

# Alcentra Ltd

## Full Rating Report



### Outlook

Stable

### Profile

Asset under management	
Europe	USD16.3bn
US	USD13.9bn
<b>Global total</b>	<b>USD30.2bn</b>
Date of creation	2003 (Europe)
Domicile	UK
Ownership	100% Bank of New York Mellon Corporation
Total staff Europe	83
Investment professionals Europe	38

Source: Alcentra, 30 November 2016

### Key Rating Drivers

**Strong, Stable Investment Platform:** Alcentra Ltd has deep investment experience and resources. It benefits from the ownership and support of its parent, The Bank of New York Mellon Corporation (BNY Mellon, AA-/Stable/F1+). It is one of the largest and longest established European sub-investment grade credit asset managers.

**AUM Transition Largely Complete:** We consider Alcentra to be a diversified sub-investment-grade credit asset manager. The share of CLOs in total assets has decreased considerably over the last few years and the focus has shifted to direct lending, loan strategies, structured credit, special situations and distressed debt. In terms of investor base changes, the share of pension funds and insurance companies has doubled over the last two years.

**Embedded Investment Risk Management:** The risk management and governance framework provides suitable coverage of the main risks. A dedicated investment risk management team of two is well embedded in the organisation and provides effective risk oversight.

**Disciplined Credit Approval Process:** Alcentra adopts a two-stage credit approval process, consisting of a preliminary credit screening followed by more detailed due diligence. Access to market information is well developed. Credit monitoring is ongoing, formalised in twice-weekly investment committee meetings and quarterly portfolio reviews.

**Best-in-Class Investment Administration:** Alcentra's investment capabilities revolve around its strong team, use of appropriate systems and its effective processes. Robust controls are in operation, and Alcentra benefits from strong relationships with its administrators, custodians and trustees. It also benefits from the oversight, experience and resources of BNY Mellon. Investor reporting has become more sophisticated over the last year reflecting the pension funds requirement for detailed information to cover regulatory reporting needs.

**Systems Integration Completed:** Alcentra has moved all IT systems onto BNY Mellon servers as part of its office move to BNY premises. The implementation was smooth, which reflects a technical strengthening due to BNY Mellon's IT resources. Front-office system Intex was switched to Thetica to further enhance the structured credit capabilities in 2016.

### Category Assessments

	Good Standards	High Standards	Highest Standards
Company			✓
Controls		✓	
Investments			✓
Operations			✓
Technology			✓

Source: Fitch

### Analysts

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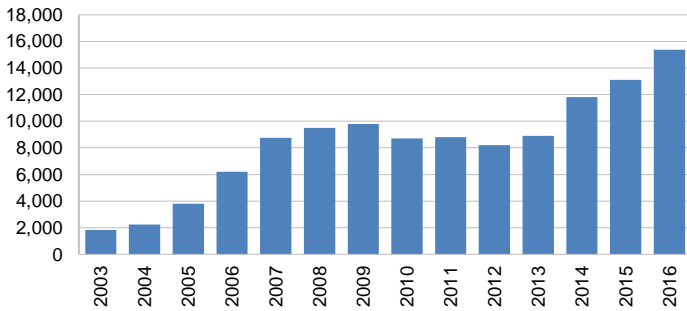
### Profile

**Sub-Investment-Grade Manager:** Alcentra was founded in 2002 in the US and 2003 in Europe; it was acquired in January 2006 by BNY Mellon. It manages a wide range of funds and mandates with expertise in structured credit, secured loans, direct lending, mezzanine loans, high-yield bonds, special situations and multi-strategy.

Assets under Management (AUM) Breakdowns

European AUM Development

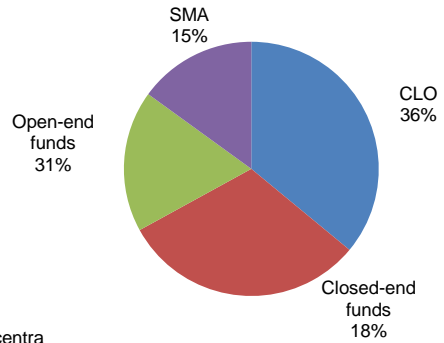
(EURm)



Source: Alcentra

European AUM Breakdown by Product Line

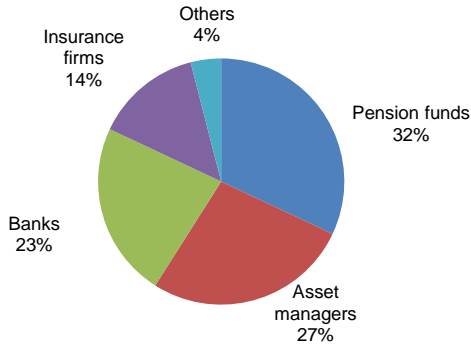
(30 November 2016)



Source: Alcentra

Global AUM Breakdown by Investor Type

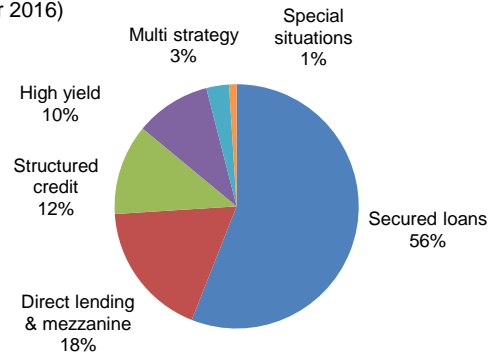
(30 November 2016)



Source: Alcentra

Global AUM Breakdown by Asset Type

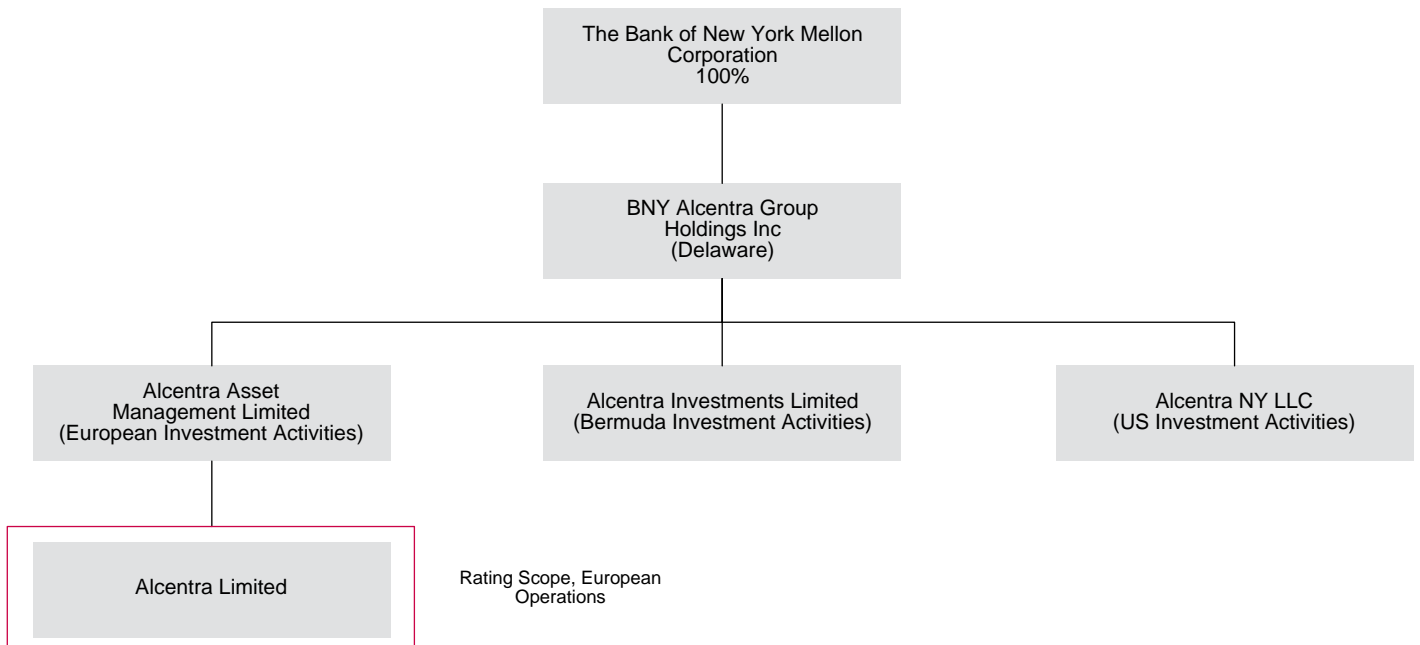
(30 November 2016)



Source: Alcentra

Company Structure

Alcentra Corporate Structure



Source: Fitch, Alcentra

Related Criteria

[Asset Manager Rating Criteria \(May 2014\)](#)

**Company**

**Highest Standards**

**Shareholders and Financial Standing**

**Well-resourced, strong parent company**

Alcentra is 100% owned by BNY Mellon (AA-/Stable/F1+). BNY Mellon regularly provides significant capital support and seed money for Alcentra products, showing its commitment to the firm.

Alcentra benefits from BNY Mellon’s extensive resources, particularly in distribution capabilities, legal, compliance and IT matters. Alcentra has full investment autonomy and operates as one of BNY Mellon’s 13 specialist boutique asset management companies.

Alcentra is highly profitable. EBITDA was stable in 2016 compared with 2015. We estimate that Alcentra would be able to sustain operations even under a severe stress scenario (represented by a 50% outflow in our analysis). However, this scenario is unlikely given that more than half of Alcentra’s AUM (about 54%) is in closed-end vehicles, which do not incur material liquidity risk and provide relative fee income stability.

It also retains a substantial, albeit somewhat variable, volume, of cash on balance sheet which would mitigate the effect of severe stress on the business.

**Profitable business underpinned by stable, term financed CLOs; and increased focus in direct lending business growth**

Alcentra holds capital well in excess of regulatory requirements. It does not have any debt, but does have a growing amount of investments on balance sheet related to CLO risk retention.

There is no large single client concentration among Alcentra’s investors and they are well diversified by type.

Alcentra manages a number of funds and segregated mandates. Alcentra manages a total of seven European CLO 2.0s. We do not expect CLO AUM to grow dramatically as older CLOs are called or mature with the result that new CLOs act as replacement rather than new assets. Its high-grade CLO strategy has marginally increased to EUR2.6bn as of November 2016. European (open-ended) loan strategy now exceeds EUR2.5bn in AUM.

Alcentra expects growth in the direct lending business, special situation and distressed lending. EU banks deleveraging is creating opportunities for these types of strategies. It had EUR4.4bn in direct lending strategies and mandates under management as of November 2016.

**Experience**

**Long history, experienced and stable teams**

Alcentra is a diversified sub-investment-grade credit manager. We consider Alcentra a large asset manager relative to peer credit specialists; compared with the broader universe of asset managers (across product and provider types) we consider it medium sized. We believe that the size Alcentra has achieved and its growth presents a challenge to the firm: to retain its entrepreneurial roots and investment flexibility while stepping up to become a scale player. This challenge is mitigated by the success with which Alcentra has absorbed inflows and launched new products to date. Nonetheless, further growth may pressure existing processes and necessitate a more bureaucratic approach to business and growth management.

The Alcentra Group was established in 2002 in the US through the acquisition (by the Alchemy Group and the founding partners) of Imperial Credit Asset Management from Imperial Credit Industries Inc, and of Barclays Capital Asset Management from Barclays Bank Plc in March 2003 in Europe. In 2005, the Alchemy Group and Alcentra Group management and employees sold a combined 80% holding in the Alcentra Group to BNY Mellon. BNY Mellon subsequently increased its ownership of Alcentra to 100% over several years.

Alcentra has made two team acquisitions in the last five years; it acquired the structured credit team of Meriten in 2014 and the high-yield bond team of Standish in 2013.

**Company (Continued)**

**Highest Standards**

**Governance and Independence**

<p><b>Strong firm-wide governing framework</b></p>	<p>The board of Alcentra consists of six members, including two independent directors. Two new directors have been added to the board and one stepped down in 2016. The board meets quarterly. Alcentra’s senior management meets with a BNY Mellon oversight committee on a monthly basis.</p> <p>Alcentra is regulated and authorised by the UK’s FCA, and other affiliates are regulated by the US SEC and the Luxembourg CSSF. KPMG acts as Alcentra’s auditors; to date its opinion on Alcentra has been clean.</p> <p>Alcentra is subject to biennial audits from BNY Mellon’s internal audit department. In addition, BNY Mellon conducts more regular, specific reviews on a rotating basis. Alcentra is subject to BNY Mellon’s conflict of interest policy.</p>
<p><b>Funds are suitably governed</b></p>	<p>Alcentra’s products incorporate a range of structures, including CLOs, Limited Partnerships (LPs), protected cell companies, Structured Investment Funds (SIFs), and closed-ended funds. In all cases the assets are segregated with respectable third-parties as trustees/custodians. Alcentra also manages numerous segregated mandates.</p> <p>All the funds and CLOs use well-respected service providers. Fund boards typically feature a majority of independent members.</p>

**Staffing**

<p><b>Clearly organised business; independent risk function</b></p>	<p>Alcentra has specific teams for each strategy, backed by appropriate administrative and support resources. Alcentra hired two junior analysts in 2016 to support PMs in executing trades for the loan and CLO universe. They continue to employ a dedicated HY bond trader. Alcentra’s independent risk management team of two enhances the investment risk controls. We believe that additional resources may be required in this area as the size and complexity of Alcentra’s business grows. There is a separate compliance team of three in Europe (six globally). Alcentra benefits from the depth of shared knowledge and resources at BNY Mellon, specifically in compliance, risk and distribution.</p>
<p><b>Highly experienced management team</b></p>	<p>In Fitch’s opinion, the senior management team brings consistent and stable leadership to the business. The management team is highly experienced.</p> <p>The chief financial officer (CFO) retired and was replaced by an internal promotion in March 2016. The new CFO was also appointed to the board.</p>
<p><b>Strong alignment of interest</b></p>	<p>Fitch believes that members of staff are well compensated. There has been a good level of staff retention, with little staff turnover since the inception of the company.</p> <p>A long-term incentive plan invests in Alcentra products, providing a strong alignment of interest between staff and investors. Several Alcentra employees personally invest in Alcentra products, which is monitored and approved by BNY Mellon’s ethics committee. Alcentra’s remuneration policies are aligned with those of BNY Mellon, which are reviewed by the latter’s remuneration committee. Cash components of variable remuneration are deferred.</p>

**Controls**

**High Standards**

**Overall Risk Control Framework**

<p><b>Sound control structure with appropriate resources</b></p>	<p>Alcentra’s board delegates responsibility to six core committees including a risk committee. The risk committee meets on a monthly basis. It comprises the head of risk and compliance, CFO and the risk manager and, by invitation, other members of the firm. These may include the chief investment officer (CIO), head of research, head of operations or head of business development.</p> <p>The risk committee reviews relevant metrics, such as price movements, lowest trading assets, and liquidity, among others.</p> <p>The head of risk and compliance has a reporting line to the global head of risk and compliance at BNY Mellon Investment Management.</p>
<p><b>Appropriate operational risk supervision</b></p>	<p>Alcentra has adopted BNY Mellon’s policy on operational risk, with the risk manager working with the dedicated operational risk officer present at BNY Mellon.</p> <p>The operational risk management process includes risk control self-assessments by each business area and specific risk assessments undertaken by the risk manager.</p> <p>Risk mitigation action plans are documented, tracked and reported to the board. All incidents are well captured and tracked to completion via BNY Mellon’s operational risk monitoring systems.</p> <p>Near misses are recorded under the log error report. In case of a gap in results there is an action plan in place to enhance and add controls if necessary.</p> <p>Risks are assessed as part of ICAAP.</p> <p>Operational losses over the past four years have been negligible with no material losses.</p>
<p><b>Established monitoring of third parties</b></p>	<p>Alcentra selects and monitors counterparties using objective criteria, under a defined new counterparty review process.</p> <p>Relationships with custodians and other third-parties are governed by service level agreements (SLAs) and monitored by the operations team. The operations team performs annual on-site due diligence and conducts regular monitoring based on key performance indicators (notably the accuracy and timeliness of net asset value (NAV) production), with periodic update calls as necessary. The operations team replicates the administration process for all products.</p> <p>Funds enter into standardised contracts (e.g. ISDAs) with counterparties as appropriate.</p>

**Controls (Continued)**

**High Standards**

**Compliance and Controls**

**Good compliance oversight**

The compliance team acts as an independent unit and oversees a wide spectrum of compliance requirements. It currently consists of six people globally, three based in the UK, two in NY and one in Boston. There are comprehensive policies and procedures in place to ensure compliance with regulatory rules.

The staff adheres to the BNY Mellon personal trading policy. BNY Mellon systems log personal trades, and require a quarterly submission of brokerage statements. Alcentra maintains a restricted trading list, which is built into Everest. It also operates an order allocation policy, which the head of risk and compliance monitors.

**Brokers and counterparties selected on the basis of best execution**

BNY Mellon maintains an eligible broker list. Alcentra chooses brokers from the list purely on the basis of best execution, which is reviewed monthly by its operations and compliance teams. This is measured by speed, cost and likelihood of execution and settlement, among other factors.

The operations team and risk manager monitor weekly trading exposures and volumes across counterparties via various systems.

**Pre- and post- trade compliance exists**

Everest contains a pre- and post-trade compliance system. All CLO constraints are built into WSO. The Alcentra operations team produces a shadow NAV for all relevant products, which is reconciled to the administrator-produced NAV.

Before trading, PMs run a trade scenario, which may be reviewed by the operations team to ensure that investment guidelines are not breached. The operations team review all trades on a post trade basis.

**Robust valuation procedures and oversight**

All pricing data is acquired from independent third party sources (Bloomberg, Markit (inc. LoanX), IDC and Prism (for derivatives pricing)). A formal pricing policy procedure exists, which covers all investments that Alcentra makes.

A pricing committee reviews instances of illiquid and non-traded securities. Standardised templates exist where additional broker quotes are required and analysts/PMs are required to justify a reasonable price to the committee, which has the final decision.

**Investment Risk Management**

**Formal market risk oversight**

Alcentra's risk committee has a mandate, as documented in its terms of reference, to review and monitor relevant market risk metrics. Specific topics discussed include performance, concentration risk and, liquidity risk and redemption risk. In addition, the risk manager has oversight responsibilities for reviewing the investment risk guidelines within portfolios and has an independent reporting line to the head of risk and compliance.

Investment guidelines are tested via WSO compliance.

Monthly risk monitoring is formalised via credit, liquidity and recovery internal ratings, including the maintenance of a watch list and quarterly full portfolio reviews. Credit risk management is driven by the initial selection and ongoing monitoring, with responsibility placed on the credit analysts.

The risk committee has the power to oblige PMs to attend a session to address any potential concerns the committee may have, and to force PMs to make trades (which has been used previously).



Controls (Continued)

High Standards

Investment Risk Management (Continued)

<p><b>Liquidity risk appropriately evaluated</b></p>	<p>Liquidity risk is an important component of Alcentra’s credit selection process. At the credit research stage, all investments are assigned a liquidity ranking of A to D, based on daily interactions and market intelligence from market dealers. Aggregate and individual portfolio exposures to these rankings are reviewed by the risk committee. The European Loan, Structured Credit, and Global Special Situations funds have specific liquidity limits set, monitored regularly by the risk manager and reported to the risk committee. The majority of Alcentra’s AUM is in closed-end funds or funds with conservative redemption periods that limit asset-liability mismatches.</p>
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Alcentra Control Framework

BNY Risk and Compliance Department BNY Ethics Department	
BNY Alcentra Group Holdings Inc Management Committee	<ul style="list-style-type: none"> <li>● Meets monthly, comprises Alcentra senior management and senior BNY asset management staff</li> <li>● Discusses strategic direction of BNY Alcentra Group companies, monitors performance and evaluates key risks</li> </ul>
BNY Alcentra Ltd Committee	<ul style="list-style-type: none"> <li>● Meets quarterly, comprises Alcentra senior management, independent directors and COO of BNY asset management</li> <li>● Considers strategic issues, corporate governance, company finances and escalation from other Alcentra committees</li> </ul>
Investment Committee	<ul style="list-style-type: none"> <li>● Meets twice-weekly and ad-hoc as needed to consider all investment proposals and all watchlist positions</li> <li>● Conducts full portfolio reviews quarterly</li> </ul>
Asset Allocation Committee	<ul style="list-style-type: none"> <li>● Meets quarterly</li> <li>● Undertakes asset allocation decisions, after reviewing performance of all strategies and investment outlook</li> </ul>
Pricing Committee	<ul style="list-style-type: none"> <li>● Meets monthly and ad-hoc as needed</li> <li>● Responsible for providing consistent and objective oversight of Alcentra’s pricing processes and policies</li> </ul>
IT Committee	<ul style="list-style-type: none"> <li>● Meets twice-monthly for monitoring of ongoing IT projects</li> <li>● Meets quarterly for in-depth review of IT strategy and to assess sufficiency of Alcentra’s IT platform</li> </ul>
Compliance Committee	<ul style="list-style-type: none"> <li>● Meets quarterly</li> <li>● Reviews compliance framework and monitors any outstanding issues</li> </ul>
New Business Committee	<ul style="list-style-type: none"> <li>● Meets monthly and ad-hoc as needed</li> <li>● Analyses risks of new products, mandates and service providers</li> </ul>
Risk Committee	<ul style="list-style-type: none"> <li>● Meets monthly and ad-hoc; comprises CFO, head of risk and compliance and risk manager with invitations to other members of the firm as needed</li> <li>● Considers investment risk, operational risk and market risk, in addition to high level risks facing Alcentra</li> </ul>

Source: Fitch, Alcentra

**Investments**

**Highest Standards**

**Resources**

**Experienced, growing investment team**

The five PMs are highly experienced and have long tenures with the firm. PMs do not have any administrative responsibilities and focus solely on fund management.

There is a pool of 32 credit analysts in Europe (down from 33 as of November 2015). The credit analysts have an average of around 12 years' experience. There are distinct analyst teams covering secured loans, direct lending and structured credit, typically organised in senior/junior analyst pairings on each entity covered. Alcentra employs a dedicated work-out specialist.

The number of entities per analyst varies – from around four per analyst (on average) in direct lending to 40-50 for analysts covering both bonds and loans. This reflects the intensity of the work involved and the frequency of reporting. The number of loans issuers per analyst – typically 20-25 – is slightly higher than the average Fitch has seen across European CLO managers (around 20).

Alcentra has a dedicated in-house lawyer to aid on the legal analysis of transactions.

**Superior access to market information and detailed credit research**

Alcentra has superior access to market information, which is a function of size and experience, with good relationships with brokers, dealers and bank trading desks.

Everest integrates market data feeds and pricing information from providers such as IDC and Markit. Everest is fully customisable to the user, allowing tailored technical and market analysis. Alcentra produces high-quality in-house research. Research papers on loan issuers will typically be 15-20 pages long while those for direct lending opportunities may be up to 35 pages long. Research notes for HY bonds are typically less in-depth, reflecting greater market-driven time pressure.

**Alcentra Ltd Organisation Chart**



Source: Fitch, Alcentra



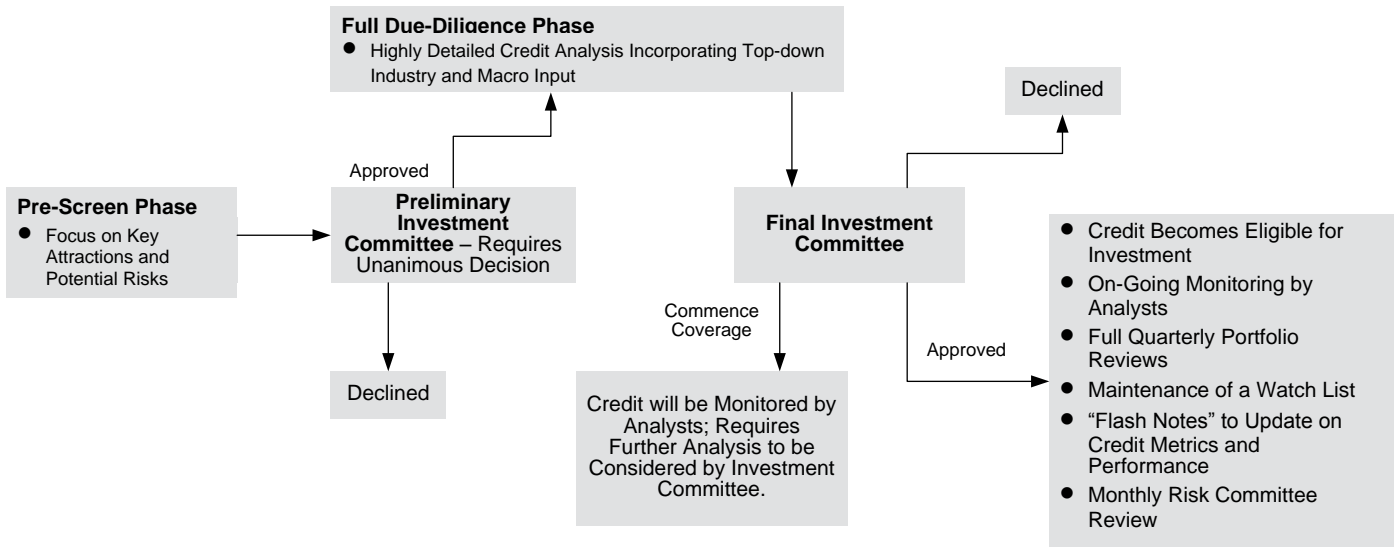
**Investments (Continued)**

**Highest Standards**

**Discipline**

<p><b>Clearly defined product range</b></p>	<p>All of Alcentra’s products are well defined with relevant term sheets and due diligence questionnaires (DDQs) available where appropriate, containing objectives, defined limits and risk budgets. It also provides sufficient detail on sources of performance.</p>
<p><b>Robust committee-based approval process</b></p>	<p>Alcentra adopts a disciplined investment committee approval process, chaired by the CEO. Committees are fully documented and approved by authorised signatories. Committee members have on average of more than 20 years’ experience.</p> <p>The credit investment process for loans and HY bonds involves two main steps: an initial pre-screening stage to appropriately narrow down the investment universe; followed by full due diligence, which applies a robust bottom-up and top-down analysis framework. The direct lending approval process follows the same approach, albeit with more detailed work supporting each step.</p> <p>For structured credit and the special situations funds, the selection process is similar, combining fundamental and technical analysis, supported by Alcentra’s wider credit selection process. The technical analysis is driven by the PM, with support from a small pool of stressed and distressed analysts. Alcentra adheres to a disciplined sell philosophy, despite its buy and hold bias. A sale could be considered if a price target is achieved, if credit deterioration occurs, if relative value is identified elsewhere, or if a sale will benefit diversification requirements. Fund allocation decisions and sell decisions rest with the PM.</p>
<p><b>Regular credit reviews and portfolio monitoring</b></p>	<p>There is regular individual credit monitoring, which is formalised in credit, liquidity and recovery internal ratings (distributed via flash notes). The investment committee conducts full portfolio reviews quarterly.</p> <p>Analysts update credit metrics in well-designed spreadsheets according to reporting frequency (typically monthly for loans and quarterly for bonds). These spreadsheets are fully integrated into Everest.</p> <p>Performance and risk indicators are set to be formally mapped with the upgrade of the Everest system in 1Q17.</p> <p>Underperforming assets, or those with deteriorating credit fundamentals, are placed on a watch list. The investment committee reviews names on the watch list monthly.</p>

**Alcentra Credit Approval Process**



Source: Fitch, Alcentra

**Operations**

**Highest Standards**

**Communications and Client Servicing**

**Clear investor reporting**

Alcentra maintains a dedicated web-based portal for clients to access reporting. Reporting is of a good standard with a broad range of metrics covered (e.g. spreads, leverage, coverage, sector and maturity) alongside monthly PM commentary.

Over the past year, Alcentra has increased the number of reports it provides to investors given the high levels of interaction with pension funds, which require detailed information for the DDQs and compliance reporting.

Alcentra does not produce performance data in a Global Investment Performance Standards (GIPS®) compliant format, save for its HY bond funds.

**Operational Procedures**

**Experienced and stable operations team provide good match to product range**

There is a stable, experienced and growing operations team at Alcentra. The transaction management team remained stable with 30 members (including contractors) dedicated to global products. Fitch views positively the team structure and the separation of staff by specialism and product type.

The systems Alcentra uses provide a good match to volumes, notably through WSO Fax and other WSO-based tools that facilitate the process and integration with Everest.

**Best in class investment administration**

There are clearly defined administrative processes for each strategy. The operations team is aided by the customisable nature of Everest, with WSO as the data repository.

The operations team produces shadow NAVs for all funds and reconciles them with administrators to ensure accuracy. Fund administration is largely automated through systems and data feeds.

The team reconciles cash and positions daily (in CLOs), with monthly report reconciliation via automated feeds with the trustee. There is also daily reconciliation of prime broker reports.

Alcentra outsources most regulatory reporting. Generally the number of third parties used has decreased. Service level agreements are in place with administrators. Supervision process of these agreements includes annual reviews, service quality assessment, establishment of exit plan and regular senior management performance updates.

**Highly customisable and flexible platform**

Alcentra's systems are fully customisable for any mandates and vehicles. This is evidenced by the increasing range of products and mandates that Alcentra runs on its platform.

Alcentra manages numerous institutional mandates, and the addition of new mandates has consistently operated smoothly. Although the increased AUM do not significantly affect the operational workload, the number of new fund launches may require additional operational resources.

There is a dedicated new business committee, which provides the formal procedures and monitoring for the launch of new products and mandates.

**Operations (Continued)**

**Highest Standards**

**Alcentra Operating Model**

<b>Alcentra</b>	Investment Decisions
	Trade Execution
	Shadow NAV Production
	Regular Reconciliation with 3rd Parties
<b>BNY</b>	CLO Collateral Administration and Largest Fund Administrator (Various Strategies) Administrator/Custodian for SICAV-SIF Platform
<b>State Street</b>	Administrator for Mezzanine Strategy
<b>BNP Paribas</b>	Administrator and Depository for Various Funds
<b>Sanne Group</b>	Administrator for Direct Lending Strategy and Other Strategies
<b>ING</b>	Depository Across Some Strategies
<b>Black Mountain</b>	System Support and Development

Source: Fitch, Alcentra

**Technology**

**Highest Standards**

**IT Resources**

<p><b>Dedicated in-house IT resources</b></p>	<p>Alcentra’s technology team has increased to four members of staff from three last year. It provides development and support services to the firm.</p> <p>All Alcentra’s IT systems moved onto BNY Mellon premises in 4Q16.</p> <p>The upgrade of WSO to the latest version and implementation of a performance attribution system in Everest have been postponed to 1Q17.</p>
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**Systems**

<p><b>Straight-through systems in place, based on WSO and Everest</b></p>	<p>Fitch views Alcentra’s platform as highly integrated with respect to position keeping, trade settlement, administration and front-office functionality. The front-office system for structured credit switched from Intex to Thetica in November 2016. Thetica is a web-based system which provides access to market information, maps collateral in each CLO, recalculates subordination and runs CLOs with asset specific assumptions.</p> <p>Thetica service is currently supported by a third party vendor. The facility is in trial mode and IT is working towards integrating it into Alcentra systems. POINT is still used for HY bonds.</p> <p>Everest, Alcentra’s front-office system, offers real-time relative performance analysis, order management and allocation functionality, while remaining customisable for each individual user.</p> <p>WSO serves as the backbone to Alcentra’s overall data infrastructure, acting as a central repository for data from various service providers, the basis for all administrative processes and the data store for Everest.</p> <p>Reporting functionality, including collateral administrator reconciliation, is provided via WSO at an asset-, portfolio- and enterprise-wide level. Alcentra uses WSO Fax, an automated loan feed from Markit, which is built into WSO directly (and into Everest). More recurrent procedures on loans, such as rollovers or pay-downs, are outsourced to Markit, and streamlined through the use of tools such as WSO Data and WSO Fax.</p>
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**Security**

<p><b>Data back-up and appropriate DR/BCP in-place</b></p>	<p>Alcentra maintains a detailed business continuity plan procedure and a disaster recovery plan, which are tested annually.</p>
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**Alcentra IT Framework**



Source: Fitch, Alcentra



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