



## Fitch Upgrades Astrea III's Class A-1 Notes; Affirms Classes A-2 and B

Fitch Ratings-New York-10 July 2017: Fitch Ratings has upgraded the ratings assigned to the class A-1 notes and affirmed the ratings of the class A-2 and class B notes issued by Astrea III Pte. Ltd., a collateralised fund obligation sponsored by Astrea Capital Pte. Ltd., as follows:

- SGD228 million class A-1 notes upgraded to 'A+sf' from 'Asf';
- USD170 million class A-2 notes affirmed at 'Asf';
- USD100 million class B notes affirmed at 'BBBsf'.

Astrea Capital Pte. Ltd. (the sponsor) is a subsidiary of Azalea Asset Management Pte. Ltd, which is ultimately owned by Temasek Holdings (Private) Limited. Astrea III owns interests in a globally diversified pool of private equity funds. The issuance consists of notes backed by the cash flows generated by the funds.

The transaction consists of approximately USD1.07 billion net asset value (NAV) of funded commitments and USD134 million of unfunded capital commitments across 34 private equity funds, as of end-March 2017. The ratings address the timely payment of principal and interest with regard to the legal final maturities of the rated notes.

For a full description of the transaction and initial cash flow analysis see the Astrea III Pte. Ltd. new issue report link at the end of this press release.

### KEY RATING DRIVERS

The upgrade of the class A-1 notes and affirmation of the class A-2 and class B notes reflect the transaction's performance and reserves accounts since launch as described in the Transaction Performance and Reserves Accounts sections below.

Astrea III's private equity portfolio is well-diversified across 34 funds of various vintages, managed by 26 general partners (GPs), with 562 underlying investments across different sectors and regions as of Dec. 31, 2016, tempering the market cyclicity that drives private equity fund performance.

At launch, the rated notes made up approximately 39% of the NAV at issuance, providing sufficient overcollateralisation (OC) that acts as a cushion in case private equity distributions do not materialise as expected. Loan-to-value (LTV) tests trap cash to cap leverage at descending thresholds during the course of the transaction.

Key structural protections include reserve accounts for the repayment of the class A notes, a trust account to support capital calls, a liquidity facility to cover interest and expenses, and currency hedges.

In Fitch's view, the sponsor and its affiliates and the manager have the capabilities and resources needed to sponsor and manage this transaction. Astrea III is the third in a series of similar transactions launched by the sponsor and its affiliates.

The sponsor's and noteholders' interests are strongly aligned, as the sponsor currently holds the entire equity stake (approximately 55% of NAV at launch) in Astrea III, which it will retain for the duration of the transaction. Further, the success of Astrea III will help achieve one of the sponsor's goals of contributing to the development of investment products based on private equity funds in Singapore.

### TRANSACTION PERFORMANCE

Astrea III has thus far performed in line with Fitch's expectations, and significantly better than the stress scenarios run by Fitch in the initial rating analysis. Astrea III has received distributions of \$300 million since launch and capital calls of \$92 million since launch as of March 31, 2017. The transaction has made all scheduled reserve payments and accumulated roughly \$161 million in the class A-1 and A-2 reserves accounts, accounting for approximately 48% of the rated class A notes outstanding.

Astrea III has had sufficient cash distributions to cover expenses, interest payments, and capital calls. As a result, there has been no draw on the transaction's liquidity facility or the capital calls trust account. Additionally, the transaction has been in compliance with the Maximum LTV Ratio test.

Fitch expects Astrea III to begin distributing cash to the sponsor at the second distribution date in accordance with clause 20 of the

Priority of Payments, and to continue to distribute cash to the sponsor throughout the life of the transaction. Fitch notes the Maximum LTV Ratio serves to limit the distributions that go to the sponsor ahead of the noteholders. In this regard, a strong performance of the portfolio will benefit the noteholders more as the LTV Ratio steps down over time.

## RESERVES ACCOUNTS

The transaction has made all scheduled reserve payments and accumulated roughly \$161 million in the A-1 and A-2 reserves accounts, accounting for approximately 48% of the rated class A notes outstanding. Fitch expects distributions at the second distribution date to be sufficient to fully reserve the class A-1 notes in accordance with clause 16 of the Priority of Payments. The class A-2 notes will continue to be reserved according to the scheduled reserve payments which are made on a straight line basis until the A-2 notes' scheduled maturity.

Although the full notional amount of the class A-1 notes is expected to be reserved at the second distribution date, in an event of default prior to the scheduled maturity these funds would not be earmarked solely for the benefit of the class A-1 noteholders. In an event of default and subsequent acceleration, all funds in the Operating Accounts, Reserves Accounts and Bonus Redemption Premium Reserves Accounts will be applied following the Post-Enforcement Priority of Payments. In this priority of payments the interest and principal of the class A-1 and class A-2 notes are applied on a pro-rata and pari passu basis. If a default were to occur prior to the scheduled maturity of the class A-1 notes, the Reserves Accounts for both class A-1 and A-2 notes would be combined with the remaining cash in the structure and applied to the priority of payments. However, Fitch views an Event of Default prior to the class A-1 notes' scheduled maturity as unlikely, as Astrea III's expenses and interest payments are projected to be sufficiently covered by cash flows even in stress scenarios, and the presence of the liquidity facility acts as an additional buffer.

The ratings of the Account Banks and transaction counterparties are at or above the required minimum direct support counterparty ratings as per the 'Structured Finance and Covered Bonds Counterparty Rating Criteria (May 23, 2017)'. However, the credit committee considered whether there was Excessive Direct Counterparty Dependency as described in the criteria in relation to the concentrations of the reserves accounts. The Reserves Accounts holdings are currently concentrated in three banks rated 'AA-', 'A', and 'A-'. Given the one year maximum tenor of deposits and short scheduled maturities of the class A-1 notes relative to the legal final maturities, the committee deemed the transaction as not linked to the bank account counterparty ratings at this time. However, high concentrations and reliance on banks rated lower than the notes may constrain further positive rating actions, and may cause ratings of the notes to be linked to reserve account bank counterparties' ratings if the exposure is deemed to be excessively dependent on these counterparties for performance.

## COUNTERPARTY REPLACEMENT

Much of the replacement language of the transaction states that the issuer will make "commercially reasonable" efforts to effect a counterparty replacement within a specified time period. This language leaves room for an extension of the replacement of downgraded counterparties beyond the criteria guidelines and therefore does not completely align with Fitch's criteria. Although Fitch currently rates the counterparties of the transaction at or above the minimum direct support criteria guidelines, if a downgrade below these levels were to occur and the counterparty was not replaced in a timely fashion, Fitch would review the circumstances at that time to determine if a rating action, which could potentially include capping the rating of the senior-most notes then outstanding at the then current rating of the downgraded counterparty, would be warranted.

## RATING SENSITIVITIES

Private equity transactions have many inherent risks, including the uncertainty of income distributions, illiquid nature of investments, high concentration in funds with a buyout strategy, leverage, and lack of reliability in NAV calculations.

The ratings for the notes may be subject to downgrade as a result of the portfolio structure's sensitivity to the potential variability of key model assumptions. One key model assumption is the distribution of cash flows, which are uncertain and therefore may come in lower than model projections, creating a risk that the funds will not generate enough overall cash to repay noteholders.

Another key model assumption is the financial health of the transaction's counterparties. A rating downgrade of a counterparty may materially affect the rating on the notes, given the reliance of the issuer on counterparties to provide functions, including currency hedging and acting as a bank account provider. Additionally, large reliance on certain counterparties rated below the rating of the highest rated notes may act as a constraint to the ratings.

Finally, payments on the currency hedges that are larger than expected may leave less cash flow available to pay interest on the notes, fund the reserves account and meet capital calls, leading to increased reliance on the liquidity facility and capital calls trust account. Such an event could happen in scenarios such as high exchange rate volatility or underperformance in the European markets, which would negatively impact the European funds in the transaction and subsequently the issuer's ability to deliver euros in the euro hedge transaction.

**DUE DILIGENCE USAGE**

No third-party due diligence was provided or reviewed in relation to this rating action.

**DATA ADEQUACY**

As the timing and size of the cash flows is unknown, Fitch used historical data from a well-known third party data provider, which covers all performance quartiles of buyout and growth equity funds with vintages ranging from 1990 to 2014 to model expected distributions, capital calls, and NAVs of the private equity funds.

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**Applicable Criteria**

Rating Closed-End Funds and Market Value Structures (pub. 09 Sep 2016) (<https://www.fitchratings.com/site/re/886753>)  
Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 23 May 2017) (<https://www.fitchratings.com/site/re/898537>)  
Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 23 May 2017) (<https://www.fitchratings.com/site/re/898538>)

**Related Research**

Astrea III Pte Ltd. (<https://www.fitchratings.com/site/re/884772>)

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