



Laffitte Risk Arbitrage II - Ucits III

Monthly Reporting November 2010

Isin FR0010762187

Fund's AuM : €7.93M

NAV on 11/30/10 : 11606.08

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

Performance Analysis

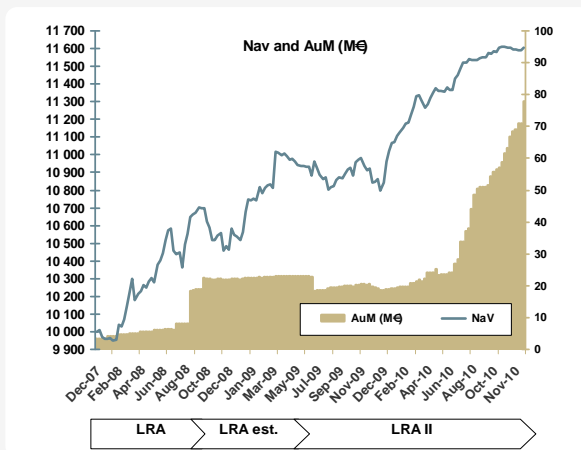
Monthly Performance

	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%	0.31%	0.26%	0.01%	0.02%		+4.86%

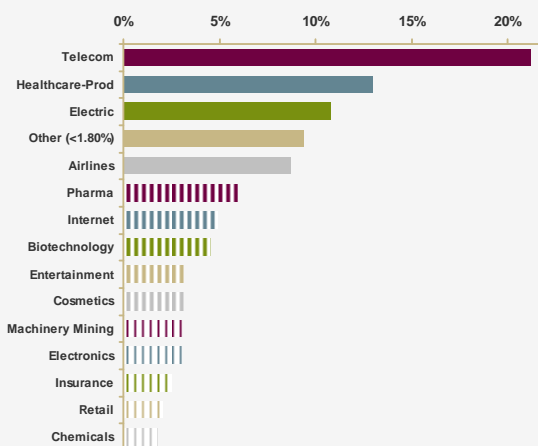
Past performance is not a reliable indicator of future results. No assurance is or can reasonably be given that the Fund's investment objectives will be achieved.

Performance Analysis

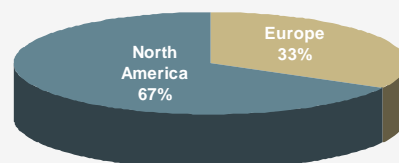
Month to date performance	+0.02%
Year to date performance	+4.86%
Last 12 month performance	+ 6.85%
Performance since inception	+16.06%
Sharpe ratio since inception	2.43
Monthly volatility (last 12 months)	2.26%
Maximum drawdown since inception	-1.71%
Beta since inception (vs Eurostoxx 50)	0.004
Number of strategies in the universe	75
since inception	532
Number of strategies in the portfolio	32
new strategies	+ 14
closed strategies	- 14
Time to completion of the universe (days)	70
Time to completion of the portfolio (days)	56
delta since last month (days)	-5



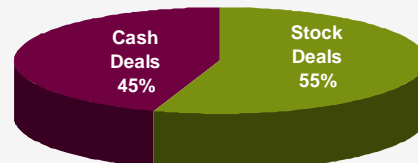
Sector Allocation



Geographical distribution



Type of deal distribution



Main announced deals over the month

Target	Buyer	Sector	Deal's size	Zone
Bucyrus International	Caterpillar Inc	Machinery Mining	\$8.608M	United States
Exco Resources Inc	Private investor	Oil exploration	\$5.183M	United States
Del Monte Foods	Private Equity (KKR...)	Food	\$5.099M	United States
Atlas energy Inc	Chevron Corp	Oil exploration	\$4.916M	United States
J Crew Group Inc	PE (TPG, Leonard Green)	Retail Apparel	\$2.637M	United States
Isilon Systems	EMC Corp	Memory devices	\$2.228M	United States
Novell Inc	Private Equity	Enterprise software	\$1.090M	United States
Ventana Gold	EBX Group	Gold Mining	\$1.026M	Canada
Ladish Co Inc	Allegheny Tech	Metal Processors	\$802M	United States
Draka Holding Nv	Prysmian SpA	Cables	\$1.191M	Europe

Comments

Environment

The battle continues between those who think the worrying situation of sovereign debt should lead the trend of the equity markets and those who believe that the equity markets are undervalued as evidenced by good earnings. The Irish crisis has been decisive this month leading the European equity markets to a new turmoil (-5.25% for Eurostoxx). High volatility will still reign over the market in the following months. In this environment managers will likely keep cash to be ready for external growth. According to Reuters data, companies outside the financial sector are sitting on cash and short-term investments worth \$1.88 trillion in Asia, \$1.3 trillion in the United States and \$1.17 trillion in Europe.

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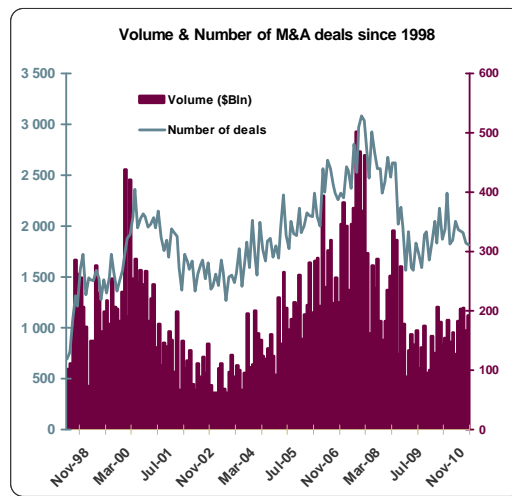
M&A Market News

Mergers and acquisitions have shown a cyclical aspect over the last years: two years of relatively low levels (2001-02 and 2008-09) followed by a strong rebound during four or five years. Considering the current crisis, we expect a less violent bounce of the activity than the last wave which was supported by LBOs. Helped by industrial mergers the new trend will be strong and constructive.

Last month's decline can be attributed to concerns that U.S. unemployment will remain high and economic growth will slow. While ambiguity over tax rules may lead to a pickup in deals in the near term, an extended increase in M&A will only occur when executives are comfortable they know where the economy is headed. This is the reason why mergers are more active in America and Asia than in Europe.

The sector's activity is also linked to a better visibility. Hence the volume of takeovers in the construction and mining machinery industry has surged six-fold in 2010 from the previous year, topped by Caterpillar's \$8.6 billion all-cash offer for Bucyrus, which is the largest deal ever announced in the sector.

U.S. technology and Internet companies are also very active and are paying the highest average deal premiums since 2001 as cash-rich acquirers buy companies whose growth potential exceeds their market valuations. The average premium for U.S. technology companies paid for publicly traded companies is 49 percent this quarter, the highest since 2001 when the dot-com bubble was deflating. That year, the companies paid an average premium of 52 percent for takeover targets.



Source Bloomberg

Disclaimer

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This report does not constitute any recommendation or investment proposal. It has no contractual value and may contain errors and/or omissions.

This report is neither an offer to sell, nor a solicitation to buy, an interest in the Fund. Any such offer, if made, would be made only by way of the offering documents of the Fund and only in jurisdictions where such offer would be lawful.

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. Laffitte Risk Arbitrage's Nav is estimated between September '08 and May '09, audited on December 31st, 2008.

The Fund has been converted from FCP ARIA-EL to FCP Ucits III on May 5th, 2010.

Performance analysis

Laffitte Risk Arbitrage II has a positive performance in November and shows a **+4.86%** return since the beginning of the year. The fund displayed positive performance for twelve consecutive months despite the high volatility.

We thought that the market has been driven by a too optimistic view of the merger arbitrage strategy since last September resulting in tightening the spreads. To manage this situation we could have increased more volatile pre-merger positions but we decided to respect the fund's strategy. We waited for stress on the market to enter spreads at more attractive levels. We remind you that capital preservation is at the core of our management decision process.

We also believe that December should be profitable because many companies are pushing to complete deals before the end of the year even after a Republican victory in the U.S. House of Representatives to ensure they won't be affected by any 2011 increases in capital gains taxes. Bankers are working to get deals done this year in case Congress raises long-term capital gains rates before the new term begins.

The performance's distribution had a high dispersion over the month. The fund took advantage of good news from several deals. **Qwest / CenturyLink Inc** received several State Communication regulators. Universal Health Services Inc completed its offer on **Psychiatric Solutions Inc**. We also had a profitable position on the cables producer **Draka Holding**. Nexans launched a first offer at €5 per share. Then the Italian company Prysmian improved the terms with a stock and cash offer. Finally during Prysmian press conference about the offer, a Chinese investor Xinmao launched a bid at €20.50. We decided to take our profit due to a lack of visibility on the financing conditions. The fund suffered from the offer of Air Product on **Airgas**. The war is fierce between the managers of both companies who have decided to open a lawsuit in Delaware. After a first in and out on the stock, we stayed aside the merger but we decided to reopen a position when Airgas dropped. Finally we mention that we stayed aside the offer from BHP on Potash that failed.

Over the month we have consolidated our positions on Bwin, Alberto-Culver Company and King Pharmaceuticals. We opened new positions on Bucyrus, Ladish Co, Del Monte Foods and Isilon Systems Inc. Moreover the fund benefited from the settlement of operations on Gymboree, Mariner, Aga Medical holding, ArcSight, Actel corp...

Perspectives

Merger arbitrage spreads are getting better due to a normalization of the M&A market. European banks are hiring a new M&A task force that is a good omen for the fund's strategy. Finally U.S. companies are working to get deals done before year end in order to cover a risk of long-term capital gains rates rise.

Laffitte's News



Laffitte CM nominated by Morningstar and Nyse for its Tremplin Multiratings Award in the "Absolute return" category

This prize rewards the capacity of innovation and the dynamism of the new French asset managers (among 200 asset managers).

We would like to take this opportunity to thank our clients for their trust.

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