

Alcentra Ltd (/gws/en/esp/issr/85412479)



## Fitch Affirms Alcentra Ltd at 'Highest Standards'

Fitch Ratings-London-07 February 2017: Fitch Ratings has affirmed Alcentra Ltd's Asset Manager Rating at 'Highest Standards'. The Outlook is Stable.

### KEY RATING DRIVERS

The affirmation is driven by the continued strength and stability of Alcentra's investment platform. Alcentra has deep investment experience and resources. It also benefits from the ownership and support of its parent, the Bank of New York Mellon Corporation (The) (BNY, AA-/Stable/F1+).

Alcentra has benefited from growth in European loan strategy and direct lending and increased focus towards structured credit, special situations, and distressed debt strategies over the last three years. The growth of this type of strategies means the share of the global CLO portfolio in the overall asset mix has decreased, although Alcentra continues to have a material presence in the European CLO market and CLO assets under management (AUM).

In line with the greater importance of non-CLO strategies, Alcentra's investor breakdown has also evolved. The proportion of pension funds and insurance firms allocations has doubled to 32% and 14%, respectively, over the last two years compared with banks and asset managers allocations. The shift in this type of investors shows the increased orientation towards higher yielding, customised products in this low yield environment. Alcentra has increased the amount of reports it provides to investors given the high levels of interaction with pension funds and insurance companies, which require detailed information for due diligence questionnaires and compliance reporting.

The main challenge facing Alcentra is managing the transition from a smaller, more entrepreneurial, asset manager to a scale player. It has successfully grown AUM and diversified its product mix and investor base to the point that we now consider it a medium-sized asset manager relative to global peers. This challenge is lessened by the success with which Alcentra has increased headcount, absorbed inflows and launched new products. Nonetheless, further growth may pressure existing processes and necessitate a more bureaucratic approach to business and growth management.

Alcentra's 'Highest Standards' rating is based on the following category scores (unchanged):

Company: Highest  
Controls: High  
Investments: Highest  
Operations: Highest  
Technology: Highest

Asset manager operations in the 'Highest Standards' category demonstrate an operational framework that Fitch considers superior relative to international institutional investor standards, in comparison to similar specialist asset managers. The asset manager rating covers all of Alcentra's European activities.

### COMPANY

Alcentra is a credit-focused asset manager, 100% owned by BNY Mellon. Alcentra benefits from the support it receives from BNY across multiple areas, notably the provision of seed capital and oversight of and input into Alcentra's control framework. Alcentra also benefits from BNY's resources on distribution capabilities and IT infrastructure. Alcentra successfully moved all personnel and IT systems to BNY premises in 4Q16. Alcentra continues to be a highly profitable business. Its staff is experienced and growing, with little turnover.

### CONTROLS

Alcentra's control environment is of a high standard, with a suitable and well-defined control structure commensurate with the size of its operations. Relevant policies and procedures are well- documented, leveraging BNY's expertise and resources, specifically in the areas of compliance and risk management. A risk committee, independent of portfolio managers, meets monthly to monitor investment risk. Alcentra increased its independent risk management team to two in 2016 up from one previously. In Fitch's opinion, this is part of the continuous strengthening of the risk and control framework it has seen at Alcentra over time.

### INVESTMENTS

Alcentra's credit selection is disciplined and driven by thorough and well-established investment processes. The two-stage credit approval process consists of a preliminary screening of a credit, followed by a more detailed due diligence process. An investment committee formalises the process. Portfolio monitoring is on-going, with dedicated watch-lists for credits that

require additional attention. Alcentra formally review all credits quarterly. Access to market information is well developed via multiple data feeds into Alcentra's front office system, Everest.

#### OPERATIONS

We consider Alcentra's administrative capabilities best in class. It has a solid operations team, which interacts effectively with appropriate systems in accordance with effective and tested procedures. Its systems are fully customisable for any type of mandate and investment vehicle. It has strong relationships with its administrators, custodians and trustees at all levels.

#### TECHNOLOGY

Alcentra has moved all IT systems onto BNY servers, which we consider a technical strengthening given BNY's considerable IT resources. Alcentra has a strong technological platform based on third-party systems. Everest serves as its primary front-office system. It is adaptable and allows access to real time, customisable data flows, for both portfolio and risk management purposes. It also provides for straight-through process via Wall Street Office, the industry standard software for loans. Alcentra switched from Intex to Thetica and continues to use Clarity for structured credit analysis and, increasingly, POINT for high yield bonds.

#### COMPANY PROFILE

Alcentra is a specialist sub-investment grade debt manager, with AUM of EUR16.3bn at 4Q16. Formed in 2002 in the US and 2003 in Europe, it was acquired in January 2006 by BNY, which now owns 100% of Alcentra. It manages senior secured loans, high yield bonds, special situations/distressed credit, multi-strategy credit, direct lending, mezzanine loans and structured credit through funds, mandates and CLOs. Alcentra employed 126 full-time staff globally as of end-November 2016, with 83 in Europe, including 38 investment professionals.

#### RATING SENSITIVITIES

The rating may be sensitive to material adverse changes to any of the aforementioned rating drivers, notably through weakened financial conditions, heightened staff turnover or deterioration of processes and policies. A material deviation from Fitch's guidelines for any key rating driver could cause the rating to be downgraded by Fitch.

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#### Applicable Criteria

Asset Manager Rating Criteria (pub. 06 May 2014) (<https://www.fitchratings.com/site/re/747701>)

#### Additional Disclosures

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