



Laffitte Risk Arbitrage II

Monthly Reporting March 2010

Isin FR0010762187

Fund's AuM : €24.04M

NAV 03/30/10 : 11286.33

Fund objective

Laffitte Risk Arbitrage II's objective in the medium term is to reach an absolute performance which is uncorrelated to the stock market, with volatility below 5% and by using leverage within the framework of the rules set forth by the French AMF.

Fund Management

Laffitte Risk Arbitrage II is an alternative fund dedicated to Merger Arbitrage in announced deals in Europe and in the United States.

In Practice, the position is to buy or sell the stocks (or other equities) which are the targets of a takeover deal (in cash, stocks or mixed cash and stocks) or a squeeze out.

A common position is to buy the target company at a price below the implied value of the offer (merger spread) and to keep the position till the settlement of the merger.

If the merger is a stock deal (or if the offer is mixed cash and stocks), a selling position on the buying company is put in place to capture the spread between the implied price of the offer and the price of the target company on the market.

When the probability of success looks to be too tight, an opposite position can be set up (selling the target in the case of a cash deal or selling the target company and buying the Purchasing company in the case of a stock deal).

Characteristics of the fund

INVESTMENT COMPANY : Laffitte Capital

TYPE OF FUND : FCP ARIA-EL

CUSTODIAN : RBC Dexia

AUDITOR : Cabinet Sellam

SYNTHETIC PRIME BROKER : # counterparties

NAV : Weekly

RECOMMENDED DURATION OF INVESTMENT : 3y

ALLOTMENT OF RESULTS : Revenues capitalised

SUBSCRIPTION FEE : 2% TTC Max

PART FOR THE FUND : None

MANAGEMENT FEES : 2% TTC

PERFORMANCE FEES : 20% TTC

INITIAL VALUE (12.19.07) : 10.000 €

CODE BLOOMBERG : LAFRSA2 FP Equity

Performance Analysis

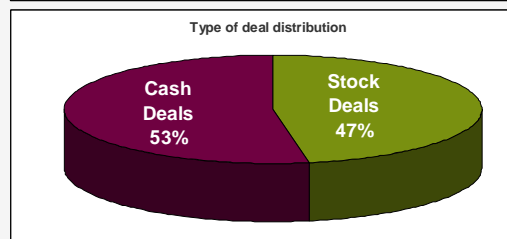
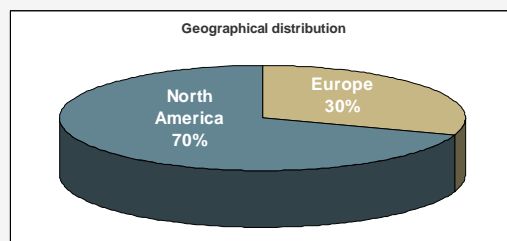
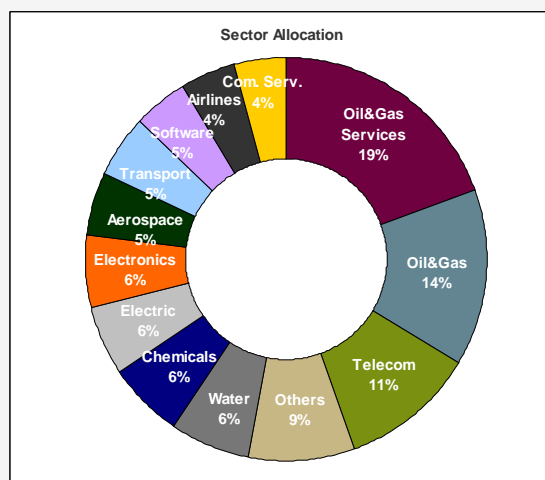
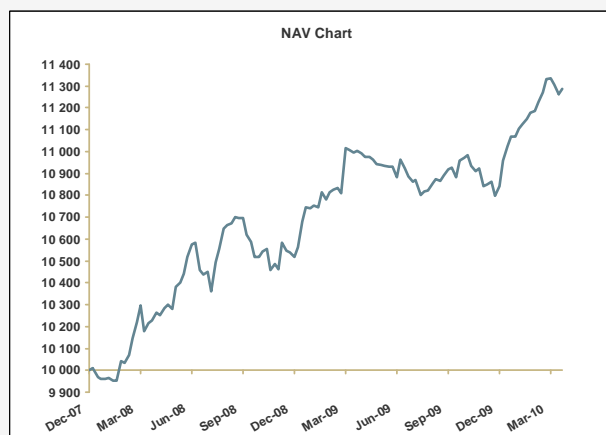
Monthly Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year Perf.	
2007													-0.41%	-0.41%
2008	-0.05%	1.93%	0.69%	0.83%	1.37%	0.14%	0.93%	1.39%	-1.71%	-0.59%	0.88%	1.65%	+7.90%	
2009	0.65%	0.15%	1.59%	-0.37%	-0.29%	-0.40%	-0.65%	0.47%	0.84%	-0.42%	-0.46%	1.89%	+3.00%	
2010	0.74%	1.07%	0.15%										+1.97%	

Laffitte Risk Arbitrage II was created on June 10th, 2009 in the continuity of Laffitte Risk Arbitrage that has been launched on December 11th, 2007 then suspended on September 15th, 2008 following the fail of its Prime Broker Lehman Brothers. All the holders of Laffitte Risk Arbitrage units swapped their units into Laffitte Risk Arbitrage II's units on June 11th, 2009. Laffitte Risk Arbitrage II's performance is in the continuity of Laffitte Risk Arbitrage's one. Nav is estimated between September '08 and May '09.

Performance Analysis

Month to date performance	+0.15%
Year to date performance	+1.97%
Last 12 month performance	+ 4.19%
Performance since inception	+12.86%
Sharpe ratio since inception	1.07
Monthly volatility since inception	3.17%
Maximum drawdown since inception	-1.71%
Number of strategies in the universe	45
since inception	365
Number of positions in the portfolio	21
new positions	+ 8
closed positions	- 8
Average duration of the universe (days)	85
Average duration of the portfolio (days)	63
delta since last month (days)	-2



Comments

M&A Market

Stocks markets surged in March (+7.43% for Eurostoxx 50 and + 5.88% for S&P 500) helped by economic datas in line with expectations. A comeback of a stabilized economy is on track but the states remain heavily in debt. Moreover unemployment in developed countries will stay at a very high level and for a long time.

We may expect more volatility in April following earnings' announcements for the first quarter. Actually although market earnings have recovered quite nicely in the past several quarters, investors remain cautious about the recovery, since so much of the recent improvement has come from cost-cutting measures and productivity enhancements rather than revenue growth.

In such situations, it may be an opportune time for companies to consider external growth opportunities, namely merging or acquiring competitors to supplement what is likely to be tepid organic growth in the coming quarters. Thus M&A activity is still expanding in the United States. Europe is late due to a lack of economy's visibility. We remain convinced that big operations will be announced in this quarter on this zone.

We can outline a number of offers in North America including MSCI Inc on Riskmetrics Group Inc for \$1.57Bln in the Financial services sector, Elliott Associates on Novell Inc for \$802M in the Business software sector, Abry Partners on RCN Corp for \$1.19Bln in the telecom services sector, Abbott Laboratories on Facet Biotech Corp for \$402M in the biotechnology sector and Quadra Mining Ltd on FNX Mining for \$1.19Bln in the Oil exploration sector.

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Moreover Consol Energy launched a bid on its subsidiary CNX Gas Corp for \$963M in the gas sector.

Finally, the long awaited buy back of Elf Aquitaine minorities by Total for €448M has been announced.

The offers of Denbury Resources Inc on Encore Acquisition Company, Europe No1 on FGX International, Stanley Works on Black & Decker and Pepsi Inc on its subsidiary Pepsi Bottling have been paid in March.

Performance analysis

Laffitte Risk Arbitrage II returned a positive performance of **+0.15%** over the month and a first quarter performance of **+1.97%**. We can mention that our universe of investment is improving with 45 potential investable mergers. If the M&A activity is rebounding in Europe during the second quarter, we hope to recover an average universe of investment with 60-80 potential mergers.

Whereas January and February remained pretty stable, we noticed a comeback of M&A spreads' volatility in March. A few positions have been stressed (Skillsoft, VTG) but they have been compensated by battles and bumps on other stocks (Terra Industries and Skillsoft). Globally, we profited from this volatility to increase our trading and dynamic approach of merger arbitrage.

The global exposure of the portfolio is still more American than European (70%) considering an average 75% exposure since inception. The ratio between cash deals and stock deals is now almost balanced. Finally a barrel of Crude Oil at \$80 makes mergers easier in the sector. Hence, a third of the portfolio is exposed to the oil sector.

Among the good returns, we can mention the offer of Cisco on **Tandberg** which has received the European antitrust on March, 29th. We expect a closing of the offer for mid April.

Moreover we reopened a position on **Terra Industries** following a new offer from Yara International Sa for \$3.43Bln after months and months of battle against hostile bids from CF Industries. The tenacity of CF Industries paid because it won the agreement from Terra's management after a last and better offer.

Other offers converged over the period: **3Com Corp** whose merger with Hewlett Packard at \$7.90 is waiting for Chinese Ministry of Commerce approval and **Smit International** whose merger with Boskalis Westminster should take place in April.

Bad news came from two mergers: Skillsoft and VT Group which is in a selling process with Babcock International.

On **Skillsoft**, we overpaid the initial offer at \$10.80 from a private equity group (Berkshire Partners LLC, Advent International Corporation and Bain Capital Partners LLC) by hoping an improvement of the offer. Market freaked out as Columbia Wanger, the main shareholder of Skillsoft (22.16% stake) did not confirm to have tendered its shares.

We profited from the weakness of the stock to increase our position. Finally, the private equity group decided to improve its offer to \$11.20 in order to convince Columbia Wanger. The Fund's March performance does not take account of this improvement because it happened after the last weekly valorisation of the month.

Then, **VT Group**/Babcock spread widened following buying rumours on Babcock whose the fund is short.

We increased our positions on Allegheny Energy, Encore Acquisition Company, Smith International, Inc, Riskmetrics Group Inc, CNX Gas Corporation, Millipore Corporation and on European airways companies Iberia / British Airways that should sign their merger agreement in April.

We opened and closed a position on **Corriente Resources Inc**, a Canadian-based resource development and exploration company specializing in copper and copper-gold opportunities and operating in Ecuador. This company is in a selling process to Chinese companies CRCC (China Railway Construction Corporation Limited) and Tongguan (Chinese Mining Conglomerate). In fact we quickly closed our position as the stock was falling following bad comments from Ecuadorian President about a Chinese financing of a dam in his country. We considered that the market was exaggerating and we bought back the position at a lower level. Since that time, the situation is improving but the stock is still under pressure.

Finally we closed our position on Enia/Iride considering that we made our expected profit and we think that the timetable could be longer than estimated.

Perspectives

We enter into an ideal era for M&A. Available cash in many companies, attractive stock prices, low interest rates and new buyers from emerging countries will contribute to the dynamism of the M&A market.

Nevertheless this new era has new risks, we will have to be very cautious on the type of new buyers, the competition issue and the risk of protectionism.

Our merger arbitrage approach is flexible. We consider the next months will be favourable to a dynamic approach of spreads trading.

Laffitte's News

Laffitte Capital Management will attend **Paris Eurohedge on April 21-22** at Paris Stock Exchange.

We will be pleased to meet you there and to welcome you at our office that is very close to the conference's place for a demo of our in-house asset management tools and database.