Fitch Ratings

Criteria Essentials – Feeder Fund Debt Ratings (1/2)

Scan QR code or visit https://www.fitchratings.com/criteria/fund-asset-managers to view detailed Feeder Fund Debt Rating Criteria

Quantitative Rating Indication (QRI)

Assessment of asset quality and cash-flow expected to be available to repay debt based on

- Fitch expected portfolio of the main fund
- Sector-specific criteria applicable to main fund's asset type
- Structural features and cash flow modelling

aaa to ccc

Qualitative Assessment (QA)

Incremental risk of non-performance of the feeder fund debt relative to QRI expressed as a notch down from QRI.

Asset quality and main fund leverage	0 to -3 notches
Fund and manager	0 to -3 notches
Structure	0 to -3 notches

0 to -9 notching adjustment

Subject to additional rating constraints

Feeder Fund Debt Rating
Relative vulnerability to default of each rated obligation

Scope

- Credit ratings assigned to debt issued by feeder funds holding an interest in one or more main funds.
- Where Fitch can form a view on the cash flow of the main fund's assets and on the main fund's debt or its potential impact on the rated feeder fund debt
- Underlying assets may include credit and non-credit portfolios, such as infrastructure debt or asset-backet facilities.

Fitch Expected Portfolio of the main fund

- **Fund strategy:** Investment objectives and risk
- **GP track record and capabilities:** Ability to achieve stated investment objective
- **Investment guidelines:** Portfolio covenants, eligibility criteria, trading/substitution restrictions
- **Ramp up risk and fund lifecycle**

Asset quality assessment

Using Fitch's criteria relevant to portfolio assets (see next page for corporate direct lending)

May involve the use of an asset model

Rating case asset assumptions output:

1. Credit assets: portfolio default rate, recovery rate and loss rating assumption
2. Non-credit assets: stressed asset cash flow

Structural Features of both main and feeder funds

- **Feeder fund credit enhancement:** LTV ratio, cash diversion tests, and other forms
- **Cash flow and additional liquidity sources:** Coverage of senior costs, expenses, interests
- **Interest rate risk**
- **Currency risk**
- **Main fund expected leverage:** Expected main fund debt added to feeder's LTV, or main fund leverage added to cash flow analysis
- **Risk horizon:** Until legal final maturity (or latest possible unilaterally extended maturity date)

Cash flow analysis of the feeder fund

Using relevant cash flow models:

1. Typically, the Multi-Asset Cash Flow Model when main fund consists of credit assets
2. Global CLO Cash Flow Model for transactions with CLO-like features
3. Private Equity Collateralised Fund Obligation Model when main fund consists of alternative investment fund stakes
4. Different models or tools when main funds consists of non-credit assets

Simplified QRI approach may be applied if underlying credit portfolios, simple structure and Fitch expected portfolio yield > sum of senior costs + interests due on the obligation and those senior to it

QRI equivalent to the most stressful rating case where portfolio losses ≤ credit enhancement

Quantitative Rating Indication (QRI)

Qualitative Assessment (QA)

- Overall QA: no excessive deviation from the sum of notching for each of the 3 factors: asset quality and main fund leverage; fund and manager; structure
- Each factor notching derived from subfactors assessment; relative subfactor weights depend on relevance to the fund

Guidelines for notching from QRI

Factor	Subfactor	0 notch	-1 notch	-2 or -3 notches
Asset quality, main fund leverage	**FX exposure**	None or residual	Moderate	High
	Asset type track record	Established, proven features	Established in new jurisdiction, or some unproven features	Novel, or significant unproven features
	Opportunistic trading and leverage	Limited trading and/or leverage	Moderate trading and/or leverage	Significant trading and/or leverage
Fund and manager (GP)	**Resources and scale**			
	Staffing	Adequate or strong	Small	Very small
	key person risk	Moderate	High	High
	Operations	Diversified/strong franchise	Limited strategy number	Very limited platform
	Total AUM	Moderate to large	Small	Very small
	Operating Experience	10+ years	5 to 10 years	Less than 5 years
	Franchise			
	AUM in strategy	Moderate to large	Small	Very small
	Recent fund size	Medium to large	Small	Small
	Fundraising	For key strategies	None or inconsistent	None or inconsistent
	Historical performance	Consistently positive, in line with market	Inconsistent	Consistently negative or no track record
Structure	**Main fund terms**	Standard, allowing remedies to LP defaults	Modest deficiencies	Material deficiencies
	Feeder fund, debt terms	Standard	Mostly standard	Material deficiencies

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Criteria Essentials – Feeder Fund Debt Ratings (2/2)

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Additional Rating Constraints

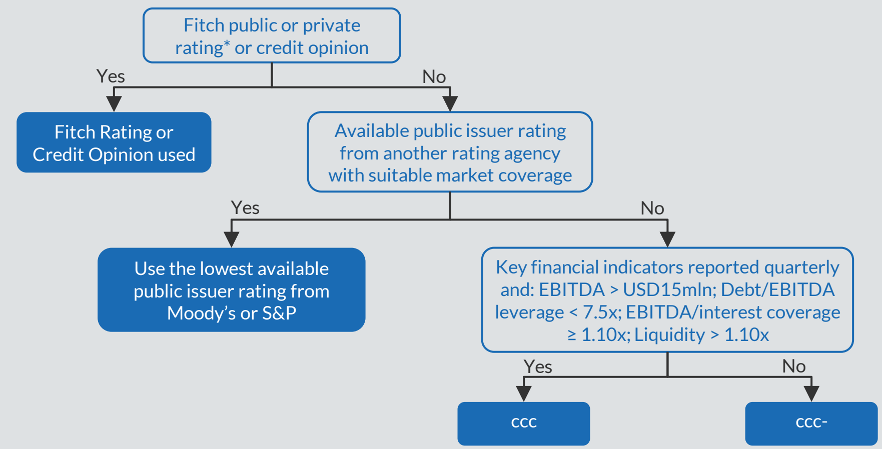
1. Structure and execution risk considerations:
   - Typically rated A+ or below due to portfolio ramp up execution risk, generally weaker and more flexible legal structures than traditional structured finance transactions
   - May be rated higher than A+ when it more closely resembles a traditional structured finance transaction

2. Certain transaction characteristics considerations may constrain the rating:

Key considerations	Potential rating constraints
Data quality issues, coverage limitations	Max BB+ if less than 2 years of data
Significant **asset/obligor concentration**, performance volatility and high ramp-up risk	Case-by-case
Excessive **market value exposure** in asset performance, reliance on asset sales, currency mismatches	May not be ratable unless sector-specific criteria address market value risk At AA- or above, no more than minor residual currency risk Max BB+ or not ratable if significant currency risk
Third-party dependency creating counterparty credit linkages	Case-by-case; particularly relevant at A- or above while consistent exposure to counterparty < BBB-
Dependency on sovereign with high risk of default or of transfer and convertibility restrictions	Based on asset-specific and related cross-sector criteria
Risk of main fund bankruptcy triggering feeder debt default	Max A+ if no structural mitigants to bankruptcy risk
Latitude in investment guidelines and strategy	Max BB+ if broad and opportunistic strategy or limited investment covenants
Interest deferability	Max AA+ if interest deferrals presence or expectation May not be ratable if unclear deferral mechanisms

Asset Analysis for Corporate Credit Direct Lending

- Based on Fitch CLOs and Corporate CDOs Rating Criteria, subject to adjustments listed below
- **Asset credit quality** determined as follows and used as input in Portfolio Credit Model
  - At rating inception on expected portfolio + sample of assets in prior funds with the same strategy managed by the GP
  - As transactions ramp up and for ongoing portfolio monitoring (monthly loan by loan portfolio data and key financial indicators at least quarterly)
- Security recovery rate assumptions applied



* May be produced for assets representing outsized portfolio share, typically > 10%

Feeder Fund Debt Defaults

1. **Non-payment of obligations** beyond lower of 30 calendar days and documented grace period

2. **Distressed Debt Exchanges (DDE)** imposing a material reduction in contractual terms to avoid a probable and eventual traditional default

DDE Considerations

Attribute	More likely to be considered DDE	Less likely to be considered DDE
LTV ratio	Moderate to high	Low
Noteholder compensation or additional terms	Not present or insufficient	Present and appropriate
Other repayment sources	Less likely or unavailable	Highly likely to be available
Recovery prospects absent exchange	Less likely or unlikely to be 100%	Highly likely to be 100%

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