

Fitch Downgrades UFG Alteram to 'FoHFM2-'

Fitch Ratings-London-17 December 2008: Fitch Ratings has today downgraded UFG Alteram's Investment Process rating to 'IP2-' (minus) from 'IP2'. It has simultaneously converted the rating to 'FoHF M2-' (minus), under Fitch's latest rating methodology for fund-of-hedge fund managers launched earlier this year.

The downgrade reflects the relative alteration of UFG Alteram's investment team, following the retirement of former CIO in early 2008 and the departure of the Head of Fund Selection in October, who has not been replaced. It also reflects increasing pressure on the asset manager's profitability as assets under management have declined sharply so far this year, driven by investor redemptions out of UFG Alteram's enhanced cash fund.

The rating continues to reflect UFG Alteram's thorough hedge fund selection and portfolio management, applied in a disciplined committee-driven process. It also takes into account the comprehensive legal and operational due diligence process carried out by an independent team and the robust technological platform supporting position-keeping, orders management and front-office operations. Finally, the rating factors in the backing of the CMNE group, UFG Alteram's reference shareholder.

The 11-strong investment team has been reorganised recently, with hedge fund analysts, quantitative analysts and portfolio managers now working closer with one another and directly reporting to the newly named CIO, who was formerly the most experienced portfolio manager at UFG Alteram. In this context, UFG Alteram will have to maintain the focus of its investment decision making process. The global investment universe is analysed and screened with care for hedge fund sourcing purpose. Hedge funds (95 invested currently) are monitored using a disciplined quantitative and qualitative approach, which has recently been stepped up to identify early any liquidation/restructuring risks.

Investment risk management for hedge funds and FoHF is very much embedded into the investment process. The oversight from the independent risk control team in this area is expected to expand. Liquidity risk is now more contained as UFG Alteram took advantage of the AMF (the French financial regulator) emergency measures to amend its FoHF redemption conditions at end-October 2008. The Monakea application, an externally-developed tool especially designed for the specific needs of fund-of-hedge fund management, provides an efficient technological environment for position-keeping, orders management and front office operations. It is complemented by the Cneo tool from Cogendi for hedge fund data management and statistical analysis, together with Risk Data and in-house quantitative tools for risk analysis and portfolio construction.

Asset managers in the 'FoHF M2' category have earned high scores in most areas of assessment. UFG Alteram's rating is based on the following category scores, which represent a scale from 1 to 5, with 5 as the highest possible score:

Company & Staffing: 3.00

Hedge Fund/Manager Selection: 2.25

Portfolio & Risk Management: 2.50

Investment Administration: 2.50

Technology: 2.00

Founded in 2001, UFG Alteram is a French asset management company dedicated to fund-of-hedge fund management. It is 63%-owned by a French banking group, Credit Mutuel Nord Europe (CMNE),

27% by its six co-founders and 10% by Compagnie Financiere du Credit Mutuel. Since 2006, it has been part of the UFG Group, which brings together all the asset management companies of CMNE. At end-November 2008, UFG Alteram managed a total of EUR1.8bn assets through France-domiciled FoHF portfolios. The product range comprises single-strategy and multi-strategy funds in a global investment universe.

The updated rating report will be available shortly on the agency's public website, www.fitchratings.com

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