



Laffitte Risk Arbitrage II - Ucits III

Monthly Reporting June 2010

Isin FR0010762187

Fund's AuM : €37.02M

NAV 06/29/10 : 11519.20

Fund's 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's 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).

Fund's Characteristics

- INVESTMENT COMPANY : Laffitte Capital
- TYPE OF FUND : UCITS III (Diversified Fund)
- 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
- PERF. FEES : 20% TTC above Eonia capitalized
- INITIAL VALUE (12.19.07) : 10.000 €
- MINIMUM INVESTMENT : 100.000 €
- CODE BLOOMBERG : LAFFRA2 FP Equity

Performance Analysis

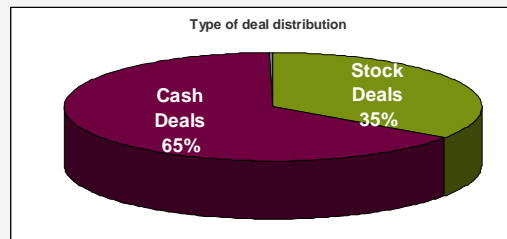
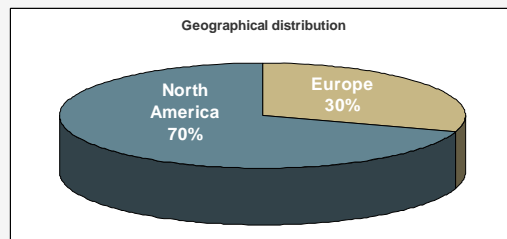
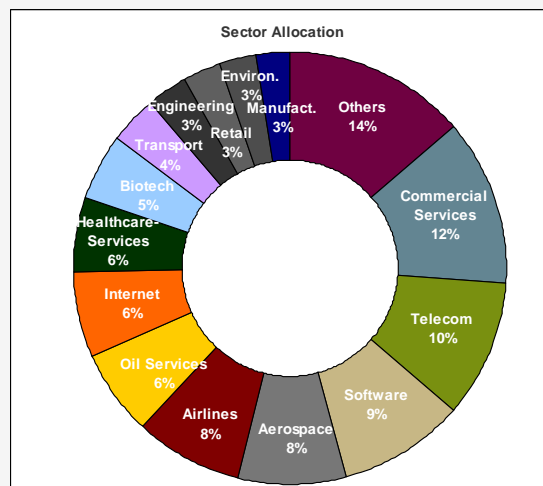
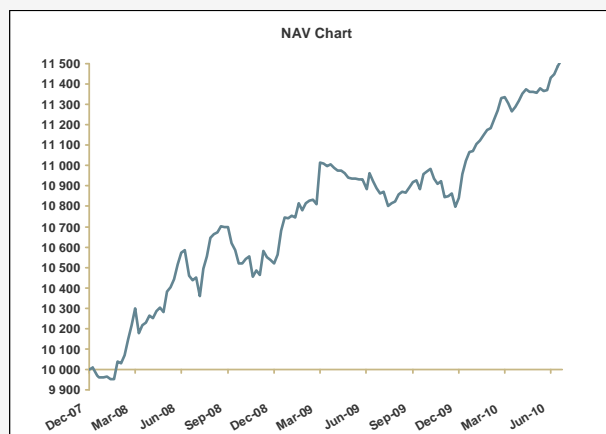
Monthly Performance

	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%	0.65%	0.06%	1.35%							+4.08%	

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, audited on 12/31/08. The Fund is Ucits III since 05/12/2010.

Performance Analysis

Month to date performance	+1.35%
Year to date performance	+4.08%
Last 12 month performance	+5.80%
Performance since inception	+15.19%
Sharpe ratio (last 12 months)	2.14
Monthly volatility (last 12 months)	2.41%
Maximum drawdown since inception	-1.71%
Number of strategies in the universe	59
since inception	422
Number of positions in the portfolio	31
new positions	+ 14
closed positions	- 12
Time to completion of the universe (days)	108
Time to completion of the portfolio (days)	60
delta since last month (days)	-13



Comments

M&A Market

After the very poor performance of equity markets in May, the month of June was marked by a strong volatility and a technical rebound followed by a new fall caused by tensions on sovereign debts. Doubts reach most European countries and investors fear that this worry could spread to the United States. Moreover, expectations of weaker growth in China increased even more the market instability. All the ingredients are gathered for a new period of doubt on the markets. Nonetheless, economies are recovering, though at a slower pace than expected but without surprise. We should undergo a few more years of high unemployment rate and high tax rate in order to meet the debt...

Improvement is confirmed in the M&A market in North America and Asia. The European activity is catching up, supported by a stronger dollar that encourage American companies to reinforce their activities in Europe.

We can outline a number of offers in North America including the offer from Celgène on Abraxis Bioscience Inc. for \$2.73Bln, the offer from the Spanish company Grifols on Talecris Biotherapeutics for \$3.91Bln in the biotechnologies sector, the offer from Biovail Corp on Valeant Pharma for \$2.43Bln in the pharmaceutical sector, the offer from Allscripts-Misys Healthcare on Eclipsys Medical in the medical information system sector and the offer from Covidien Plc on EV3 Inc on the medical instruments sector. Also, Ralcorp Holding issued an offer on American Italian Pasta for \$1.17Bln in the food sector, Gerdau Sa on 33.70% of Gerdau Amersteel Group for \$1.61Bln in the steel sector and finally Boeing on Argon for \$753M in the air equipment sector.

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

www.laffittecapital.com



Fund's 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's 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).

Fund's Characteristics

INVESTMENT COMPANY : Laffitte Capital
TYPE OF FUND : UCITS III (Diversified Fund)
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
PERF. FEES : 20% TTC above Eonia capitalized
INITIAL VALUE (12.19.07) : 10,000 €
MINIMUM INVESTMENT : 100,000 €
CODE BLOOMBERG : LAFRSA2 FP Equity

In Europe, Norway is still very active on the oil services sector with the acquisition of Subsea 7 Inc. by Acergy for Nok15.13Bln and the minority buyback of Prosafe Production (76%) by BW Offshore for NOK4.07Bln. We can note two American offers on British companies: News Corp on 60.86% of British Sky Broadcasting for £9.29Bln in the satellite TV sector and Apollo Global Management on Brit Insurance Holding in the insurance sector for £784M. Also, Emerson Electric improved the offer on Chloride for £1.03Bln after a first bid from DB Power Electronics.

In France, Eiffage launched a long-expected minority buyback on Société des Autoroutes Paris-Rhin-Rhone (13.73%) for €853M.

Europe also remains very active on capital increases. We can mention Theolia, Unipol and PA Resources AB.

Many offers were finalized in June as it often occurs with the end of the half year: Suez Environnement on Aguas de Barcelona, the Chinese consortium CRCC (China Railway Construction Corporation Limited) and Tongguan (Chinese Mining Conglomerate) on Corriente Resources Inc, Consol Energy on CNX Gas, Astelias Pharma on OSI Pharmaceuticals, MSCI on Riskmetrics, SSI Investments on Skillsoft and the noteworthy operation of Exxon Mobil on XTO Energy.

Performance analysis

Despite a very hesitant market impacted by strong volatility and slightly bearish movements, Laffitte Risk Arbitrage II takes advantage of good investments made in May and grew by **+1.35%** over the month and **+4.08%** over the first half year. This performance was followed by a decrease in monthly volatility which fell under 2.50%.

We recall that the managers had a conservative approach between April and May. They rarely took positions on potential overbids and kept a very low net exposure to the market and a strong exposure to American markets. The slide of equity markets had first a negative effect on potential counter bids and on pre-merger positions and later on LBO deals due to a fear on financing. The portfolio managers profited from this market to increase their positions on good quality industrial mergers (generally short term operations) and on specific LBO deals where financing is guaranteed or demanded by investors. The performance of June was positively impacted from these positions and strong returns from arbitrage operations are expected in the following weeks.

Applying our dynamic approach of spread trading, we did many buys and sells on merger spreads (Chloride, Casey's General Stores, Eclipsys Corp.). Many positions were either reinforced (Cybersource Corp, Dyncorp, EV3 Inc, Interactive Data Corp or Psychiatric Solutions) or opened (American Italian Pasta, Société des Autoroutes Paris-Rhin-Rhone, Stanley Inc., Gerdau Amersteel...).

Most positions contributed positively to the performance. We can mention CKE Restaurants, DynCorp International Inc., Mariner Energy in the U.S., Iberia/British Airways and VTG/Babcock in Europe.

As many spreads that were stressed in May tightened over the month, managers decided to decrease their positions on deals that could suffer from strong volatility during summer. Thus, the oil spill in the Mexican Gulf and the beginning of hurricane season made the managers clear their position on Mariner Energy/Apache Corporation. Globally, the exposure on the oil sector was cut to 6% from 30% a few weeks ago. Similarly, by fear of the problems raised by the Public Utilities Commission in several American States, the position on electric utilities Allegheny Energy/First Energy Corp. was closed.

In fact, mergers in the electric sector display a higher historical failure rate than the average. Moreover, this operation has a relatively long calendar and we should expect interesting opportunities until its settlement date.

Perspectives

The performance of Laffitte Risk Arbitrage II in June is coming from good decisions taken by its asset managers in May and is expected to grow all the more in the following weeks thanks to ongoing positions.

Moreover, the asset under management of the Fund increased by more than 50% over the month. This trend is confirmed in July and may be explained not only by the performance but also by the change of format (Ucits III) which opens the fund to a wider range of investors.

The increase of our assets under management will allow managers to set up arbitrage strategies by using more options which will improve the risk/return ratio of our positions.

We repeat that the current period is ideal to invest in merger arbitrage strategies thanks to an improving M&A market environment.

Laffitte's News

Laffitte Capital Management reinforces its risk management team

In order to improve our risk control process, Zakariae LHADJ-KACEM recently joined the Laffitte Capital Management team. Zakariae has experience in developing risk management systems and graduated from ENSEIHT engineering school, majoring in mathematics and computer sciences. He also has a master's degree in Financial Market from Panthéon-Sorbonne University.

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

www.laffittecapital.com