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Fitch Places LFP's 'M2-' Asset Manager Rating on RWP Ratings

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Fitch Ratings-London/Paris-03 December 2009: Fitch Ratings has today placed La Francaise des Placements' (LFP) 'M2-' Asset Manager Rating on Rating Watch Positive (RWP), following its takeover by UFG group, the asset management arm of French banking group Credit Mutuel Nord Europe (CMNE). LFP is in the process of merging its operations with UFG IM, the traditional manager of UFG group. The RWP will be resolved once this ongoing merger is fully completed and the new combined operations thoroughly reviewed by the agency.

Fitch believes LFP will gain from being part of a larger group, renamed UFG-LFP, in term of size (EUR32bn Assets under Management (AuM) at end-August 2009), distribution channels and financial standing. The merger will also strengthen marketing, controlling and reporting teams and tools while increasing resources in alternative multi-management with the contribution of the former UFG Alteram - a fund-of-hedge fund specialist now folded into UFG IM.

In placing LFP's ratings on RWP Fitch expects its investment teams, external advisors as well as existing investment processes including its strong top-down approach would remain unchanged. The RWP also takes into consideration the overall stability of the organisation despite the ongoing merger and the companies' decision to maintain LFP's operational platform. The rating factors in the quality of the business model based on a focused and original product range, a diversified client base and a sound governance structure, which is likely to stay intact following the merger. Fitch further notes that the merger so far has been conducted in a timely and transparent manner, which suggests the takeover should present limited risk to LFP investors.

Unlike other asset management mergers which are based on cost synergies, Fitch notes that the rationale of the deal lies in the complementary nature of the companies' respective management activities. LFP and UFG IM have distinct profiles in terms of corporate culture (entrepreneurial versus bank affiliate), client base (institutional versus retail and corporates) and product range (niche product versus benchmarked funds). The AuM of the combined entity will be well diversified across asset classes and strategies (at end-July 2009, 17% money market funds, 12% in fixed income and convertible bonds, 12% in balanced funds, 7% in alternative multi-management, 5% in equities, the remainder being mainly real estate and advisory management for CMNE's insurance companies), reinforcing its corporate resilience. Fitch notes that there are some challenges to address, such as international development as LFP's and UFG IM's clients are nearly 100% French, and the preservation of LFP's focused and innovative investment processes in the context of a broader product range including low-risk benchmarked products from UFG IM.

The current rating covers LFP's institutional management business as Fitch has not undertaken an extensive review of and has collected little information on UFG IM activities. The rating will not cover private equity and real estate management activities of the newly combined UFG-LFP group.

Asset manager operations in the 'M2' category demonstrate low vulnerability to operational and investment management failure.

Founded in 2000, LFP is an independent asset manager, active in most asset classes, in fixed-income (inflation-linked bonds, variable notes and emerging market debt), convertibles and volatility, equities with a thematic approach, and alternative and traditional multi-management products. At end-August 2009, excluding the merger with UFG IM, LFP employed 80 people and managed EUR7.8bn assets, primarily on behalf of a diversified base of French institutional investors. UFG IM's AuM totalled EUR23.5bn as of end-August 2009, mainly for retail and corporate clients.

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