



### Laffitte Equity Arbitrage

Monthly Reporting January 2010

#### Fund objective

Laffitte Equity Arbitrage's objective is to deliver an absolute performance which is uncorrelated to the stock market. To reach this goal the Fund detects Events and invests in Equity Long/Short positions in Europe and in North America.

#### Fund Management

The Fund is focused on arbitrage linked to mergers (mergers, covered pre merger, indices re-balancing following a merger, share class arbitrage) and arbitrage linked to other corporate events (right issues, dual listing, holding arbitrage and intra sector arbitrage following a special event).

From the universe of mid and large European and U.S. caps the asset managers detect such catalysts. This is the arbitrage «stock picking».

Then, the asset managers apply a probabilistic-statistical analysis of the arbitrage idea which determines the best level to open the position. This gives the arbitrage « Market Timing ».

Finally the asset managers optimize in a discretionary way the portfolio's allocation by evaluating the risk/reward of each position.

#### Characteristics of the fund

INVESTMENT COMPANY: Laffitte Capital Mt  
 TYPE OF FUND : UCITS III (Diversified Fund)  
 CUSTODIAN : RBC Dexia  
 AUDITOR : Cabinet Sellam  
 SYNTHETIC PRIME BROKER : Various Cpties  
 NAV : Daily  
 RECOMMENDED DURATION OF INVESTMENT : 2y  
 ALLOTMENT OF RESULTS : Revenues capitalised  
 SUBSCRIPTION FEE : 2% TTC Max  
 PART FOR THE FUND : None  
 MANAGEMENT FEES : 2% TTC  
 PERF. FEES : 20% TTC over EONIA capitalized  
 INITIAL VALUE (11.23.09) : €100  
 MINIMUM INVESTMENT : €1000  
 CODE BLOOMBERG : LAFEARA FP Equity

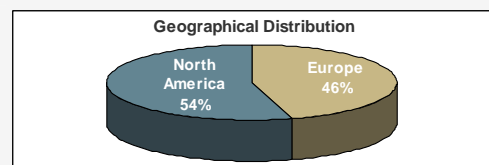
Isin FR0010807412 Fund's AUM : €4.01M

NAV 12/31/09 : 100.71

### Performance Analysis

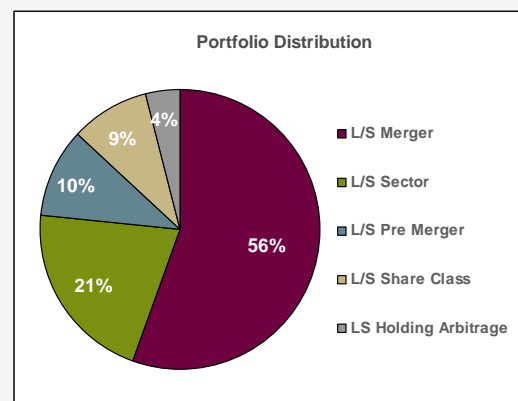
#### Monthly Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year Perf.
2009													+0.71%
2010	+0.00%												+0.00%



#### Performance Analysis

Month to date performance	+0.00%
Year to date performance	+0.00%
Performance since inception	+ 0.71%
Weekly volatility	1.47%
Number of strategies in the portfolio	40
New position over the month	29
Closed positions over the month	-13



### Comments

#### Environment

U.S. data (unemployment rate, real estate) and politics weighted upon the equity market in January. Actually, political leaders reminded the markets that TARP and recovery plans had compensations implications. We can mention the Volker plan in the United States to limit proprietary trading and specific financial investments (Private equity, Hedge funds) in universal banks but also the concern in many European countries of maintaining business in each country (risk of protectionism). Some investors took their profits especially in financial stocks. We consider that this set back of the market is beneficial following a nine months rally.

On the M&A side, there were very few announcements but this is often the case in the beginning of the year because this is a favourable period to arrange deals.

Many rumours fuel the market. In the short term, many offers could arise in specific sectors such as the pharmaceutical industry, IT sector, industry, oil and oil services sector and certainly the financial and insurance sectors.

#### Performance analysis

In a bear market (-3.70% for the S&P 500), Laffitte Equity Arbitrage had a « flat » performance over the month. The Fund suffered from volatility on pair trades in the last days of the month following the announcements of full year earnings. Profit made on Merger Arbitrage positions and right issues arbitrage has been balanced by intra sector Long/Short positions and covered pre-merger positions.

#### Event Theme

The fund profited from the tightening of many M&A spreads. We can mention in the United States the rebound of IMS Health and the payment of Sun Microsystems/Oracle offer. In Europe, the suspense on Cadbury has ended. Kraft finally won the game after they decided to improve the offer by offering more cash and less stock to partially satisfy a demand from one of their key holders Berkshire Hathaway. We entered the spread just before the bump when the spread was at a more acceptable level.

In the intra sector long/short cluster, many positions were profitable like long positions on Veolia and Qcom covered by a sectorial hedge. We took our profit on precious metals position (Long silver via Silver Wheaton Corp /Short Gold via Goldcorp).

In the last days of the month, a few pair trades widened following earnings announcements; this is the case for AMD/Intel and SK Telecom/KT Corp. On the last position, our short leg KT Corp continued its rally due to huge profits coming from its exclusivity on the Iphone distribution in South Korea.

Finally, regarding covered pre-merger, we had a loss on Man Group. Nevertheless we consider that this stock is a potential target thanks to its attractive industrial portfolio for a competitor. We kept this position.

#### Structure of Capital Theme

We were more active on this cluster in January and we tend to balance the portfolio with share class arbitrage. We did trading on Telecom Italia saving and ordinary shares over the rumours on a potential merger with Telefonica. We also opened a position on Fiat after the earnings. In addition, the fund took a position on Deutsche Euroshop AG rights issue.

#### Perspectives

Many rumours fuel the market. We are convinced that they will drive to a new wave of mergers. Conditions are met; companies' managements just need more visibility to open fire. Laffitte Equity Arbitrage is well positioned to take advantage of this market's situation.

17 rue du Quatre Septembre  
 75002 Paris - France  
 Tél. : +33 1 55 04 79 30  
 Fax : +33 1 55 04 78 28  
 contact@laffitecapital.com

www.laffitecapital.com