

Presale:

# Astrea VI Pte. Ltd.

February 25, 2021

## Preliminary Ratings

| Class | Preliminary ratings | Preliminary amount (mil.) | Scheduled call date | Legal maturity date (years) | LTV (%) (i) |
|-------|---------------------|---------------------------|---------------------|-----------------------------|-------------|
| A-1   | A+ (sf)             | S\$375(ii)                | March 2026          | March 2031                  | 19.6        |
| A-2   | NR                  | US\$228                   | March 2026          | March 2031                  | 15.7        |
| B     | NR                  | US\$130                   | N/A                 | March 2031                  | 8.9         |

Note: This presale report is based on information as of Feb. 25, 2021. The ratings shown are preliminary. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Accordingly, the preliminary ratings should not be construed as evidence of final ratings. This report does not constitute a recommendation to buy, hold, or sell securities. (i) LTV calculated as a percentage of total portfolio net asset value as of Nov. 30, 2020. (ii) Or a US\$285 million equivalent. LTV--Loan-to-value. S\$--Singapore dollars. NR--Not rated. N/A--Not applicable.

## Profile

|                                    |  |
|------------------------------------|--|
| Expected closing date              | March 2021.  |
| First payment date                 | September 2021.  |
| Collateral                         | Cash flows from a portfolio of 35 private equity funds, diversified by vintage, sector, geography, and strategy.             |
| Issuer                             | Astrea VI Pte. Ltd.  |
| Sponsor                            | Astrea Capital VI Pte. Ltd., a Singapore company wholly owned indirectly by Azalea Asset Management Pte. Ltd.                |
| Manager                            | Azalea Investment Management Pte. Ltd., a wholly owned investment management subsidiary of Azalea Asset Management Pte. Ltd. |
| Transaction and fund administrator | Sanne (Singapore) Pte. Ltd.  |
| Bonds trustee                      | DBS Trustee Ltd.   |
| Security trustee                   | DB International Trust (Singapore) Ltd.  |
| Accounts bank                      | DBS Bank Ltd.  |
| Credit facility provider           | DBS Bank Ltd.  |
| Hedge counterparties               | DBS Bank Ltd., The Hongkong and Shanghai Banking Corp. Ltd., and Standard Chartered Bank (Hong Kong) Ltd.                    |
| Lead managers                      | Credit Suisse (Singapore) Ltd., DBS Bank Ltd., and Standard Chartered Bank (Singapore) Ltd.                                  |

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## **Transaction Overview**

Astrea VI Pte. Ltd. is a collateralized fund obligation (CFO) transaction managed by Azalea Investment Management Pte. Ltd. (Azalea), a wholly owned investment management subsidiary of Azalea Asset Management Pte. Ltd. It is backed by cash flows from a portfolio of private equity buyout and growth equity funds.

By net asset value (NAV) as of Nov. 30, 2020, the transaction is collateralized by cash flows generated by a portfolio of private equity funds comprising 81.3% buyout private equity funds and 18.7% growth equity funds. In addition, by NAV, the transaction's funds are split geographically across the U.S. (61.1%), Europe (22.7%), and Asia (16.2%). The class A-1 bonds are denominated in Singapore dollars (S\$) but were sized to be equivalent to US\$285 million.

The class A-1 and A-2 bonds are both expected to be fully reserved by their scheduled call date as distributions from the underlying funds are deposited into the class A-1 and A-2 (collectively, class A) reserves account. One hundred percent of the proceeds available in item 8 in the payment priority specified in table 3 below, up to the semiannual reserve amount targets, will be deposited in the reserves account. The class A reserves account and scheduled reserve amounts are designated to benefit both the class A-1 and A-2 bonds. However, if the reserve amount is insufficient to redeem both classes simultaneously, payments will be made from the reserves account sequentially on the scheduled call date first to the class A-1 bonds and then to the class A-2 bonds.

To mitigate the currency risk of paying the principal and interest of the class A-1 bonds in Singapore dollars, the issuer is entering into a series of fixed forwards to exchange U.S. dollars for Singapore dollars. The issuer will also enter into a series of fixed forwards to exchange euro for U.S. dollars. The hedge will be sized to cover approximately 75% of the euro NAV. Distributions to equity are permitted under the priority of payments (as long as the loan-to-value [LTV] trigger has not been breached) after the semiannual reserve amount has been deposited.

The transaction also has a credit facility to cover cash flow shortfalls on certain senior fees and expenses, interest on the class A-1, A-2, and B bonds, and capital calls. However, the credit facility does not cover any principal amount on the bonds. The credit facility size will not exceed US\$300 million, and it will comprise of the sum of a scheduled component that will step down from an initial \$130 million over time (according to the schedule in table 6 below) and a component equivalent to 50% of the undrawn capital commitment. The credit facility size is expected to be approximately US\$208 million as of closing.

Capital calls (drawdowns) on the underlying funds will be funded first by available cash in the operating accounts, including a retained amount of no more than US\$15 million; and then to the extent there are shortfalls, the credit facility will cover them up to the available facility amount.

## **Rationale**

The preliminary rating assigned to Astrea VI Pte. Ltd.'s (Astrea VI) class A-1 bonds reflects the following:

- The manager's (Azalea) substantial private equity funds investing experience.
- The diversification of the portfolio of funds, across fund managers, regions, investment sectors, and fund vintages.
- The bonds' legal maturity, which is 10 years from the issue date. Private equity funds' cash

flows are less predictable than those of fixed-income instruments but have historically followed a J-curve, which may extend up to 10 years (see "CDO Spotlight: Global Criteria for Private Equity Securitization," published Jan. 18, 2006). A legal maturity date that generally matches the lifespan of a diversified portfolio of underlying private equity funds allows the transaction to be less susceptible to any short-term delay in fund distributions.

- The static nature of the private equity fund investments, which does not allow the manager to alter the portfolio composition through purchases of additional funds.

## **Transaction strengths**

We believe the transaction's strengths include the following:

- The subordination provided by the structure. Subordination below the class A-1 bonds (which are pari passu with the class A-2 bonds) is approximately 64.7%, based on the portfolio NAV.
- The funds that the manager selected for the transaction portfolio result in a well-diversified portfolio in terms of general partners, regions, industries, and vintages.
- The structural features that protect the bondholders, which include a reserves account that is funded after interest payments on the class A and B bonds, and is intended to fully repay the principal on the class A bonds on their scheduled call date. The transaction also includes an LTV trigger that is set to 50% and redirects residual cash flow to the reserves account when the trigger is breached.
- The 5.8-year weighted average age (as of Nov. 30, 2020) of the underlying funds purchased by the issuer. The cumulative drawdowns has exceeded 100% of the original investment commitments. Relative to a portfolio of less-seasoned private equity funds, these funds may exhibit more net positive cash flows during the transaction's 10-year legal term because they are generally at points on their expected J-curves where most of the capital calls have occurred.
- The availability of the credit facility, which is initially sized to approximately US\$208 million and will step down over time in accordance with the schedule in table 6, to cover shortfalls in nondeferrable expenses, class A and B interest, and capital calls from the underlying funds. The credit facility's initial available amount will exceed the total undrawn capital commitment amount for the funds held in the issuer's portfolio, and it was estimated at approximately US\$156 million as of Nov. 30, 2020.

## **Transaction weaknesses**

We believe the transaction's weaknesses include the following:

- Cash flows for timely payment of interest and ultimate repayment of principal of the rated bonds are expected to come from investments in private equity funds, an illiquid asset class with volatile cash flows. This volatility could be exacerbated by the COVID-19 pandemic, which has introduced significant economic shock and uncertainty to the global markets. We believe this in turn could limit the private equity fund managers' ability to execute their investment strategies and make cash distributions. While it's difficult to generalize the performance of private equity, we believe distributions from private equity funds will likely retreat in the short term. However, funds with liquidity may be more opportunistic and be able to take advantage of the market dislocations.

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- The pandemic may pressure private equity fund managers to extend the holding periods for companies in their portfolios until market conditions improve. The longer holding period could expose the investors to greater credit risk and reduce cash flows immediately available to repay the CFO's liabilities.
- The investments' reported value is generally estimated because mark to market is nearly impossible until the investments have been exited. The valuation assumptions could be subjective and depend on the general partners' experience. In periods of high market volatility, the NAV calculation may not be reliable or reflect the rapid changes.
- The portfolio includes growth equity funds (18.7%) and Asia-based private equity funds (16.2%). These allocations are slightly lower than those of the previous transaction (Astrea V). Our methodology for analyzing the magnitude and timing of future capital calls and distributions of private equity funds was designed for U.S. and European buyout or venture capital funds. We have made certain adjustments in our cash flow projections to account for the potential greater volatility of returns in Asian funds, compared to their U.S. and European counterparts.
- The class A-1 bonds are denominated in Singapore dollars, while the underlying fund cash flows are denominated in U.S. dollars and euro.
- Distributions to equity are permitted while the class A bonds are outstanding--as long as the semiannual scheduled reserves account deposit has been made. Historically, some private equity securitizations have not allowed for equity distributions while the debt classes remain outstanding.

## Mitigating factors

We believe the following factors partially mitigate the transaction's weaknesses:

- The private equity funds' substantial cash-generating capacity, which we believe, based on our rating scenario assumptions, will be sufficient to meet the bonds' obligations before their legal maturities.
- Although all sectors tend to exhibit increased correlation during economic downturns, the diversification in the portfolio should partially mitigate the risk of short-term volatility spikes in certain sectors. As of the Nov. 30, 2020, cutoff date, the portfolio's sector breakout is similar to that of the S&P 500 Index.
- The credit facility, which is designed to ensure timely payment of nondeferrable expenses, bond interest, and any capital calls not covered by the operating accounts.
- The issuer will enter into a series of currency hedges to minimize the mismatch between the asset cash flows, which are denominated in U.S. dollars and euro, and the payments due to the liabilities, which are denominated in U.S. and Singapore dollars. This will include two factors: a series of forward contracts to exchange the euro-denominated asset cash flows for U.S. dollars, and a separate set of forward contracts to exchange U.S. dollars cash flows from the assets and amounts in the reserves account for Singapore dollars to pay class A-1 interest and principal. All hedges are expected to satisfy our counterparty criteria related to derivatives for securities rated at the 'A+' level.
- Because our methodology is calibrated based on non-Asian private equity funds, we applied a conservative 35% haircut to future distributions from Asian private equity funds in our rating stress to account for any potential volatility, country and currency risk that our simulation did

not capture.

- Our view that growth equity funds can be appropriately modeled as buyout funds for the purposes of our quantitative analysis, even though our methodology was not originally designed to address growth equity funds. This reflects our analysis of the magnitude and velocity of historical returns for growth equity funds from 1990 to 2010 and our observation that their distributions were similar to those of buyout fund strategies during that time.
- The semiannual scheduled US\$51.3 million reserve amount payments, which is designed to fully reserve the class A principal by the scheduled call date. Although distributions to equity will be allowed after the scheduled reserves account payments have been made, they can only continue if the LTV trigger has not been breached. Furthermore, although the semiannual reserve payment amounts are sized to fully reserve for both the class A-1 and A-2 bonds by the scheduled call date, the scheduled reserves account balance is expected to fully cover the class A-1 bonds within six payment periods (three years) from closing. The reserves account balance will be used to pay down the class A-1 and then class A-2 bonds sequentially on the later of the scheduled call date and the payment date on which there is sufficient cash in the reserves account to pay down the class A-1 bonds in full.
- The availability of additional cash contributions to the reserves account in the form of 50% of the cash flow that would otherwise flow to the sponsor in item 13 in the payment priority outlined in table 3 if certain performance conditions are met. These contributions would facilitate a more rapid buildup of reserves for the redemption of the class A bonds on the scheduled call date.
- Although the collateral value is equity-based in nature, the advance rate on the class A-1 bonds is 19.6%, which is significantly lower than other similarly rated structured finance securities.

## **Transaction Structure**

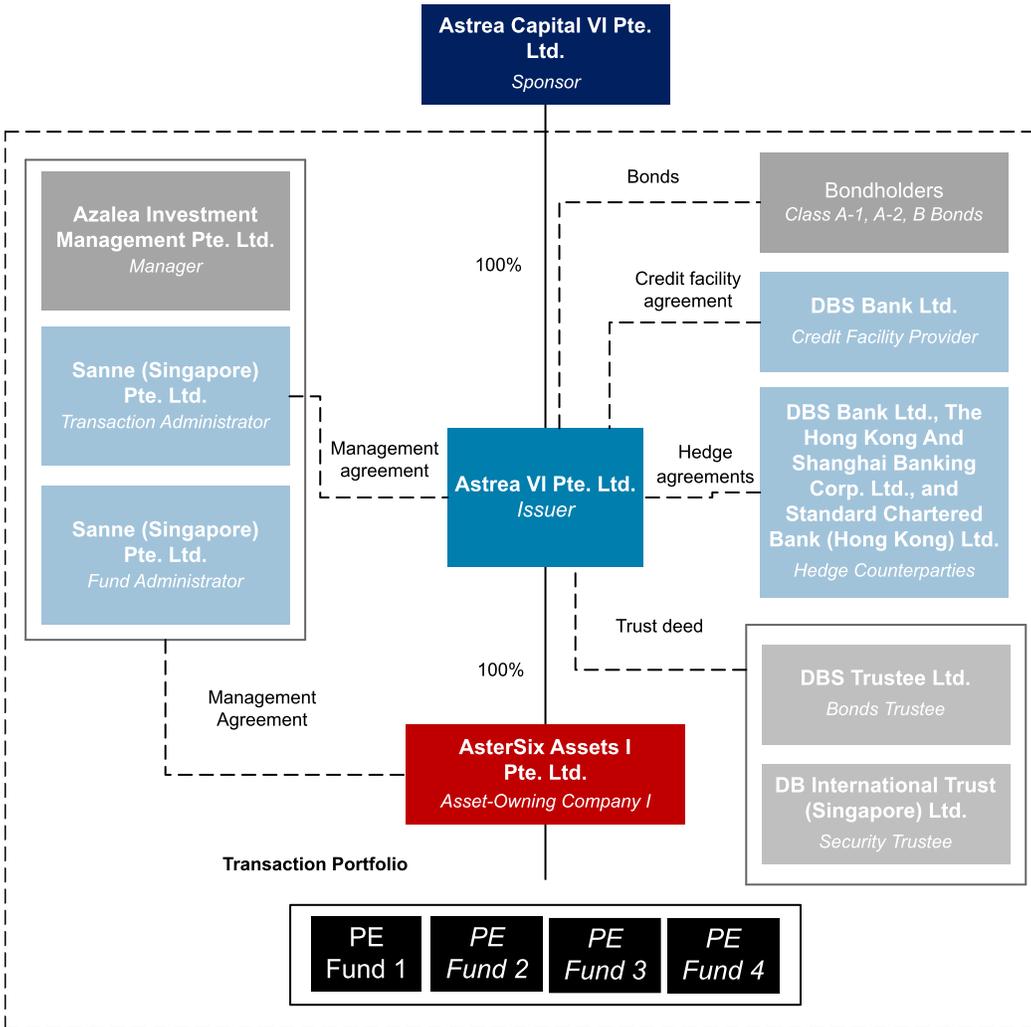
Astrea VI, a bankruptcy-remote company incorporated with limited liability under the laws of Singapore, will issue the bonds. The issuer's capitalization (excluding accumulated profits) consists of ordinary shares and preference shares, shareholder loans (100% of which are held by Astrea Capital VI Pte. Ltd.), and the class A-1, A-2, and B bonds. The issuer holds a 100% shareholding interest in a holding company, AsterSix Assets I Pte. Ltd. (AOC I; the asset-owning company).

The asset-owning company holds the fund investments and is the limited partner for each underlying limited partnership interest. AOC I holds all 35 fund investments. The asset-owning company's capitalization (excluding accumulated profits) comprises ordinary shares, preference shares, and shareholder loans (100% of which are held by the issuer as described above). The asset-owning company will transfer all cash distributions from the fund investments to the issuer daily via a combination of repayment of the issuer's shareholder loans and the payment of dividends (or redemptions) relating to the shares held by the issuer in the asset-owning companies. The issuer will apply those distributions semiannually in accordance with the priority of payments (see table 3).

Chart 1 shows the transaction structure.

Chart 1

**Transaction Structure**



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**Collateral**

The bonds, credit facility, and hedge counterparties will be secured by:

- A first fixed charge of the issuer's shares in the asset-owning company, which is a limited partner in the 35 private equity funds in the portfolio, and all dividends regarding those shares;
- A first fixed charge of the issuer's bank accounts and custody accounts;
- An assignment (as security) of the issuer's rights under the shareholder loan agreements between the issuer and the asset-owning company; and
- A first floating charge of the issuer's undertaking and all of its assets.

## Portfolio Characteristics

On the closing date, the issuer's subsidiary owns limited partnership interests in 35 private equity funds with an approximate NAV of US\$1.456 billion. The funds are managed across 28 general partners and are diversified by geography, sector, strategy, and vintage.

Table 1 shows the portfolio comparison on recent Astrea transactions.

Table 1

### Astrea Portfolio Comparison

|                                     | Astrea VI  | Astrea V | Astrea IV | Astrea III |
|-------------------------------------|------------|----------|-----------|------------|
| Credit rating at closing            | A+ (sf)(i) | A+ (sf)  | A (sf)    | A (sf)     |
| Portfolio NAV (mil. US\$)           | 1,456      | 1,324    | 1,098     | 1,142      |
| Undrawn capital (mil. US\$)         | 156        | 215      | 168       | 201        |
| Committed capital (mil. US\$)       | 1,358      | 1,376    | 1,753     | 1,557      |
| Weighted average fund vintage       | 2014       | 2014     | 2011      | 2009       |
| Weighted average fund age           | 5.8        | 5.4      | 7.1       | 6.7        |
| Total number of fund investments    | 35         | 38       | 36        | 34         |
| Total number of general partners    | 28         | 32       | 27        | 26         |
| <b>Fund type (% of NAV)</b>         |            |          |           |            |
| Buyout                              | 81.3       | 81.0     | 86.1      | 76.9       |
| Growth equity                       | 18.7       | 19.0     | 12.3      | 23.1       |
| Private debt                        | 0.0        | 0.0      | 1.6       | 0.0        |
| <b>Fund region (% of NAV)</b>       |            |          |           |            |
| U.S.                                | 61.1       | 56.1     | 62.8      | 66.5       |
| Europe                              | 22.7       | 21.6     | 19.1      | 12.3       |
| Asia                                | 16.2       | 22.3     | 18.1      | 21.2       |
| <b>Investment region (% of NAV)</b> |            |          |           |            |
| North America                       | 50.9       | 49.3     | 55.8      | 54.2       |
| Europe                              | 26.0       | 22.8     | 19.5      | 18.5       |
| Asia                                | 20.0       | 24.6     | 21.9      | 25.3       |
| Rest of World                       | 3.1        | 3.3      | 2.8       | 2.0        |
| <b>Sector (% of NAV)</b>            |            |          |           |            |
| Information technology              | 28.2       | 23.9     | 22.9      | 22.0       |
| Health care                         | 19.8       | 17.6     | 10.7      | 14.3       |
| Consumer discretionary              | 13.2       | 15.3     | 21.3      | 23.4       |
| Industrials                         | 12.4       | 14.4     | 11.9      | 14.5       |
| Financials                          | 7.7        | 7.4      | 10.2      | 10.4       |
| Communication services              | 5.3        | 8.0      | 2.0       | 1.1        |
| Energy                              | 4.3        | 3.1      | 6.7       | 4.9        |
| Consumer staples                    | 4.2        | 4.4      | 5.3       | 5.4        |

Table 1

**Astrea Portfolio Comparison (cont.)**

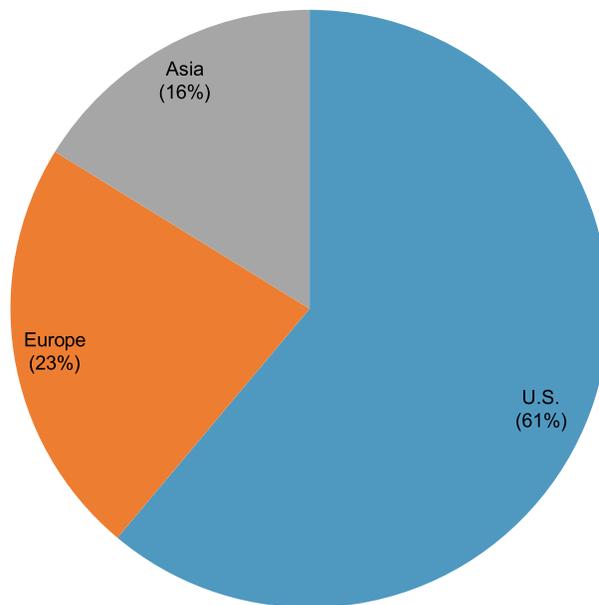
|                           | Astrea VI | Astrea V | Astrea IV | Astrea III |
|---------------------------|-----------|----------|-----------|------------|
| Materials                 | 2.8       | 3.5      | 4.8       | 3.8        |
| Real estate               | 1.5       | 1.9      | 2.5       | 0.0        |
| Utilities                 | 0.6       | 0.5      | 1.7       | 0.2        |
| Class A-1 size (mil. S\$) | 375       | 315      | 242       | 228        |
| Class A-1 LTV (%)         | 19.6      | 17.4     | 16.5      | 14.9       |

(i)Preliminary rating. NAV--Net asset value.

Chart 2-5 below shows the portfolio characteristics as of Nov. 30, 2020.

Chart 2

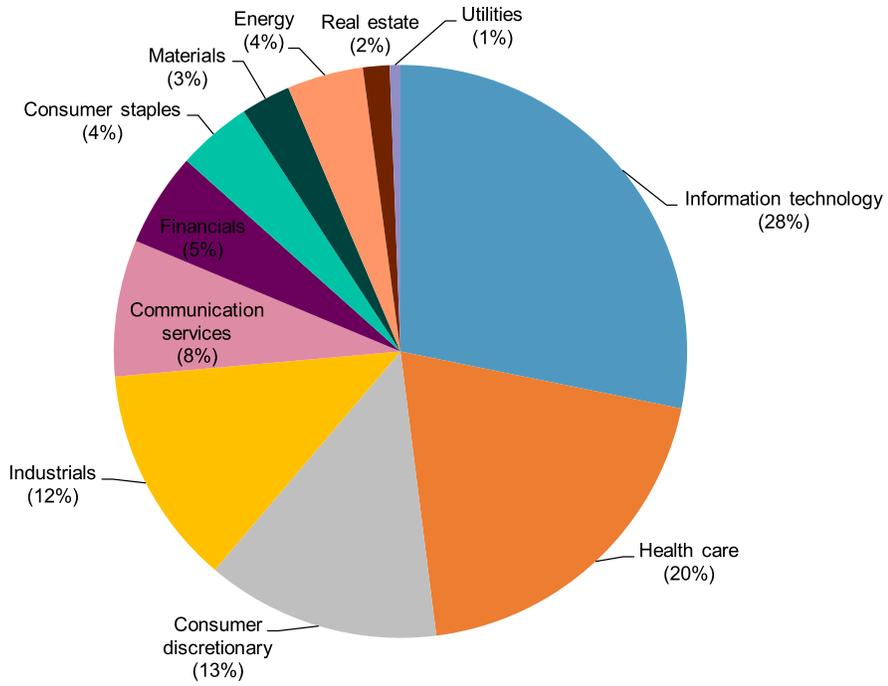
**Portfolio Net Asset Value By Geography**



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Chart 3

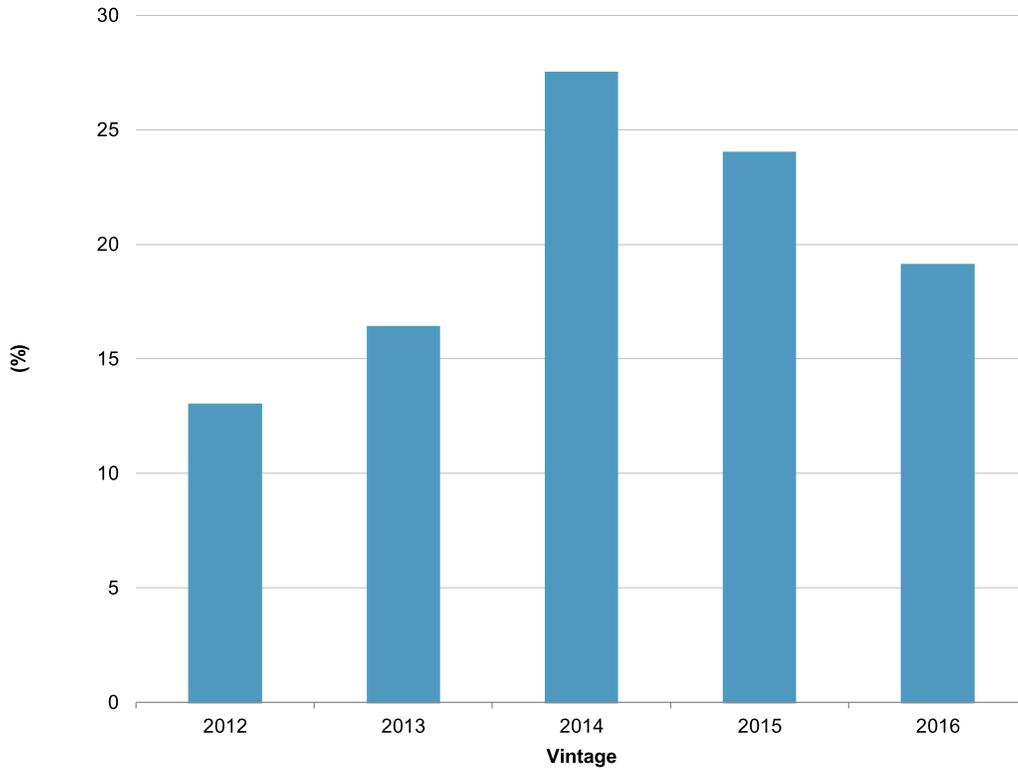
**Portfolio Net Asset Value By Sector**  
Based on underlying company investments



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Chart 4

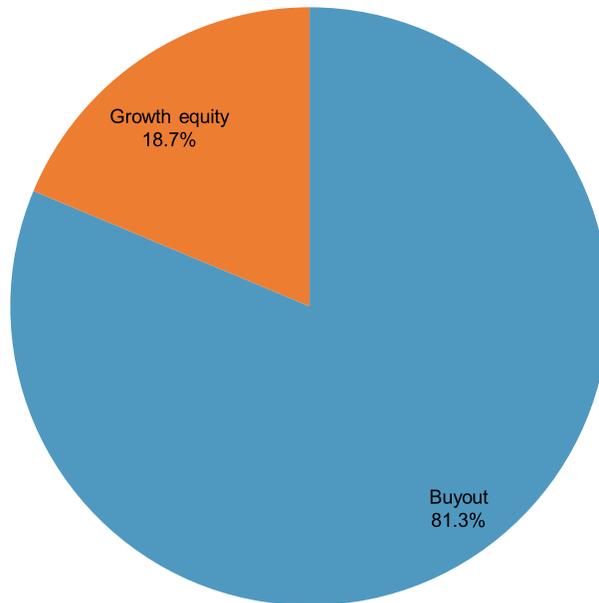
**Portfolio Net Asset Value By Vintage**



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Chart 5

### Portfolio Net Asset Value By Strategy



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## Cash Flow Assumptions

Our methodology for rating debt backed by interests in a portfolio of private equity funds relies on a stochastic approach in which cash flow paths are simulated. Each represents a possible cash flow path for the aggregated funds that are in the portfolio. For each path, estimated fund cash flows are applied to pay the CFO's obligations according to its priority of payments (see "CDO Spotlight: Global Criteria For Private Equity Securitization," published Jan. 18, 2006).

S&P Global Ratings projects the expected cash from a well-diversified pool of private equity funds by sampling individual J-curves of fully liquidated vintages that have the same characteristics as each of the individual funds in the pool. To achieve that goal, we use the mean, median, and standard deviation statistics available from 1980 through 2002 for each of the four risk parameters that compose a J-curve (money multiple, internal rate of return, speed of draw, and depth of curve) to create J-curves that are sampled in a stochastic Monte Carlo process. In this way, a historical set of J-curves, each of which is statistically feasible, is stochastically created.

To estimate the expected future cash flow of the CFO, we combined a historical simulation of J-curves (through a historical sampling approach) with a stochastic parametric simulation of a public market index that is used to conservatively deflate the portfolio's cash distributions. Using this approach, we created a stochastic cash flow path by first sampling a vintage year from the

pool of fully liquidated vintage years and, further, a set of J-curves that have the same characteristics as the funds being sampled from the drawn vintage year. In addition, S&P Global Ratings uses a parametric approach to simulate the performance of the relevant public markets over the same projection period to compare their return performance with that of each private equity fund in the drawn vintage year. If the vintage year returns exceed the public market returns, the cash flow returns for each fund in that vintage year are reduced by an amount that would equate the vintage year returns with those of the public market (an adjusted J-curve). For U.S. private equity funds, the relevant public markets are the S&P 500 for buyout funds and the NASDAQ 500 for venture capital funds.

We then apply the committed capital of those funds to the adjusted J-curve pattern to estimate the expected future cash flow. The total cash flow the CFO is capable of generating in a single stochastic path is estimated as the sum of all the funds. Simultaneous to such sampling, we simulate an interest rate model to estimate the cost of the rated liabilities. The total cash flow over the entire exposure period is then applied to a payment priority that incorporates all of the CFO's obligations, including funding capital calls, payment of fees and expenses, and payment of the rated liabilities (timely interest and principal at maturity).

If cash flows are insufficient to pay a liability in full, that path is deemed to be a failed path for the purpose of rating that liability. After running the stochastic simulation a sufficient number of times to ensure model stability, the number of failed paths is counted and compared with the total number of paths run to compute the probability of default for each rate liability. To determine whether a liability is able to sustain a particular rating, the number of failed paths has to be commensurate with the default probability of a corporate obligation with a rating equal to the rating and with a tenor equal to the weighted average maturity of the liabilities in the number of paths run. For example, if the default probability for a rated 10-year corporate bond was 1%, the number of failed paths in 100,000 runs can be 1,000 at most.

## Cash Flow Results

To determine whether a liability is able to achieve a given rating level, the number of failed paths in our cash flow modeling simulation has to be commensurate to the default probability of a corporate obligation with a rating equal to the rating sought and with a tenor equal to the weighted average maturity of the liabilities in the number of paths run (50,000 in this case). In other words, the private equity securitization debt may not be riskier than an equivalently rated corporate obligation because it cannot have a higher default probability than the corporate obligation.

Table 2

### Cash Flow Modeling Results

| Class | Preliminary rating <sup>(i)</sup> | Failed paths in our simulation (%) | Weighted average maturity (years) | Corporate default probability for rating and maturity (%) |
|-------|-----------------------------------|------------------------------------|-----------------------------------|---|
| A-1   | A+ (sf)                           | 0.226                              | 5                                 | 0.995   |

(i) The rating on each class of securities is preliminary and subject to change at any time.

As showed in table 2, class A-1 failed 0.226% of the simulated paths under our base rating assumptions, which is below both the 0.995% hurdle rate for a five-year 'A+ (sf)' rating and the 0.268% hurdle rate we would look to for a five-year 'AA+ (sf)' rating. Our preliminary 'A+ (sf)' rating reflects the following constraints and qualitative considerations:

- S&P Global Rating's sector cap of 'AA (sf)' for private equity CFOs (see our "Assumptions: Risk

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Profile Of Global Private Equity Securitizations No Longer Supports 'AAA' Ratings" criteria, published Feb. 13, 2009);

- A maximum potential rating of 'AA- (sf)' implied by the minimum eligible hedge counterparty rating of 'A- (sf)' and the lack of a collateral posting requirement for the transactions hedge counterparties. (This equates to a replacement trigger of 'A- (sf)' and a "weak" collateral posting requirement according to table 2 in our "Counterparty Risk Framework: Methodology and Assumptions" criteria, published March 8, 2019);
- The additional sensitivity runs to address currency, region, and liquidity risks (see the Sensitivity Analysis section below);
- The increased market volatility caused by the COVID-19 pandemic, which makes cash distribution even less predictable; and
- Our consideration of the limited, though stable, observed performance for the private equity CFOs rated by S&P Global Ratings after the Great Recession. We may revise this qualitative adjustment if we observe stable performance as we surveil the transaction, such as those regarding equity distributions and scheduled reserves account deposits.

## Sensitivity Analysis

### Singapore dollars hedge analysis

The class A-1 bonds are denominated in Singapore dollars, while the asset cash flows will generally be denominated in U.S. dollars and euro. As a result, the issuer will be entering into a series of forward currency agreements to minimize the mismatch between the asset cash flows denominated in U.S. dollars and euro and the payments due to liabilities in U.S. and Singapore dollars. There will be separate forward agreements related to the fixed interest payments and full principal repayment of the class A-1 bonds through their scheduled call date in year five.

S&P Global Ratings currently does not have published currency stress assumptions related to Singapore dollars. Despite this limitation, we incorporated projected asset cash flows beyond year five in our scenarios by applying a haircut to all U.S. dollar-denominated cash flows received from the funds following the expiration of the forward agreements, reflecting a 50% decline in the U.S. dollar to Singapore dollar exchange rate. This haircut only affects those scenarios where the available U.S. dollar amount is insufficient to redeem the class A-1 bonds in full on the scheduled call date. Even with this conservative haircut, our model indicated that the class A-1 bonds would still be able to sustain an 'A+ (sf)' rating level.

### 35% Asia-based distribution haircut

Our methodology for analyzing the magnitude and timing of future capital calls and distributions of private equity funds designed for U.S. and European buyout or venture capital funds. However, 16.2% of funds in Astrea VI are based in Asia (a similar exposure to previous Astrea transactions). We believe these funds could face higher volatility in returns compared to their non-Asian counterparts. Therefore, we applied a conservative 35% haircut to future distributions from Asian private equity funds in our rating stress to account for any potential risk factors that our methodology does not capture. This haircut reflects the additional analysis we did when comparing the data in our U.S.-based J-Curve database with external performance data on Asian private equity funds. Even with this conservative haircut, class A-1 failed 0.398% of the simulated

paths, which is below the 0.464% hurdle rate for a five-year 'AA (sf)' rating.

## Liquidity stress

Because Private Equity CFOs typically have no scheduled cash flows from underlying funds, liquidity coverage is necessary and particularly important since cash distributions are even less predictable due to the COVID-19 pandemic. In the liquidity stress sensitivity run, we delayed the distributions from our simulation by one distribution period while maintaining the capital calls to test the resilience of the liquidity facility. Class A-1 failed 0.652% of the simulated paths, which is below the 0.995% hurdle rate for a five-year 'A+ (sf)' rating.

## Payment Priority

Prior to an enforcement event, the issuer will be required to disburse all amounts in the operating account in excess of a retained amount (capped at US\$15 million), according to the following payment priority outlined in table 3.

Table 3

### Payment Priority

| Priority | Payment   |
|----------|---|
| 1        | Taxes and administrative expenses of the issuer and asset-owning companies, up to a cap of US\$900,000 per distribution period.   |
| 2        | Payments of amounts due to hedge counterparties, except those payable in item 12 below.   |
| 3        | Management fees.  |
| 4        | Credit facility commitment fees, then credit facility interest expense (and any other payables), and then credit facility principal repayment.  |
| 5        | Class A-1 and A-2 interest expense, pro rata and pari passu.  |
| 6        | Class B interest expense.   |
| 7        | If net cash proceeds are received from the sale or disposal of fund investments, pay 100% of the remaining cash flow to the reserves accounts (or, if the reserves accounts cap has been met, to repay the class B principal) until the amount paid is equal to but does not exceed the total net cash proceeds received. Upon and after the full redemption of all class A-1 bonds, to repay the class A-2 outstanding principal amount and then the class B outstanding principal amount. |
| 8        | To the reserves account for losses realized on investments held in the reserve custody account until those losses have been recouped, then for the unpaid reserve amount applicable on that distribution date, and then for the reserve amount applicable for that distribution date. Upon and after the full redemption of all class A-1 bonds, to repay the class A-2 outstanding principal amount.   |
| 9        | Upon the full repayment of the class A-1 and A-2 bonds, 90% of remaining cash flow to repay principal on the class B bonds.   |
| 10       | If the LTV exceeds the maximum LTV ratio, then 100% of cash flow remaining to the reserves accounts (or if the reserves account caps have been met, to repay principal on the class B bonds), until the maximum LTV ratio is no longer exceeded. Upon and after full redemption of all class A-1 bonds, to repay the class A-2 outstanding principal amount and then to repay the class B outstanding principal amount.   |
| 11       | Administrative expenses in excess of the cap in item 1 above.   |
| 12       | Any hedge unwind costs incurred due to an event of default under any hedge agreement where the counterparty is the defaulting party or under a termination event where the counterparty is the affected party.  |

Table 3

**Payment Priority (cont.)**

| Priority | Payment  |
|----------|--|
| 13       | Prior to the performance threshold being met on any distribution date falling on or before the scheduled call date, pay 100% of the cash flow remaining after items 1-12 above to the sponsor until the performance threshold is met. If and after the performance threshold has been met on a distribution date falling on or before the scheduled call date, apply the following to the cash flow remaining after the application of item 13 on that distribution date and the cash flow available under items 13 on each subsequent distribution date up to and including the distribution date falling on the scheduled call date: payment to the bonus redemption premium reserves accounts until the aggregate amount paid under item 13 is equal to 0.5% of the class A-1 principal amount as of the issue date; then payments to the sponsor and the reserves accounts in equal proportions until the reserves accounts cap has been reached; and then after the reserves accounts cap has been reached, pay of 100% of the cash flow remaining after the application of items 1-12 above to the sponsor. On each distribution date after the scheduled call date, pay 100% of the cash flow remaining after application of items 1-12 above to the sponsor. |

The performance threshold is defined as the threshold where the aggregate cash the sponsor receives on or before the scheduled call date according to item 13 of the payment priority exceeds US\$407 million (which is equal to 50% of the issuer's total equity after the bonds are issued and the sponsor shareholder loan is partially repaid).

The retained amount is capped at US\$15 million and not subject to the payment priority, and it will be available to cover capital calls and expenses on or between distribution dates at the manager's discretion. Any unused amount will remain in the operating accounts for the following distribution period.

Following an enforcement event, the issuer will be required to disburse all amounts in the operating account according to the following post-enforcement payment priority outlined in table 4.

Table 4

**Post Enforcement Payment Priority**

| Priority | Payment   |
|----------|---|
| 1        | Taxes and administrative expenses of the issuer and asset-owning companies. Regarding administrative expenses, only those amounts required for enforcement of the rights of the bonds will be paid under this item. |
| 2        | Amounts due to hedge counterparties, except those payable in item 10.   |
| 3        | Unpaid commitment fees on the credit facility, then unpaid accrued interest (and any other payables), and then the credit facility's outstanding principal.   |
| 4        | Class A-1 and A-2 interest, pro rata and pari passu.  |
| 5        | Repay the class A-1 and A-2 outstanding principal amounts, pro rata and pari passu.   |
| 6        | Accrued and unpaid class B interest.  |
| 7        | Repay the class B outstanding principal amount.   |
| 8        | Unpaid administrative expenses not paid in item 1.  |
| 9        | Fund capital calls on the fund investments.   |
| 10       | Any hedge unwind costs incurred due to an event of default under any hedge agreement where the counterparty is the defaulting party or under a termination event where the counterparty is the affected party.      |
| 11       | All remaining cash flow to the sponsor.   |

Table 5 shows the scheduled reserve amounts.

Table 5

### Reserve Amount Schedule

| Distribution Date | Reserve Amount (mil. US\$) |
|-------------------|----------------------------|
| 1                 | 51.3                       |
| 2                 | 51.3                       |
| 3                 | 51.3                       |
| 4                 | 51.3                       |
| 5                 | 51.3                       |
| 6                 | 51.3                       |
| 7                 | 51.3                       |
| 8                 | 51.3                       |
| 9                 | 51.3                       |
| 10                | 51.3                       |

The credit facility available amount, which will not exceed \$300 million at any time, will be calculated as the sum of a scheduled component that will step down in accordance with the schedule in table 6 below and a component equivalent to 50% of the aggregate undrawn capital commitments of the asset-owning companies.

Table 6

### Credit Facility Step-Down Component Schedule

| Period   | Amount (mil. US\$) |
|--|--------------------|
| Issue date through its third anniversary (the day immediately after which is the first CF step-down date)  | 130                |
| First credit facility step-down date through the sixth anniversary of the issue date (the day immediately after which is the second CF step-down date)                         | 100                |
| Second credit facility step-down date through the termination date (the earlier of the 10-year legal maturity and the date on which all classes of bonds are redeemed in full) | 40                 |

The credit facility contains stated interest at LIBOR plus a fixed margin. While the original deadline for LIBOR cessation was December 2021, the phase out date is now expected after June 2023 for most U.S. dollar LIBOR maturities, such as the one- and three-month maturities. In 2019, the Federal Reserve's Alternative Reference Rates Committee (ARRC) published recommended guidelines for fallback language in new securitizations and the language in the credit facility agreement is generally consistent with its key principles: trigger events, a list of alternative rates, and a spread adjustment. We will continue to monitor reference rate reform and take into account changes specific to this transaction when appropriate.

### Events of Default

Under the transaction documents, an event of default includes the following:

- Failure to make any interest or principal payments when due.
- Any corporate action, legal proceeding, or other procedure leading to the following: a

suspension of payments, a moratorium of indebtedness, winding-up, dissolution, judicial management, administration, or reorganization of the issuer or the sponsor; a composition, compromise, assignment, or arrangement with any creditor of the issuer or the sponsor generally; or an appointment of a liquidator, receiver, judicial manager, administrative receiver, administrator, compulsory manager, or similar other officer of the issuer or the assets of the issuer or the sponsor.

- An expropriation, attachment, sequestration, distress, or execution that affects all or any material part of the issuer's or sponsor's assets and is not discharged within 30 business days.
- An enforcement action regarding the security documents occurs and is continuing.
- An event of default defined under the credit facility agreement occurs and is continuing.
- It becomes unlawful for the issuer to perform any of its obligations under the transaction documents.

## **Manager Termination Events**

Under the transaction documents, the issuer will have the right to terminate the securitization manager if any of the following occurs:

- A manager bankruptcy or insolvency.
- Failure to approve capital calls on behalf of the asset-owning companies.
- An event of default under the trust deed primarily due to the manager breaching any of its obligations under the management agreement.
- A material breach of certain representations and warranties by the manager.
- The manager is unable to provide certain services.
- A material or persistent breach of other obligations under the management agreement.
- Fraud or criminal activity.

## **Legal Matters**

In rating this transaction, we will review the legal matters we believe are relevant to our analysis, as outlined in our criteria.

## **Surveillance**

We will maintain active surveillance on the rated bonds until the bonds mature or are retired. The purpose of surveillance is to assess whether the bonds are performing within the initial parameters and assumptions applied to each rating category. The transaction terms require the issuer to supply periodic reports and notices to S&P Global Ratings for maintaining continuous surveillance on the rated bonds.

S&P Global Ratings believes there remains high, albeit moderating, uncertainty about the evolution of the coronavirus pandemic and its economic effects. Vaccine production is ramping up and rollouts are gathering pace around the world. Widespread immunization, which will help pave the way for a return to more normal levels of social and economic activity, looks to be achievable

by most developed economies by the end of the third quarter. However, some emerging markets may only be able to achieve widespread immunization by year-end or later. We use these assumptions about vaccine timing in assessing the economic and credit implications associated with the pandemic (see our research here: [www.spglobal.com/ratings](http://www.spglobal.com/ratings)). As the situation evolves, we will update our assumptions and estimates accordingly.

## **Related Criteria**

- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Foreign Exchange Risk In Structured Finance--Methodology And Assumptions, April 21, 2017
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | CDOs: CDO Spotlight: Global Criteria For Private Equity Securitization, Jan. 18, 2006

## **Related Research**

- As The Deadline For The Transition From LIBOR Approaches, Work Remains For U.S. Structured Finance, Oct. 6, 2020
- Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, July 2, 2014

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