

LETTER TO THE FINANCIAL TIMES - ASTREA'S PORTFOLIO CONSTRUCTION PRINCIPLES AND KEY PRODUCT FEATURES

27 Nov 2022 - We refer to the article by Kaye Wiggins ("[Collateralised fund obligations: How private equity securitised itself](#)", Financial Times, 25 Nov 2022). We thank Kaye for highlighting the credit strengths of the Astrea Private Equity ("PE") Bonds.

Your readers may be interested in the portfolio construction principles and key product features of the Astrea PE Bonds, that have enabled investors to have exposure to investment grade bonds backed by PE cash flows.

Well-diversified Portfolio

The Astrea PE Bonds are each backed by cashflows from a large, diversified pool of more than 30 seasoned PE funds underpinned by 600-1000 companies at launch. This level of diversification offers good cashflow protection for bondholders, even if some companies should underperform.

Structural Safeguards

To better protect bondholders' interests, assets for each Astrea issue are ringfenced in a collateralised fund obligation or CFO structure.

The Astrea PE Bonds were issued at conservative Loan-to-Value ("LTV") ratios.

Half yearly cashflows are paid out in pre-determined order, with bondholders prioritised ahead of the equity investors. Thus, as sole equity investor, Azalea would bear any first loss arising from the portfolio.

Additional safeguards include regular reserving of bond principal, credit facility to fund interest payout in the event of cashflow shortfalls, and maximum LTV ratio that triggers mitigating actions if breached.

Validation by Internationally Recognised Agencies

The robust structural design and strong cashflows from Astrea portfolios have been consistently validated by Fitch and S&P, with investment grade ratings for the Astrea PE Bonds.

Post issuance, the Bonds have received multiple rating upgrades. This is testimony to the strength and expectation of the Astrea portfolios to perform well throughout the term of the Bonds.

Performance of the Astrea PE Bonds

To-date, Azalea has successfully launched five Astrea PE Bonds. These have consistently fulfilled all the bond obligations.

The Astrea III and earlier Bonds are fully redeemed. The Astrea IV Class A Bonds are fully reserved, while the Astrea V Class A Bonds are almost fully reserved ahead of schedule.

This is testament to the quality and robust structure of the portfolios.

Conclusion

In summary, Azalea focuses on making PE accessible, especially for retail investors, and takes a long view of its stakeholder interests. We will continue to design investment products with the interest of bondholders and other investors clearly in mind.

Margaret Lui

Chief Executive Officer
Azalea Investment Management