FitchRatings

Tagging Info

Fitch Affirms Alcentra Ltd's Asset Manager Rating at 'M1' Ratings
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Fitch Ratings-London-17 August 2011: Fitch Ratings has affirmed Alcentra Ltd.'s (Alcentra) Asset Manager Rating at 'M1'. The rating covers Alcentra's European credit asset management activities. Asset manager operations in the 'M1' category demonstrate the lowest vulnerability to operational and investment management failure.

KEY RATING DRIVERS
The affirmation reflects the strength and stability of Alcentra's sub-investment grade business over the past year. It takes into account the improvements Alcentra has made to its risk management processes and the extension of its front office system through implementation of Everest. Despite continuing challenging market conditions, Alcentra continues to make progress in transitioning its business towards a more diversified range of credit products.

Alcentra's key strengths include its deep sub-investment grade credit investment experience, its large volume of stable, term-financed assets under management, its ability to retain key and well qualified staff, and its robust two stage credit process. The resumption of subordinated collateralised loan obligation (CLO) management fee payments has strengthened Alcentra's financial position over the past year.

The key challenge facing Alcentra is to raise further assets in uncertain market conditions which Fitch expects to prevail for some time. However Fitch takes comfort from recent mandates received in Alcentra's credit fund range.

Alcentra's 'M1' rating is based on the following category scores, which represent a scale from 1 to 5, with 1 as the highest possible score:
Company and Staffing: 2.00
Credit Selection: 1.50
Portfolio and Risk Management: 1.75
Investment Administration: 1.75
Technology: 1.75 (from 2.00)

COMPANY AND STAFFING
Alcentra operates as an independent subsidiary but can rely on support from its parent, The Bank of New York Mellon Corporation (rated 'AA-'/Stable/'F1+'). Throughout 2010, Alcentra recouped the majority of subordinated CLO fees shut-off in 2008 and 2009, which strengthened the financial performance and balance sheet position. As of June 2011, profitability targets in 2011 are expected to be in line with 2010. Alcentra's staffing has remained stable with a good breadth and depth of experience. Nevertheless there is a potential for key person risk for senior management, which Fitch believes to be mitigated by widespread sharing of expertise, use of committees and dedicated analyst team support.

CREDIT SELECTION
In Fitch's view, credit selection is disciplined and driven by thorough and well-established investment processes. Alcentra's two stage credit approval process consists of a preliminary screening of a credit, followed by a more detailed analyst report, which is presented to the investment committee. The investment committee consists of highly experienced staff, is properly documented and is accountable for decisions made. A formal review of all credits is conducted on a quarterly basis.

PORTFOLIO AND RISK MANAGEMENT
Alcentra's portfolio and risk monitoring is efficient, aided by the newly implemented Everest system. The portfolio construction process is disciplined and conservative for CLOs, whereas more flexibility is allowed when managing credit funds. Fitch views positively the establishment of a monthly risk-committee, chaired by the CIO, which has strengthened and clarified the risk management process. The agency will monitor the development of the committee's effectiveness as a component of Alcentra's wider risk framework.

INVESTMENT ADMINISTRATION
The company's investment administration is securely performed supported by the robust administration system Alcentra adopts and qualified operations staff. The back and middle office system, Wall Street Office, is used for CLO administration, and other tools, such as Intex, are used for its structured credit funds.

TECHNOLOGY

The increase in Alcentra's technology score reflects recent investments in its infrastructure via introduction of the front-office Everest system, which has improved productivity by integrating previous systems (such as Wall Street Office and Excel-based spreadsheets), whilst allowing access to real time, customisable data flows.

COMPANY PROFILE
Based in both Europe and the US, Alcentra is an asset management firm focused on sub-investment grade debt. Formed in March 2002, it was acquired in January 2006 by The Bank of New York Mellon Corporation. Senior management and other employees retain a 5% stake in the company. As of end-June 2011, Alcentra had around EUR8.7bn of European assets under management, of which around 90% was in CLOs. Alcentra employs 39 people in London, including 4 portfolio managers and 11 credit specialists, in addition to its senior management team of 3.

RATING SENSITIVITY
The rating may be sensitive to material adverse changes to any of the aforementioned rating drivers. A material deviation from Fitch guidelines for any key rating driver could cause the rating to be lowered by Fitch. For additional information about Fitch's asset manager ratings guidelines, please review the criteria referenced below, which can be found on Fitch's website at www.fitchratings.com.

Alcentra's rating report will shortly be available at www.fitchratings.com.

Contacts:

Contact:
Primary Analyst
Alastair Sewell
Associate Director
+44 20 3530 1147
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Secondary Analyst
Manuel Arrive, CFA
Senior Director
+ 44 20 3530 1384

Committee Chairperson
Roger Schneider, CIIA
Senior Director
+49 69 7680 76 242

Media Relations: Hannah Huntly, London, Tel: +44 20 3530 1153, Email: hannah.huntly@fitchratings.com.

Additional information is available at www.fitchratings.com.

Applicable criteria, 'Reviewing and Rating Asset Managers', dated 13 August 2010, 'Reviewing and Rating Credit Asset Managers', dated 27 July 2009 are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Reviewing and Rating Asset Managers
Reviewing and Rating Credit Asset Managers
European Leveraged Credit H111 Review; Confidence Must Support Fundamentals
European Leveraged Loan CLO Tracker
Sector Update - Credit Asset Management