

## Fitch Downgrades ERAAM to 'M2-' on Reduced Profitability

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Fitch Ratings-Paris/London-24 November 2009: Fitch Ratings has today downgraded Europanel Research and Alternative Asset Management's (ERAAM) asset manager rating to 'M2-' from 'M2' for its fund of hedge funds (FoHF) investment activities.

The downgrade reflects ERAAM's diminishing profitability as a result of declining assets under management (AUM), which may prove challenging in the context of ERAAM's corporate independence. The 'M2-' rating reflects the experience of ERAAM's portfolio managers, its exclusive focus on hedge funds managed by mostly-regulated European-based asset managers. Hedge fund selection and portfolio construction processes are disciplined and well documented, while portfolio investment risk is adequately and systematically monitored.

Like many FoHF managers, ERAAM experienced large investor redemption pressures between October 2008 and March 2009, which saw its AUM decline by 50% from EUR850m at end-September 2008. This has created some investor concentration and undermined the company's profitability. The firm has adequate liquidity to face short-term pressure and is expecting to report a small profit for 2009. The deterioration in profitability may nevertheless prove challenging in the context of ERAAM's corporate independence and restoring AUM growth momentum while improving financial performance are key challenges for ERAAM in 2010. Bearing these challenges in mind, ERAAM has repositioned its product offering to better meet investor requirements through a more pronounced differentiation of products designed for institutional investors from those targeting private banks, as illustrated by its newly launched fund, which is targeted towards institutional investors.

The company's hedge fund selection and portfolio management have proved overall robust through the global financial crisis, maintaining a clear focus on fundamentally-driven European based hedge fund managers. An externally-developed quantitative tool provides good support for hedge fund analysis, portfolio construction and portfolio analytics, using NAV time-series. In addition, investment risk on hedge funds and FoHF is well monitored based on market sensitivity indicators and full or semi-transparency on underlying portfolios. In response to the crisis, further emphasis has been placed on the monitoring of hedge funds' liquidity and leverage.

Investor reporting documents, both standard and ad hoc, offer a good level of transparency to investors. The operational platform and procedures are adequate given current volumes, notably as the implementation of a master/feeder structure in October 2009 for multistrategy and long/short equity FoHF allowed further streamlining of operations.

Asset manager operations in the 'M2' category demonstrate low vulnerability to operational and investment management failure. In accordance with the applicable criteria report 'Reviewing and Rating Fund of Hedge fund Asset Managers', dated 22 June, 2009, ERAAM's 'M2-' rating is based on the following category scores, which represents a scale from 1 to 5, with 1 as the highest possible score:

Company & Staffing: 3.25

Hedge Fund/Manager Selection: 2.00

Portfolio & Risk Management: 2.25

Investment Administration: 2.50

Technology: 2.75

ERAAM is a privately-owned Paris-based company focusing on alternative multi-management for institutional and private investors. At end-October 2009, the company employed 10 people and had EUR352m of AUM through open-ended funds and dedicated mandates to institutional investors.

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