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BEST STRUCTURED FINANCE

Astrea III $510m private equity collateralized fund obligation

Originator: Azalea Asset Management

Financial and structuring agent: PJT Partners/Park Hill Group

Joint lead managers: DBS and Credit Suisse

Structured finance transactions are notorious for their complexity and the time it can take to get to the finishing line. But the effort required to price Astrea III made it the standout winner.

Astrea III is one of the few securitizations anywhere to be backed by cash flows generated by private equity funds. PE CFOs have been largely absent globally since the 2007-2008 financial crisis with the only notable example being 2014's Astrea II, which was mostly placed to a single investor.

But unlike its predecessor, the main objective of Astrea III was to engage a wider investor base in an effort to make the asset class more mainstream. This required a fully marketed transaction, which was no easy feat as most investors do not have the mandate or the technical knowledge to buy the product.

As a result, Azalea had to engage PE specialist Park Hill of PJT Partners to identify assets within parent Temasek Holdings' collection that would suit a wider audience. The end result was a mature portfolio with weighted average vintage year of 2009 and total NAV of $1.14bn from 34 PE funds.

Lead managers Credit Suisse and DBS also had to spend a lot of time sounding out investors, educate them about the assets and get their thoughts on pricing when there were no comparables.

There were also concerns that needed to be soothed such as the uncertain nature of private equity distributions and the multi-currency exposure of the asset pool. The former was balanced by a liquidity facility provided by Credit Suisse to cover expenses and interest payments in case of cash flow shortfalls, while the latter was compensated by built-in currency hedges.

But it wasn't just investors that needed educating. Months were spent talking to Fitch and Standard & Poor's. Not only did the notes require a rating but the agencies needed to update their respective methodologies for PE CFOs.

The trade was officially announced on June 6 and an extensive one and a half week roadshow soon followed. But even when the meetings were complete, the issuer made a deliberate decision to not rush the trade and allow investors to digest the structure, complete their credit work and obtain internal approvals.

This cautious approach was also apparent in the bookbuilding process, which lasted for two trading days between June 17 (Friday) and June 20 (Monday) – a decision that was vindicated by an eight times covered book, plus an even distribution among fund managers (29%), private banks (32%), insurers (10%) and others (29%).

Astrea III might have taken 18 months to complete, but it was worth the wait as a strong benchmark has been set for Azalea to eventually meet its final goal of providing PE exposure to retail investors.