

FITCH AFFIRMS ALCENTRA LTD AT 'HIGHEST STANDARDS'

Fitch Ratings-Paris/London-22 October 2015: Fitch Ratings has affirmed Alcentra Ltd's (Alcentra) 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 (BNY, AA-/Stable/F1+.)

In our opinion Alcentra has largely completed the transition from a pure-play CLO manager to a broadly diversified speculative-grade credit asset manager. This mitigates risks arising from stress in any given product type or credit sub-sector, although secured loans remain the majority of its assets under management (AUM) and its leading competence.

It continues to have a material presence in the European CLO market and CLO AUM; however, growth in other product areas means that CLOs now only account for 55% of total (European) AUM.

Its global CLO total portfolio is now 45%. Specifically, Alcentra's high grade CLO fund and direct lending strategies have experienced strong growth. We expect the portion of CLO AUM in Alcentra's overall product mix to continue falling, as its new CLO issuance increasingly acts as replacement rather than new assets as older CLOs mature or are called. It has launched five new European CLOs since the beginning of 2013 for a total of EUR2.3bn.

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 mitigated by the success with which Alcentra has absorbed inflows and launched new products (such as its direct lending platform) to date. 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 benefits from the support it receives from its parent BNY across multiple areas, notably the provision of seed capital and oversight of and input into Alcentra's control framework. 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. The presence of a single dedicated independent risk manager supports the effective delivery of risk management process, although Fitch believes risk management resources may be stretched if AUM continues to grow and the product mix diversifies further.

INVESTMENTS

Alcentra's 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 due diligence process. An investment committee formalises the process. Portfolio monitoring is on-going, with dedicated watch-lists for credits that require additional attention. A formal review of all credits is conducted on a quarterly basis. 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 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 uses Intex and Clarity for structured credit analysis and, increasingly, Barclays POINT for high yield (HY) bonds.

COMPANY PROFILE

Alcentra is a specialist speculative-grade debt manager, with AUM of EUR11.4bn at end-September 2015. Formed in 2002 in the US and 2003 in Europe, it was acquired in January 2006 by BNY, who now owns 100% of Alcentra. It manages secured loans (including direct lending), HY bonds, stressed/distressed credit, mezzanine loans and structured credit through funds, mandates and CLOs. Alcentra employed 128 full time staff globally as of end-September 2015, with 80 in Europe, including 36 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 guidelines for any key rating driver could cause the rating to be downgraded by Fitch.

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The sources of information used to assess this rating were the public domain and Alcentra.

Applicable criteria, 'Asset Manager Rating Criteria', dated 06 May 2014, is available at
www.fitchratings.com.

Applicable Criteria

Asset Manager Rating Criteria (pub. 06 May 2014)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=747701

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