

Astrea IV Pte. Ltd. Class A-1 Bonds Rating Raised

November 15, 2021

Overview

- During our standard annual review process, we evaluated all three collateralized fund obligation securitizations that we rate and selected Astrea IV Pte. Ltd. for further analysis. Astrea IV is a collateralized fund obligation securitization backed by cash flows from a portfolio of 36 private equity funds.
- We upgraded Astrea IV's class A-1 bonds to 'A+ (sf)' from 'A (sf)'.
- Despite the disruption brought on by the COVID-19 pandemic, the credit quality of the bonds has improved, in our opinion, due to the continued performance of the underlying private equity funds, structural safeguards, and accelerated funding of the reserve account.

NEW YORK (S&P Global Ratings) Nov. 15, 2021---S&P Global Ratings today raised its rating on Astrea IV Pte. Ltd.'s class A-1 bonds to 'A+ (sf)' from 'A (sf)'.

Astrea IV is a collateralized fund obligation securitization backed by cash flows from a portfolio of 36 private equity funds, diversified by vintage, sector, geography, and strategy. The transaction is a static portfolio of private equity investments that does not allow the manager to alter the portfolio's composition through purchases or sales. Notable changes in industry concentration from launch to Dec. 31, 2020 (the latest annual report), include information technology increasing to 27.2% from 22.0% and health care decreasing to 13.2% from 14.3%. The weighted average fund age is approximately nine years.

Since the transaction closed in June 2018, the transaction has accumulated over \$338 million in its reserve account, exceeding the scheduled amount by approximately 41%, partially attributable to a one-time deposit of \$53 million into the reserve account in June 2020 from a sponsor waiver of sponsor cash flows. In addition, since the cumulative cash received by the sponsor exceeded the performance threshold of \$313 million in June 2021, cash flows will be equally split between the sponsor and reserve account on future distribution periods according to clause 14(iii) of the priority of payments, further accelerating the reserve build-up. Given the currency hedges the issuer entered when the transaction closed, the U.S. dollar-denominated reserve account balance should be sufficient to fully repay the Singapore dollar-denominated class A-1 bonds upon the June 2023 scheduled call date.

Although the COVID-19 pandemic caused significant disruption to the capital markets in 2020, Astrea IV's portfolio has continued to produce positive net cash flows in each of the first six distribution periods, with distributions exceeding capital calls. Cumulative net distribution since closing totaled \$715 million, which has been sufficient to cover all scheduled reserve amounts, expenses, and interest payments on the bonds. As of May 31, 2021, the net asset value (NAV) of

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the portfolio was \$754 million, down from \$1.098 billion at closing. Despite the loan-to-value ratio, measured by net debt over NAV, briefly breaching above the 50% threshold in June 2020, it has since fallen to 22.0% in May 2021 due to the recovery on the underlying private equity funds and increased reserve account deposit. The liquidity facility and capital call facility remained undrawn at \$100 million and \$101 million, respectively.

Although our cash flow analysis indicates a higher implied rating on Astrea IV's class A-1 bonds, we determined that a one-notch upgrade to 'A+ (sf)' from 'A (sf)' is appropriate. This upgrade brings the rating in line with the ratings on Astrea V and Astrea VI, which are also managed by Azalea Investment Management Pte. Ltd. We believe the uncertainties regarding COVID-19 and its impact on the capital markets remain relevant. The sharp decline in portfolio NAV observed in 2020 highlighted the elevated sensitivity that private equity has to market stresses.

We will continue to monitor the transaction and take further rating actions as we deem necessary.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | Legal: U.S. Structured Finance Asset Isolation And Special-Purpose Entity Criteria, May 15, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 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

- Economic Outlook Q4 2021: Global Growth Is Steady As Delta Spurs Wide Regional Swings, Sept. 28, 2021
- Take Notes: Private Equity Collateralized Fund Obligations Make An Appearance Amid

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COVID-19, Feb. 25, 2021

- Presale: Astrea IV Pte. Ltd., May 23, 2018

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