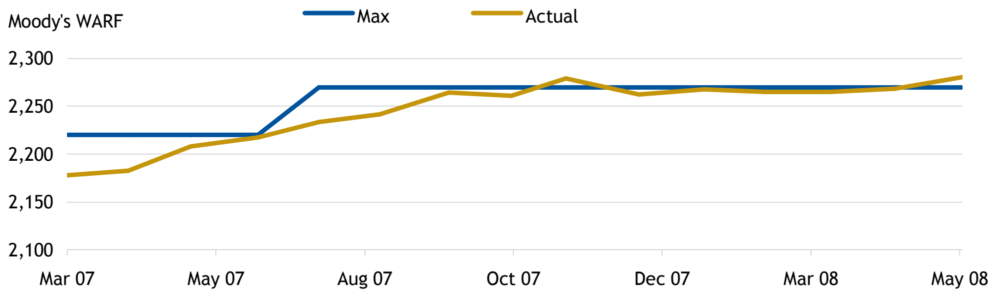
As of the April 2008 trustee report, the Moody's WARF was 2,264 ('B1') compared to a maximum level of 2,395. The weighted average maturity test was also in compliance at 6.01 years, compared to a maximum of 9.5 years. Similarly, the WAS and weighted average additional PIK interest tests were in compliance at 2.64% and 0.13%, compared to minimum levels of 2.50% and 0.11% respectively. All of the portfolio profile tests were in compliance with covenanted levels.

The portfolio has been kept very well invested, with a principal cash balance of only 2.7% on average (slightly better than some of Alcentra's other CLOs, but over a shorter period of time). There have been no downgrades of any of the rated notes and equity performance is once again on target with slightly more than 18% of equity notional returned to investors after four semi-annual distributions, including that of March 2008.

Wood Street CLO III

Wood Street CLO III is a EUR550m CLO that priced in May 2006 and closed in June 2006, with a minimum of 85% senior and a maximum of 15% mezzanine loans, and a maximum 5% HY bond bucket. The transaction was ramped up in three months, compared to a covenanted level of eight months. It has performed well to date, albeit over a relatively short period. Nonetheless, there have been no defaults and the portfolio is in compliance with all of the key portfolio quality metrics, save the Moody's WARF, which breached in May 2008; as of the May 2008 trustee report it stood at 2,280.16, compared to a maximum level of 2,270:

Wood Street III Moody's Weighted Average Rating Factor History



Source:Fitch, trustee reports

While the Moody's WARF has breached, the agency notes that there are no 'CCC' assets in the portfolio. All of the portfolio profile tests remain in compliance with covenanted levels. The portfolio has also been kept extremely well invested to date, averaging only 0.5% principal cash since June 2006.

On the liability side, there have been no downgrades to the rated notes. Equity performance has also been on target, albeit over a short period, with 20% of the equity notional returned to investors after the three semi-annual distributions to February 2008.

Jubilee CDO VI

Jubilee CDO VI is a EUR400m CLO that priced in July 2006 and closed in August 2006, with a minimum of 75% senior and a maximum of 25% mezzanine loans, and a maximum 5% HY bond bucket. The transaction was ramped up in three months, compared to a covenanted level of seven months.

Jubilee CDO VII

Jubilee CDO VII is a EUR500m CLO that priced in October 2006 and closed in November 2006, with a minimum of 90% senior and a maximum of 10% mezzanine loans, and a maximum 5% HY bond bucket. The transaction was ramped up in four months, compared to a covenanted level of nine months.

Wood Street CLO IV

Wood Street CLO IV is a EUR550m CLO that priced in December 2006 and closed in January 2007, with a minimum of 85% senior, a maximum of 15% mezzanine loans, and a 5% HY bond bucket. The transaction was ramped up in three months, compared to a covenanted level of eight months.

Jubilee I-R

Jubilee CDO I-R is a EUR900m CLO that priced in March 2007 and closed in April 2007, with a minimum of 75% senior and a maximum of 25% mezzanine loans and HY bonds. This CDO was a repackaging of Jubilee CDO I, which was called in December 2006. The transaction was ramped up in seven months, compared to a covenanted level of nine months.

Wood Street CLO V

Wood Street CLO V is a EUR500m CLO rated by Fitch that priced in May 2007 and closed in July 2007, with a minimum of 90% senior and a maximum of 10% mezzanine, second lien loans and HY bonds, and a 5% HY bond bucket. A new issue report, dated 27 November 2007, is available from www.fitchratings.com, along with further performance data and commentary through the agency's CDO SMART tool.

Wood Street CLO VI

Wood Street CLO VI is a EUR325.8m CLO rated by Fitch that priced in August 2007 and closed in August 2007, with a minimum of 90% senior and a maximum of 10%

mezzanine, second lien loans and HY bonds, and a 5% HY bond bucket. A new issue report, dated 21 September 2007, is available from www.fitchratings.com, along with further performance data and commentary through the agency's CDO SMART tool.

ECF Financing CLO B.V.

ECF is a EUR200m low-levered fund that closed in April 2008. The portfolio consists of 90% senior loans and was fully ramped at close.

Jubilee CDO IX

Jubilee CDO IX is a EUR372m CLO that was launched in late June 2008.

Appendix A

Staffing Summary

	Background highlights
David Forbes-Nixon Chairman and CIO 22 years' industry experience 11 years' company tenure	• Founding member of Alcentra, Chairman and CLO portfolio manager. • 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. • BSc (hons.) in Chemical Engineering from Birmingham University.
Paul Hatfield Managing Director and Senior Portfolio Manager 22 years' industry experience Six years' company tenure	• CLO portfolio manager. • 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. • BA (hons.) in Economics from Cambridge University.
Graeme Delaney-Smith Executive Director and Head of Mezzanine Investments 15 years' industry experience Four years' company tenure	• 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 (CA).
Robert Bennett CFO & COO 18 years' industry experience Five years' company tenure	• Responsible for group finance. • 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 CA.
Julian Colville Executive Director Investor Relations and Strategic Planning 13 years' industry experience Three years' company tenure	• Responsible for investor relations, marketing and strategic initiatives. • Previously worked at Barclays Capital in the strategic planning team and at Booz Allen Hamilton in the financial services practice. • Five years at Robert Fleming in institutional equity sales. • MBA from London Business School and MA in History from Edinburgh University.
James Algar Executive Director Transaction Management and Head of Compliance 25 years' industry experience 11 years' company tenure	• Head of Administration team and Head of Compliance. • 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.
Kevin Lennon Executive Director and Head of Credit 19 years' industry experience Seven years' company tenure	• 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 head office credit committee.
Stuart Medlen Executive Director Eight years' industry experience Four years' company tenure	• Responsible for CDO portfolio monitoring, trustee oversight and interaction with other third parties. • Previously worked as an Assistant Treasurer for JP Morgan's Institutional Trust Services for four years. • BA (Hons) Literature and History from the University of Greenwich.
Hiram Hamilton Executive Director and Head of Credit Structuring 10 years' industry experience Less than one years' company tenure	• Responsible for credit structuring, cash flow modelling and equity valuation. • 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.

Source: Alcentra

Glossary

Glossary

Alcentra	Alcentra Ltd
AUM	Assets Under Management
BCAM	Barclays Capital Asset Management
BNY Mellon	The Bank of New York Mellon Corporation
CAM	CDO Asset Manager (Rating)
CDO	Collateralised Debt Obligation
CLO	Collateralised Loan Obligation
FCS	Financial Computer Software, provider of WSO
HY	High Yield
IC	Interest Coverage
OC	Over Collateralisation
PIK	Payment In Kind
PM	Portfolio Manager
WARF	Weighted Average Rating Factor
WARR	Weighted Average Recovery Rate
WAS	Weighted Average Spread
WSO	Wall Street Office

Source: Fitch

Rating Summary

Alcentra Limited

Composite Ratings

To capture the combined effects of asset manager attributes, as measured by CDO asset manager ratings, the seven category ratings are weighted as detailed below in calculating a composite rating.

CDO Asset Manager Rating Category

	Weight (%)
Company and management experience	15
Staffing	10
Procedures and controls	10
Portfolio management	25
CDO administration	10
Technology	10
CDO performance	20
Total	**100**

Source: Fitch

The composite rating is used to establish a systematically applied quantitative link between asset manager ratings and CDO rating criteria as detailed in Fitch's "*Global Criteria for Reviewing and Rating CDO Asset Managers*", criteria published on 2 January 2008, available at www.fitchratings.com. CDO asset manager ratings are reviewed annually and surveilled quarterly.

For any future European leveraged loan CDO issued by Alcentra, Fitch will use the composite rating to calibrate the maximum allowable adjustment to its modelled rating default rate at each rating level with a Fitch rating.