



Laffitte Risk Arbitrage II - Ucits III

Monthly Reporting July 2010

Isin FR0010762187

Fund's AuM : €50.34M

NAV 07/27/10 : 11536.75

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

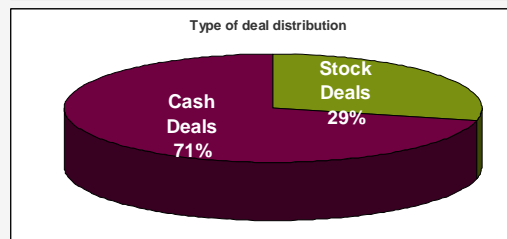
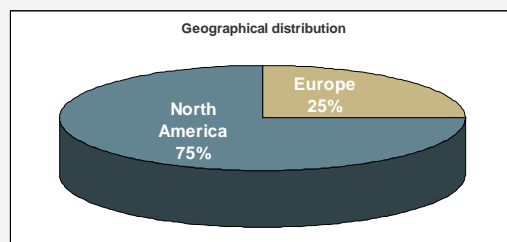
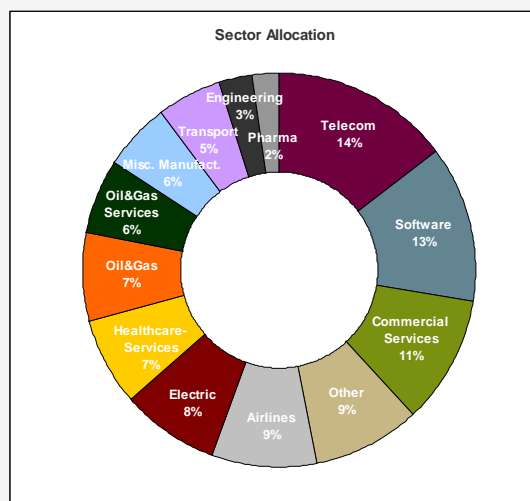
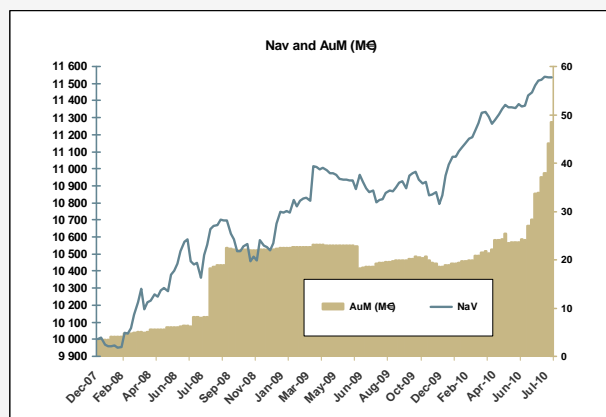
Monthly Performance

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Year Perf. |
|------|--------|-------|-------|--------|--------|--------|--------|-------|--------|--------|--------|-------|------------|
| 2007 | | | | | | | | | | | | | -0.41% |
| 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% | 0.15% | | | | | | +4.24% |

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 | +0.15% |
| Year to date performance | +4.24% |
| Last 12 month performance | + 6.66% |
| Performance since inception | +15.37% |
| Sharpe ratio since inception | 2.14 |
| Monthly volatility (last 12 months) | 2.41% |
| Maximum drawdown since inception | -1.71% |
| Number of strategies in the universe | 52 |
| since inception | 435 |
| Number of strategies in the portfolio | 25 |
| new strategies | + 4 |
| closed strategies | - 10 |
| Time to completion of the universe (days) | 98 |
| Time to completion of the portfolio (days) | 46 |
| delta since last month (days) | -7 |



Comments

M&A Market News

July was again a very volatile month for equity markets, characterized by a downward period during the first weeks, then by a strong rebound with the release of quarterly results. Players have been destabilized for a few weeks: statistics confirm a slow recovery of the economy, especially in Europe, but corporate results seem to be encouraging and are globally better than expected. Investors' uncertainty is clearly displayed in the volatility of financial stocks.

We can expect the markets to progress inside a tunnel for a few months, waiting for clearer signs of recovery. The size of debt and a gloomy employment market will still weigh in the conjuncture.

Concerning mergers and acquisitions, the activity is still recovering in North America with several deal announcements every week in spite of usually slow activity during summer. This recovery is firstly spreading to Europe via the UK and Scandinavian countries. Therefore, we expect an improvement of activity in September in the rest of Europe.

We can mention several deals in North America: the offer from Aon Corp on Hewitt Associates Inc. for \$4.62M in human resources, the new offer from Total on UTS Energy Corp for \$CAD1.05M in the oil exploring sector after a first aborted offer in April 2009, the offer from Tyco on ADC Telecommunications Inc for \$1.25M in the telephone equipment sector, the offer from Genco Distribution on ATC Technology for \$420M in the car equipment sector and finally the offer from General Motors which made a bid on AmeriCredit for \$3.3M in the car financing sector.

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In Europe, Travis Perkins plc made a bid on BSS Group for £640M in the construction equipment sector, Onex Corporation and the Canada Pension Plan Investment Board on made a bid on Tomkins Plc, a manufacturing group for an offer of \$4.37M and Reckitt offered £1,163 per SSL International stock in the medical products sector for a total of £2.5Md. Finally, Dana Petroleum got a bid from the Korean Knoc for £1.6 and then £1.7 per share.

A large number of deals were settled in July. We can mention the deals of Babcock on VTG, lesi-BFc on Waste Services Inc, Merck on Millipore, Covidien Plc on ev3 inc, Cerberus Capital on Dyncorp, Apollo Global Management on CKE Restaurants, de Ralcorp Holding on American Italian Pasta Co and Seadrill limited on Scorpion offshore limited in Norway.

Performance analysis

In a very nervous market, Laffitte Risk Arbitrage II begins the second quarter with a performance of 0.15% or 4.24% since the beginning of the year. This performance was followed with a slight drop in monthly volatility amid the strong volatility of the market.

We also noticed that most spreads tightened during the past month. Most of our positions contributed positively to the performance.

The dynamism of the market leads to a better diversification of the portfolio which is rebalancing slightly between Europe and North America. This diversification is also in terms of various sectors. With the exception of the financial sector and the real-estates/construction sectors, the mergers that have been mostly in the oil and oil services, pharmaceuticals and software sectors now concern services and industry.

Also, we noticed a strong drop in the failure rate of mergers which is slightly above 4% whereas the historical average is around 12%. This phenomenon can be explained by the characteristics of mergers that currently have a more industrial than financial purpose. Similarly, We observe fewer hostile deals which usually have a higher failure rate than friendly operations and which represent about 2/3 of failures.

With the tightening of the spreads and by applying our methodology of dynamic management, we preferred to close the positions that were judged useless to carry and having a small expected return in the future. Thus, because we want to keep enough cash for new operations, the fund has currently a low leverage.

We reinforced our positions in European deals (Sperian, Société des Autoroutes Paris-Rhin-Rhone and Arriva plc). We also bought and sold positions on mergers as Mariner Energy/Apache Corporation and Odyssey Healthcare. This last deal was stressed because Gentiva is undergoing an investigation from the SEC about its practices on hospitalization at home. This news led to a strong decrease of Gentiva stock price and led also to delay its debt issuing for the acquisition of Odyssey. We remain confident about this operation but we can expect Gentiva to increase the return on its future debt which will increase its acquisition cost.

Finally, even if the acquisition of Sonicwall by the pension fund Ontario Teachers and Thoma Cressey Bravo for \$11.50 was finalized, a bump announced at \$12 by a private equity group has been cancelled.

Perspectives

July was again a very active month regarding mergers and acquisitions. Activity is recovering in Europe via the UK. We are confident about the spread of this trend to the rest of western Europe in September.

We also think that some spreads are too tight and we prefer to decrease the leverage of the fund in expectation of new deals that will offer a better risk/reward ratio.

Thus, we repeat that the period is very favourable to invest in Merger Arbitrage thanks to the development of mergers whereas economy is recovering.

Laffitte's News

Laffitte Risk Arbitrage II has more than €50M under management

Our arbitrage fund just passed the symbolic threshold of €50million under management at the end of July. We want above all to thank all the clients that trusted us in such troubled times on financial markets.

This step is important for our structure that now manages more than €80M because it will allow us to reach more various investors and to diversify their repartition.

Also, the increase of our assets under management will allow us to use more options and to substitute positions in equity by positions in options which improve the risk/reward ratio of our strategy.

We recall that our fund has a capacity of €500M.

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