Fitch Affirms American Capital Strategies' IDR at 'BBB'; Outlook Stable

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Fitch Ratings-New York-09 April 2008: Fitch has affirmed the following American Capital Strategies, Ltd. (Nasdaq: ACAS) debt ratings:

--Issuer Default Rating (IDR) 'BBB';
--Senior Unsecured debt 'BBB'.

The Rating Outlook is Stable. Approximately $0.9 billion of debt is affected by this action.

The rating affirmation and Stable Rating Outlook reflects ACAS' overall financial performance, broadened funding platform, conservative leverage, and strong capitalization. Primary ratings concerns include overall size and pace of portfolio growth over the past three years, including expansion of the asset management business, impact of the weakening U.S. economy on portfolio valuation and performance, and significant reliance on capital markets to fund growth.

Recent overall operating performance remains good due to the underlying growth and performance of the investment portfolio and expansion of the alternative third party asset management segment over the last two years. Due to the diversity and seasoning of the portfolio and process and operational improvements, Fitch does not anticipate significant credit quality deterioration beyond previous peaks experienced during 2002-2003. Nonetheless, portfolio performance through weak or recessionary economic conditions remains relatively uncertain and deterioration in credit quality beyond previous peaks would represent a rating concern. In the current market environment, Fitch is also anticipating that the fair value of portfolio investments will decline and generate unrealized losses over the near to intermediate term. Negative ratings pressure could emerge if to the extent any potential net losses substantially exceed operating income over the near-term.

Fitch believes that ACAS' capital and liquidity continue to support the current ratings and Outlook. Fitch notes that, in 2007, in addition to generating $4.5 billion of cash via portfolio repayments and sale of investments, ACAS raised over $2 billion of equity capital and $2.1 billion of debt to fund the business. Fitch recognizes that the company has broadened its funding base over the last three years to include a rising proportion of unsecured debt, which now represents roughly 50% of overall funding. Collateralized loan (CLOs) financing has been an important source of financing for the company. With the disruption in structured credit markets, CLO financing will have weaker execution in terms of pricing and credit enhancement. Nonetheless, Fitch believes the company can pull other levers, such as reducing growth, to obviate the need to access CLO financing. Importantly, ACAS has very low leverage due its status as a business development company, which precludes debt to equity from exceeding 1.0 times (x).

ACAS is a publicly traded business development company that provides investment capital in the form of senior and subordinated debt and equity to middle market companies. At Dec. 31, 2007, ACAS reported total assets under management of $17 billion at fair value, which included total owned investments of $11.7 billion.

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