

FITCH AFFIRMS ALCENTRA LTD'S ASSET MANAGER RATING AT 'HIGHEST STANDARDS'

Fitch Ratings-London-12 August 2013: Fitch Ratings has affirmed Alcentra Ltd's (Alcentra) Asset Manager Rating at 'Highest Standards'. The Outlook is Stable.

KEY RATING DRIVERS

The affirmation reflects the strength and stability of Alcentra's sub-investment grade business. Alcentra's key strengths include the depth of its sub-investment grade credit investment experience, the ability to retain key and well qualified staff, its robust two-stage credit process and an experienced and well-resourced operations team. Alcentra benefits from the support, resources and expertise of its parent, the Bank of New York Mellon (BoNY; 'AA-/Stable/'F1+').

Alcentra's strategy continues to focus on selectively expanding based on its core skills as a sub-investment grade asset manager, notable into direct lending, with its participation in HM Treasury's Business Finance Partnership in 2012. Fitch believes Alcentra is well positioned in its progression from a CLO manager to a fully diversified sub-investment grade credit asset manager.

The main challenge facing Alcentra is to build a dedicated risk team and fully embed this into the investment decision making process. The presence of a well-functioning, independent risk committee enables Alcentra to reach a 'High' score in the controls category.

Alcentra's 'Highest Standards' rating is based on the following category scores:

Company: Highest
Controls: High
Investments: Highest
Operations: Highest
Technology: Highest

Asset manager operations in the 'Highest Standards' category demonstrate an operational framework that Fitch considers superior relative to international institutional investor standards, in comparison to similar specialist asset managers. The asset manager rating covers all of Alcentra's European credit management activities.

COMPANY

Alcentra as a company meets the highest standards demanded by international institutional investors. Alcentra benefits from the support it receives from its parent BoNY both in terms of seed capital provision and the supporting control frameworks present. Alcentra remains a highly profitable business. Alcentra employs experienced staff across all business areas, with little turnover seen since the company's inception.

CONTROLS

Alcentra's control environment is of a high standard, with a suitable and well defined control structure commensurate with the size of its operations. Relevant policies and procedures are well documented, leveraging from BoNY's expertise and resources. A risk committee, independent of portfolio managers, meets monthly to monitor investment risk. Alcentra does not currently employ dedicated risk staff. Fitch views positively the imminent hire of a dedicated risk manager.

INVESTMENTS

Alcentra's investment capabilities are consistent with highest investor standards. Credit selection is disciplined and driven by thorough and well-established investment processes. Alcentra's two-stage credit approval process consists of a preliminary screening of a credit, followed by a more detailed due diligence process. An investment committee formalises the process. Portfolio monitoring is

on-going, with dedicated watch-lists for credits that require additional attention. A formal review of all credits is conducted on a quarterly basis. Access to market information is well developed via multiple data feeds into Alcentra's front office system, Everest.

OPERATIONS

Alcentra's operational capabilities meet the highest investor standards. Alcentra's capabilities revolve around its strong operations team, use of appropriate systems and its effective processes. Alcentra's systems are fully customisable for any type of mandate and investment vehicle. This has been evidenced by the increasing range of products and mandates that Alcentra runs on its platform with no operational issues noted, with an increase in mandate assets under management (AUM) of 80% over one year. Alcentra benefits from strong relationships with its administrators, custodians and trustees at all levels.

TECHNOLOGY

Alcentra's technology platform meets the highest investor standards. This reflects the adaptability of the front-office Everest system, which allows access to real time, customisable data flows, for both portfolio and risk management purposes. Everest allows a straight-through process via Wall Street Office (WSO), the industry standard software for loans. Intex and Clarity are utilised for structured credit analysis, whilst Barclays POINT is increasingly used for high yield (HY) bonds. Alcentra hired a chief technology officer in 2013 to assist with future system developments.

COMPANY PROFILE

Alcentra is a specialist sub-investment grade debt manager, with AUM of EUR8.6bn at end-May 2013. Formed in 2002 in the US and 2003 in Europe, it was acquired in January 2006 by BoNY. It manages secured loans (including direct lending), high yield bonds, stressed/distressed credit, mezzanine loans and structured credit through funds, mandates and CLOs. Alcentra employs 54 staff, of which 23 are investment professionals. Alcentra is increasingly adopting a multi-strategy credit approach, leveraging from the HY expertise of the Alcentra NY LLC team (which incorporated the Standish HY team during 2013). Alcentra have also recently hired a senior HY portfolio manager and HY trader to bolster expertise in this area.

RATING SENSITIVITIES AND SURVEILLANCE

The rating may be sensitive to material adverse changes to any of the aforementioned rating drivers, notably through weakened financial conditions, heightened staff turnover or deterioration of processes and policies. A material deviation from Fitch guidelines for any key rating driver could cause the rating to be downgraded by Fitch.

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

Applicable criteria, 'Asset Manager Rating Criteria', dated 22 April 2013, is available at www.fitchratings.com.

Applicable Criteria and Related Research:

Asset Manager Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=706476

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