Criteria | Financial Institutions | Other:

Methodology For Rating Subscription Lines Secured By Capital Commitments

August 30, 2024

ANALYTICAL CONTACTS

Thierry Grunspan
Columbia
+ 1 (212) 438 1441
thierry.grunspan@spglobal.com

Philippe Raposo
Paris
+ 33 14 420 7377
philippe.raposo@spglobal.com

Nick Nelson
Englewood
+ 303-721-4524
nick.nelson@spglobal.com

Matthew B Albrecht, CFA
Englewood
+ 1 (303) 721 4670
matthew.albrecht@spglobal.com

METHODOLOGY CONTACTS

Russell J Bryce
Charlottesville
+ 1 (214) 871 1419
russell.bryce@spglobal.com

Nik Khakee
New York
+ 1 (212) 438 2473
nik.khakee@spglobal.com

See complete contact list at end of article.

This article presents S&P Global Ratings' criteria for rating certain facilities used by alternative investment funds called subscription lines. These facilities are secured by an alternative investment fund's limited partner (LP, see Glossary) capital commitments. For information about the initial publication of this article as of Aug. 30, 2024, including key changes, the impact on ratings, and superseded criteria, see "Criteria Released For Rating Subscription Lines Secured By Capital Commitments."

The criteria apply to issue credit ratings on a subscription line when:

- It benefits from a first priority perfected lien on a closed-ended AIF's LP capital commitments;
- We expect the primary source of repayment to be from calls on the LPs' undrawn capital commitments;
- The facility provider (lender) has direct access to all LP capital flows, either prior to a missed payment or after a missed payment; and
- All LP capital must flow through cash accounts over which the lender has a first priority perfected lien or cash accounts that are bankruptcy remote from the fund.

If any of these conditions does not apply, we rate the facility based on our AIF methodology. See Appendix for additional details on the scope.

METHODOLOGY

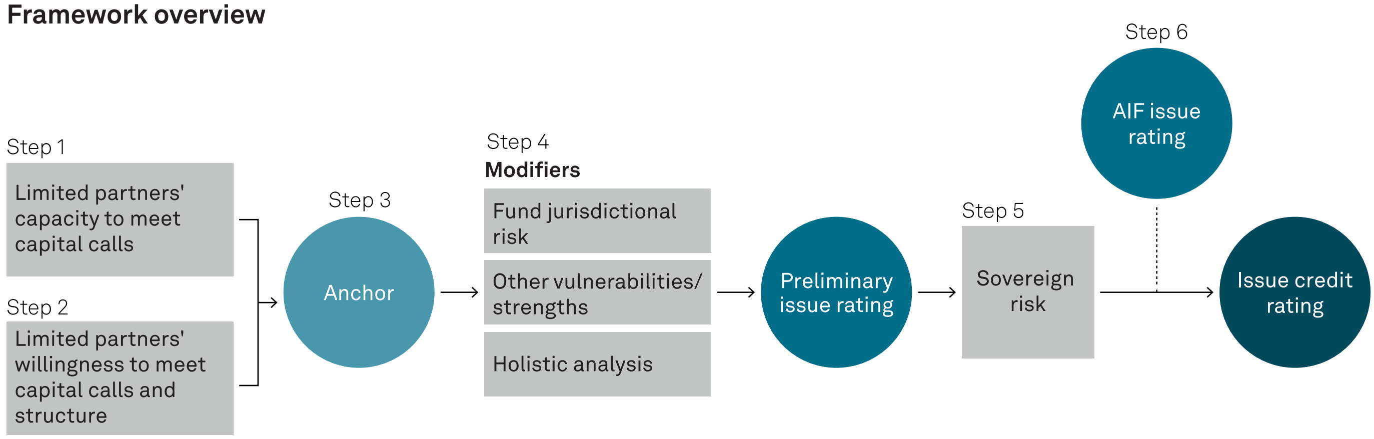
Overview

The criteria primarily address the likelihood that committed LPs provide called capital when requested to allow for repayment of a subscription line on time and in full. See Glossary for terms used in the criteria.

We determine the issue credit rating on a subscription line according to the steps in chart 1.

Chart 1

Framework overview



AIF--Alternative investment fund. Source: S&P Global Ratings.

Step 1. First, we assess the capacity of a pool of LP investors to provide timely cash drawdowns that a fund requests under potential adverse conditions by using S&P Global Ratings CDO Evaluator to run Monte Carlo simulations.

What Is CDO Evaluator?

CDO Evaluator is a Monte Carlo simulation model that S&P Global Ratings uses to assess the credit risk of a portfolio of assets. It generates a probability distribution of potential default rates for the given portfolio of assets in aggregate. This distribution, however, does not automatically relate to the specific creditworthiness of an issue or facility (tranche) that benefits from subordinated loss absorbing capital. The portfolio defaults are related to rating quantiles (cutoff points) associated with each rating level so that the simulated level of asset defaults can be related to a rating level for the issue (tranche).

Step 2. Then, we assess the LPs' willingness to meet capital calls, as well as the facility's legal features, by holistically evaluating incentives and fund performance and profile, the general partner (see Glossary), and the facility's legal features and LP jurisdictional risk.

Step 3. We next combine these two views to establish the anchor, using lowercase letters to highlight that the outcomes are indicative credit levels, and not ratings (see table 1).

Table 1

Determining the anchor

Capacity	Willingness and structure: Very strong	Strong	Adequate	Moderate	Weak
aaa	aaa/aa+	aa+/aa	aa/aa-	a- or lower	b+ or lower
aa+	aa+/aa	aa/aa-	a+/a	bbb+ or lower	b+ or lower
aa	aa/aa-	aa-/a+	a/a-	bbb or lower	b+ or lower
aa-	aa-/a+	a+/a	a-/bbb+	bbb- or lower	b+ or lower
a+	a+/a	a/a-	bbb+/bbb	bb+ or lower	b+ or lower
a	a/a-	a-/bbb+	bbb/bbb-	bb or lower	b+ or lower
a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb- or lower	b+ or lower
bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	b+ or lower	b+ or lower
bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b or lower	b or lower
bbb-	bbb-/bb+	bb+/bb	bb-/b+	b-	b-
bb+	bb+/bb	bb/bb-	b+/b	b-	b-
bb	bb/bb-	bb-/b+	b/b-	b-	b-
bb-	bb-/b+	b+/b	b-	b-	b-
b+	b+/b	b/b-	b-	b-	b-
b	b/b-	b-	b-	b-	b-
b-	b-	b-	b-	b-	b-

Source: S&P Global Ratings.

Where there's more than one anchor option, we determine the anchor based on a holistic assessment of the strengths of both factors, as well as our view of potential rating transitions.

We cap the anchor at 'b+' when the willingness and structure assessment is weak.

Step 4. The next step is to apply any relevant modifiers, including our holistic analysis (see table 2).

Table 2

Modifiers

Modifier	Summary	Potential impact
Fund jurisdictional risk	Addresses risks from operating in countries with varying legal standards and protections or levels of transparency	0 to -3
Other vulnerabilities/strengths	Includes vulnerabilities that could impede repayment of the facility in a timely manner, or strengths that could aid timely repayment	Typically +1 to -1, but possibly more than -1 negative adjustment when, in our view, weakness is not sufficiently captured in the anchor
Holistic analysis	Captures a broader view of creditworthiness	+1 to -1

Step 5. Finally, we incorporate sovereign risk if the preliminary issue rating on the facility is higher than the rating on the sovereign where the fund is domiciled. See the approach for moderate sensitivity industries in our ratings above the sovereign criteria (see Related Publications).

Step 6. The rating on a subscription line may reflect the fund's creditworthiness when the fund has stronger creditworthiness than the pledged uncalled capital commitment (UCC). In such instances, we typically apply our AIF methodology (see Related Criteria) to determine the issue rating on the facility.

When we do not have information sufficient to assess the fund's creditworthiness, we are unlikely to view it as the most likely source of the repayment. However, the fund's characteristics, such as asset quality, liquidity, and liabilities, may inform the preliminary issue rating.

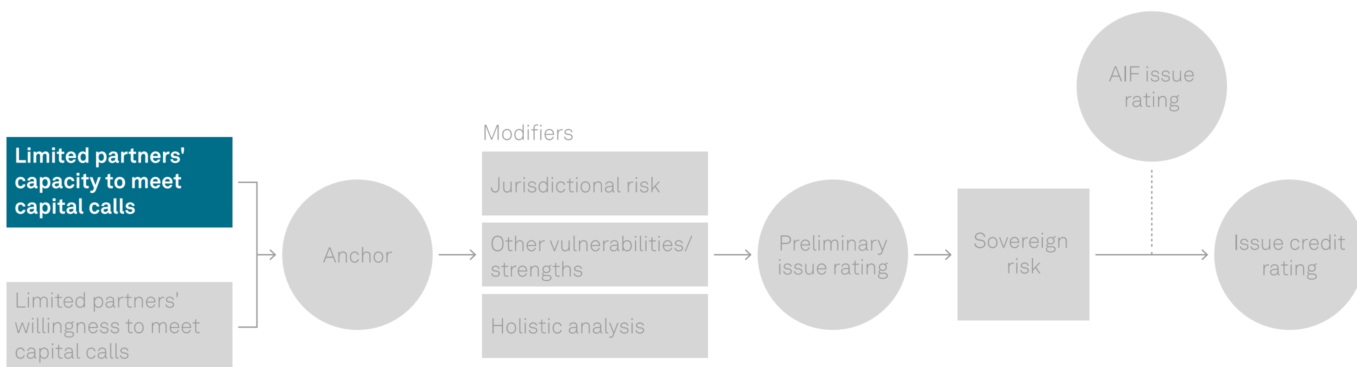
Step 1

Limited Partners' Capacity To Meet Capital Calls

The capacity assessment quantifies our view of the available LP investor's resources at a given implied rating level. We use CDO Evaluator outputs to estimate the reduction in LP funding during potential adverse conditions, as described below. The CDO Evaluator output serves as a proxy for LP performance.

For diversified LP bases, we perform a quantitative analysis by:

- Defining the potential maximum draw amount under the facility;
- Determining the rating input for each LP;
- Using S&P Global Ratings CDO Evaluator (CDOe) to run Monte Carlo simulations to estimate reductions in LP funding during adverse conditions; and
- Performing supplemental stress tests.



Our view of LPs' aggregate capacity is based on the stress level that an LP pool could sustain while covering the maximum draw amount. For example, given a certain pool of LPs, we would assess that under a 'BBB' stress, X% of the LPs would still be performing (that is, they're able to provide their committed capital), whereas under a 'AAA' stress, only Y% would be. The 'BBB' scenario default rate in CDOe reflects our calibration of potential losses in a 'BBB' scenario.

Where we apply rating inputs that are based more on our general understanding of a sector's creditworthiness, rather than on issuer-specific information, we may assume a lower capacity than the CDOe output indicates. When this is the case, we typically assume a capacity one notch lower unless we believe more notches of adjustment are appropriate. For example, we typically apply a one-notch downward adjustment when 50% of the rating inputs (as measured by dollar or other value amount) are based on sectoral views (e.g., a CDOe output of 'aa' adjusted down by one notch to a capacity assessment of 'aa-').

Potential maximum draw amount under the facility

We base our view of a facility's maximum draw amount on our assessment of the facility documents, which may be adjusted based on considerations such as explicit maximum draw amounts, other terms and conditions such as advance rates or coverage rates, interest payments, and the expected LP base.

Rating input for each LP

We determine the rating input for each LP capital commitment provider in accordance with the principles in our ratings-based inputs criteria (see Related Criteria). In particular, and as described more fully below, we envision applying the approach proposed for CLOs and corporate CDOs in that criteria, with modifications to capture dynamics relevant to this sector (see Rating Inputs in the Appendix).

CDO Evaluator

We make the following key assumptions when applying CDOe to calculate capacity.

Tenor. The tenor of the exposure is a parameter of our credit analysis when we use CDOe. The maturity of the subscription facility determines the maturity date for each LP commitment. While individual draws on the facility may be required to be repaid in a shorter timeframe, the borrower typically has the ability to refinance earlier draws through subsequent draws, subject to the facility's capacity.

Where facility maturity extensions are at a lender's discretion, the facility maturity would not typically include the extension. Conversely, where facility maturity extensions are solely at a borrower's (or fund's) discretion, the facility maturity would typically include the extension.

Recovery. Typically, we apply the credit analysis portion of CDOe. We do not give benefit to potential recoveries after default of an LP provider if there is no provision for repayment extension while recoveries are being pursued because recoveries from nonpaying LPs could take weeks or years, and may occur long after the facility repayment date. We may give credit to recovery when the facility's legal final repayment date is sufficiently past the initial scheduled repayment date.

Other considerations. We apply various aspects of CDOe as useful to our capacity analysis. For example, for pools of LPs that are at least 25% U.S. municipal or similar government-related entities, we apply the modified supplemental stress tests and correlation parameters, if appropriate, as described in our CDO criteria (see Related Publications).

We may consider the SLR (scenario loss rate) when sufficient time for recoveries is incorporated. We may consider the cash flow analysis when we believe the interest owed under the facility is insufficiently addressed through adjustment to facility repayment balances when applying CDOe.

Principal amount is based on UCC. We establish the principal amount for use in our analysis based on each LP's available UCC. Our calculation of UCC typically includes recallable capital.

Supplemental stress tests

We run the largest obligor default test (LOT) and largest industry default test as described in our CDO criteria (see Related Publications).

Highly concentrated facilities

When pools are highly concentrated (for example, fewer than 10 LPs), we may assign a capacity assessment based on a weakest-link approach (see Glossary). In other words, the capacity assessment may be limited, irrespective of maximum draw amount available, and we do not utilize CDOe to determine capacity.

When we do this, we may also assess capacity assuming one or more LPs do not provide funding on a timely basis. This would inform our view that the capacity assessment should withstand the default of at least one LP.

We may limit or preclude a rating on a facility if this scenario results in an expected capacity smaller than the facility's maximum draw amount.

Sovereign risk

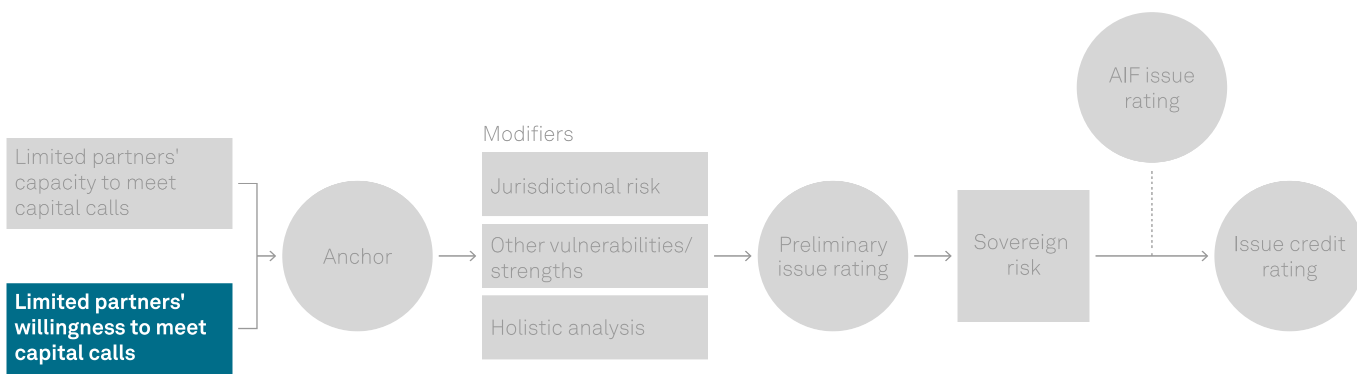
We factor the sovereign risk in the rating on single and multi-jurisdictional facilities/securities from our structured finance methodology as part of our capacity assessment. This is to ensure sovereign risk is captured in our application of CDOe. We factor in sovereign risk as described in our AIF methodology when assigning the final rating to the facility (see Related Publications).

Step 2

Limited Partners' Willingness To Meet Capital Calls And Structure

Our willingness and structure assessment recognizes that LP commitments are financial contracts to make investments and not debt obligations. While we believe the capacity assessment gives us a good proxy for performance, we believe timely performance of LPs in a stress scenario is influenced by the qualitative considerations captured in this assessment. The willingness and structure assessment reflects our view of the incentives LPs have to perform, on a timely basis, in a stress scenario. We look at willingness and structure holistically by evaluating:

- LP invested capital, and fund performance and profile;
- The general partner (GP); and
- Legal features and LP jurisdictional risk.



The LP willingness and structure assessment is on a five point scale--very strong, strong, adequate, moderate, and weak (see table 3 for examples). For a very strong assessment, we typically expect to see all characteristics listed in the table for very strong. Otherwise, we determine our assessment on a best-fit approach, based on our analytical judgment.

Table 3: LP willingness and structure assessment examples

Very strong assessment

LP invested capital, and fund performance and profile	General partner	Legal features and LP jurisdictional risk
- Penalty percentage on net asset value (NAV) share upon not meeting capital calls that is well above industry norm, which, in our view, would provide sufficient incentive for the LPs to perform. - Very significant NAV/uncalled capital. - Significant portion of total capital commitment already drawn, low DPI, but high TVPI (see Glossary). - Investment strategy that relies on high-quality, sellable assets, such as credit assets that we view as easy to monetize. - Very strong fund performance metrics compared with peers'. (For example, for hedge funds: returns year-to-date and multiple years, since inception, and Sharpe ratio. For private equity: internal rate of return, DPI, and TVPI.) - No other fund leverage. - High level of information and transparency regarding the fund. - Clean, timely fund audit report by an auditor with very good reputation and experience.	- Significant stake in the fund held by the GP and its affiliates supporting a very strong alignment of interests with the LPs'. - GP with an outstanding track record in previous vintages, excellent reputation, and large flagship funds. - Outstanding experience and depth of the investment team and partners with stability. - GP with significant experience managing funds successfully in stressful situations.	- Legal provisions that strengthen the likelihood of LPs making good on capital calls prior to the due date relative to other facilities. For example, the facility lender has direct access to call the LPs on behalf of the fund prior to a missed payment, and all LP capital is required to flow through a cash account that is bankruptcy remote from the fund. - Legal standards and protections and levels of transparency--in countries where the LPs operate--that do not adversely affect the LPs' likelihood of providing capital when asked.

Adequate assessment

LP invested capital, and fund performance and profile	General partner	Legal features and LP jurisdictional risk
- Penalty percentage on NAV share upon not meeting capital calls that is in line with the industry norm, which, in our view, would provide sufficient incentive for the LPs to perform. - Small NAV/uncalled capital. - Some portion of total capital commitment already drawn. - Investment strategy that relies primarily on assets without restrictions on, or meaningful delays to, monetization, but may include some esoteric or venture assets. - Average fund performance metrics compared with peers', or funds with a limited track record. - Limited fund leverage, or, if soon after inception of the fund, very low fund leverage. - Adequately diversified fund. - Fund information quality and transparency comparable to industry norm. - Clean and timely fund audit report.	- Some stake in the fund held by the GP and its affiliates, helping align interests with the LPs'. - GP with reasonable track record in previous vintages, sound reputation, fair market share and presence, and average size flagship funds. - Reasonable experience and depth of the investment team and partners. - GP with some experience managing funds successfully in stressful situations.	- Legal provisions that strengthen the likelihood of LPs making good on capital calls within a grace period meeting "S&P Global Ratings Definitions." For example, sufficient notice period and time for overcalls to be effectuated. - Legal standards and protections or levels of transparency--in countries where the LPs operate--that are generally in line with our assumptions in the capacity assessment.

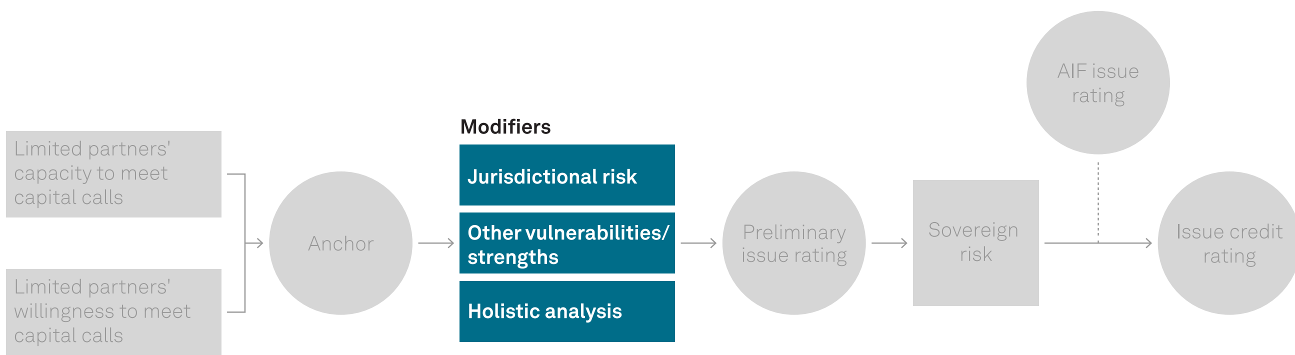
Weak assessment

LP invested capital, and fund performance and profile	General partner	Legal features and LP jurisdictional risk
- Penalty percentage on NAV share upon not meeting capital calls that is significantly lower than the industry norm. - Small or negative NAV/uncalled capital, typically because fund performance is poor or most of paid-in capital has been distributed back to LPs. - No capital already drawn. - Investment strategy that relies on assets that may be difficult to monetize, such as real estate, esoteric, or structured finance assets. - Weak fund performance metrics. - High fund leverage. - Fund highly concentrated by portfolio, industry, or geography. (For example, top obligor is more than 15% of equity, top five obligors are more than 50% of equity.) - Fund information quality or transparency significantly worse than the industry norm. - Qualified fund audit report, delay of audit report, or frequent changes of auditors without convincing explanation to investors. Quality of fund auditor called into question by investors or unaudited financials.	- Minor stake in the fund by the GP and its affiliates. - GP with no track record or with a poor track record in previous vintages, bad reputation, very small market share and limited significance, very small AUM. - Lack of relevant experience and depth of the investment team and partners. - GP with little or no experience managing funds in stressful situations. - GP that is unlikely to prioritize facility creditors over other uses of UCC.	- Legal documents and/or structure lacking sufficient clarity to support an effective mechanism for timely repayment of subscription line facilities (within grace period meeting "S&P Global Ratings Definitions)" upon capital calls on LPs. - Legal standards and protections or levels of transparency--in countries where a significant portion of the LPs operate--that could adversely affect their likelihood of providing capital, when not incorporated into our capacity assessment.

Step 4

Modifiers

The rating may be higher or lower than the anchor based on factors not reflected elsewhere in the framework.



Fund jurisdictional risk

The jurisdictional risk assessment addresses the risks that arise from operating in countries with varying legal standards and protections or levels of transparency that could adversely affect a fund's creditworthiness. We determine jurisdictional risk by applying the relevant sections of our AIF methodology (see Related Publications).

Other vulnerabilities/strengths

The rating may be higher or lower than the anchor based on other potential vulnerabilities that could impede repayment of a facility in a timely manner, or other strengths that could aid timely repayment.

For example, uncalled capital that's subject to significant foreign exchange risk, interest rate risk, or other operational risks could lead to a rating that's lower than the anchor.

Conversely, the rating could be higher if we believe the facility, along with the pledged UCC, is unlikely to be used since it is maintained as a liquidity source, and not to finance expected investments.

Holistic analysis

Our holistic analysis captures a broader view of creditworthiness. When relevant, the holistic analysis can have a one-notch impact up or down. We base this adjustment on factors not incorporated in the anchor, a peer ratings analysis, or strengths or weaknesses that are not fully reflected in the application of the criteria.

APPENDIXES

Appendix 1: Glossary

Term	Definition
Advance rate	Proportion of uncalled capital against which a facility lender will extend a draw.
Distributed to paid-in capital (DPI)	Ratio of money a fund distributes to limited partners, relative to their contributions. We include recallable distributions in the numerator of this ratio and reinvested capital (resulting from recallable distributions) in the denominator.
Facility maturity	Final maturity of the subscription line.
General partner (GP)	Fund manager.
Limited partner (LP)	Equity investor in a fund.
Net asset value (NAV)	Total assets minus debt.
Pari passu	At an equal rate or pace, without preference.
Total value to paid-in capital (TVPI)	Ratio of the current value of remaining investments within a fund, plus the total value of all distributions to date, relative to the total amount of capital paid into the fund to date. We include recallable distributions in the numerator of this ratio and reinvested capital (resulting from recallable distributions) in the denominator.
Uncalled capital commitment (UCC)	Money that limited partners have committed to a fund but that the general partner has not yet called.
Weakest-link approach	Approach to assigning a rating based upon the lowest credit rating (in this case LP) in the pool. For example, if the pool of LPs is 'BBB', 'BBB', 'A', 'BB', and 'B', the weakest link is 'B' and we would assign a capacity score based upon 'B'.

Appendix 2: Additional Details On Scope

Facilities with novel characteristics

For transactions that feature novel or unusual characteristics--for example, concentrated or "barbelled" (with two distinct concentrations) LP pools--we may apply these criteria as a starting point for our analysis. We would likely make modifications or apply additional stresses, according to our assessment of the structure and the associated credit risks.

Dual-pledge facilities

Subscription facilities secured by both a senior pledge of the assets of a fund and its LP capital commitments are in scope of these criteria if the facility's maximum draw is based solely on UCC.

Alternatively, a facility's maximum draw may include other considerations, such that a draw could remain outstanding after UCC is exhausted (for example, a NAV or asset-based component). In these cases, we determine the issue rating by applying the "Issue Ratings" section of our AIF methodology.

Special-purpose vehicles

We apply the relevant special-purpose entity criteria (see Related Publications) when determining the effectiveness of the special-purpose vehicle's structure.

Obligations vulnerable to nonpayment

When analyzing transactions in the 'CCC' category, we base our assumptions, and the ultimate rating outcome, on our 'CCC' rating criteria (see Related Publications).

Appendix 3: Rating Inputs

We determine the rating input of each performing LP as described in the "Determining the rating input" section of CDO guidance (see Related Publications), with the following changes intended to capture dynamics relevant to this sector:

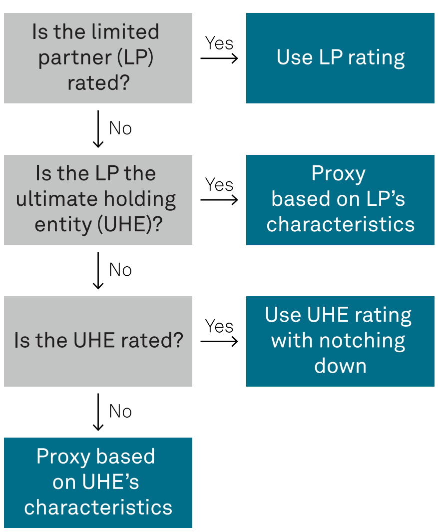
- If there is no S&P Global rating or credit estimate, or public, unqualified credit rating agency ratings that we assess as being sufficiently comparable to our own ratings, but we have sufficient information, we may determine the rating input based on linkages to other entities or the appropriate sectoral credit estimate.
- Otherwise, we assume a rating input of 'CCC-' unless we have reason to assume another rating input.

Rating inputs based on linkages to other entities

The following summarizes different sources of information and the order of priority in which we use them to determine the rating input for each LP (see chart 2).

Chart 1

Rating inputs based on linkages to other entities



Note: For the avoidance of doubt, when we have an S&P credit opinion, we would use it to inform our rating input.
Source: S&P Global Ratings.

Assigning rating inputs based on the ultimate source of the investment

An entity may provide a capital commitment to a fund through an investment vehicle, such as a subsidiary or a wholly owned fund that is not rated. We may assign the rating input for the LP of record's capital commitment based on the entity we view as the final source of the investment (i.e., the ultimate holding entity).

When we do so, the rating input for that investment vehicle may be lower than our view of the ultimate holding entity's creditworthiness (see table 4).

Table 4

Rating inputs based on the creditworthiness of the ultimate holding entity (UHE)

Relationship	Description	Example
Equal to issuer credit rating on the UHE	The investment vehicle benefits from a guarantee of the entity, or from another strong contractual relationship, or the entity exhibits features consistent with a core group status per "Group Rating Methodology."	Vehicle and UHE have cross-default provisions, funding agreements, equity commitments, or other similar agreements; or Vehicle is integral to the UHE's current identity and future strategy. The rest of the group is likely to support it under any foreseeable circumstances.
One notch lower than issuer credit rating on the UHE	The vehicle exhibits features consistent with a highly strategic group status per "Group Rating Methodology."	Vehicle is almost integral to the UHE's current identity and future strategy. The rest of the group is likely to support it under almost all foreseeable circumstances.
Three notches lower than issuer credit rating on the UHE	No such strong contractual relationship exists, but there are sufficient reputational and economic links.	UHE provides comfort letter, or Vehicle is broadly used as a conduit for investing in funds across multiple general partners, which was set up for the sole purpose of making these investments on behalf of the entity.

Sovereign wealth funds. We typically assign rating inputs to sovereign wealth funds one notch below the credit quality of the relevant sovereign.

University endowments. We typically assign rating inputs to the endowments of not-for-profit education providers, such as colleges and universities, equal to the credit quality of the education provider it supports. For example, we would typically assign a 'A' rating input to the endowment of a private university rated 'A'. This approach is consistent with our not-for-profit education providers criteria (see Related Publications), which consider a university's endowment.

Defined benefit pension funds (government-sponsored). We typically assign rating inputs to government-sponsored, defined benefit pension funds one notch below the credit quality of its government sponsor. For example, if a pension fund's government sponsor is a U.S. state rated 'AA', we would assign the pension fund a 'AA-' rating input.

For multisponsor pension funds, we apply the sponsor credit quality through a weak-link approach, in the absence of additional information provided through a rating or credit estimate for the pension fund.

Defined benefit pension funds (corporate-sponsored). We typically assign rating inputs to corporate-sponsored, defined benefit pension funds using concepts from our group rating methodology, as described in the "Single-sponsor pension plan funding" section of our general project finance methodology (see Related Publications).

Sectoral credit estimates

Where we have sufficient information, we may determine the rating inputs for some LPs by using sectoral credit estimates (SCEs) that are based on the type of entity investing in the fund (see table 5).

Table 5

Sectoral credit estimates

Sector	Determining the SCE
Insurers, financial institutions, sovereigns/public finance entities, and nonfinancial corporations	Based on the sector and relevant Banking Industry Country Risk Assessment economic risk group
Investment funds (such as fund of funds)	Typically 'B'

Insurers, financial institutions, sovereigns/public finance entities, and nonfinancial corporations. We determined the SCEs for sovereign/public finance, financial, and nonfinancial corporate entities based on the economic risk score from our Banking Industry Country Risk Assessment (see Related Publications) to differentiate risk between countries and by sector within countries (see table 6). We determined the rating input assumptions for all sectors by considering factors such as the average rating and lowest average rating in each sector for all countries within each economic risk group and based on our analytical judgment.

The relevant economic risk group is based on the domicile of the LP investor. Where we have not determined an economic risk group for a country, we may use estimates or proxies.

When we apply SCEs based on the relevant economic risk group, we may adjust the credit quality assumption--for any combination of economic risk group and sector--up or down by, at most, one rating category. We make the adjustment when we have additional information that indicates the average credit quality assumption for these LP investors is, in our view, materially higher or lower than our standard assumption. For example, this adjustment could apply if the sovereign credit rating is 'CCC+' or lower and the outcome from this step is 'B' or higher.

Table 6

Sectoral credit estimates by sector and economic risk group

	--Economic risk group--									
Sector	1	2	3	4	5	6	7	8	9	10
Sovereign and public finance	A	A	A	A	BBB	BBB	BB	B	B	CCC
Financial	BBB	BBB	BBB	BBB	BBB	BB	BB	B	B	CCC
Nonfinancial corporate	BB	BB	BB	BB	BB	BB	BB	B	B	CCC

We use the following sector definitions:

- Sovereign and public finance: This sector includes sovereign governments, international public finance (IPF), and U.S. public finance (USPF). The IPF sector includes local and regional governments (LRGs), such as states, provinces, regions, cities, towns, and oblasts, and non-LRGs, such as non-U.S. universities, hospital systems, transportation systems, and housing providers. USPF includes state government general obligations, local government, utilities, housing, higher education, health care, transportation, and charter schools.
- Financial: This sector includes banks, nonbank financial institutions (NBFIs), and insurers. Banks include savings and loans and credit unions. NBFIs include broker-dealers, asset managers, finance companies, financial market infrastructure companies, and other financial entities that share features. Insurers includes life insurers, health insurers, non-life insurers, reinsurers, bond insurers, mortgage insurers, and title insurers.
- Nonfinancial corporate: This sector includes aerospace/automotive/capital goods/metals, consumer/service, energy and natural resources, forest and building products/homebuilders, health care/chemicals, high technology/computers/office equipment, leisure time/media, real estate, telecommunications, transportation, and utilities.

Investment funds (e.g., fund of funds). We typically assign a 'B' SCE to investment funds, such as a fund of funds, in the absence of additional information provided through a rating or credit estimate, such as the fund's use of leverage, funding structures, liquidity management, investment strategy and performance, and risk management.

We believe that the size of the fund and of the fund's manager is not, in itself, sufficient information to appropriately differentiate the SCEs of funds.

Maximum exposure for individual LPs. We believe that SCEs provide a useful proxy for rating inputs as part of a diversified portfolio of investors. However, when a single LP accounts for a significant portion of the total uncalled capital, we typically limit that exposure. For example, we typically limit the exposure to any LP where the rating input is determined based on an SCE to a maximum of 10% of total UCC.

Additionally, we typically ignore UCC from a single LP over 5% of total UCC when 50% of the rating inputs (as measured by dollar or other value amount) are based on SCEs.

Rating input examples

Below are examples of how we may apply the criteria to determine rating inputs for hypothetical LPs.

Insurer investing through a wholly owned subsidiary. An unrated insurer based in the U.S. makes capital commitments to a fund through a wholly owned subsidiary. While there is no strong contractual relationship with that subsidiary--like cross-default provisions, funding agreements, or equity commitments--the insurer provides a comfort letter confirming that it plans to provide the resources necessary for that subsidiary to make good on its commitment. The insurer also uses the subsidiary as a conduit for investing in funds across multiple GPs. We may use an SCE-based rating input of 'BB' for the subsidiary: three notches below the insurer, which we may view as 'BBB' for financial sector entities domiciled in a country that has a BICRA economic risk score of 3.

Corporate-sponsored defined benefit pension fund investing through a wholly owned fund. An unrated defined benefit pension fund makes capital commitments to a fund through a wholly owned fund investment vehicle. We determine that the fund investment vehicle and the pension fund have strong contractual relationships, including cross-default provisions, funding agreements, and equity commitments. Using concepts from our "Group Rating Methodology," we conclude that the pension fund is highly strategic to its corporate sponsor, which is rated 'BB-'. We may use a rating input of 'B+': one notch below the group credit profile of the corporate sponsor and the same level as our view of the pension fund.

High-net-worth individuals and family offices. We typically assume a rating input of 'CCC-' for high-net-worth individuals and family offices, unless we have reason to assume another rating input.

Investment aggregators investing on behalf of their clients. A registered investment adviser, financial adviser, or investment consultant makes capital commitments on behalf of its underlying clients. We do not have detailed information about those underlying clients, who are ultimately responsible for the capital calls. We may assume a rating input of 'CCC-' unless we have reason to assume another rating input.

Asset managers investing on their own behalf. An unrated asset manager based in a country that has a BICRA economic risk score of 1 makes capital commitments to a fund on its own behalf, through a wholly owned subsidiary. (In other words, the asset manager is identified as responsible for future capital commitments in the LP agreement.) While there is no strong contractual relationship with that subsidiary, the asset manager provides a comfort letter confirming that it plans to provide the resources necessary for that subsidiary to make good on its commitment.

We may use an SCE-based rating input of 'BB' for the subsidiary: three notches below the asset manager, which we may view as 'BBB' for financial sector entities domiciled in a group 1 country.

Private banks investing on their own behalf. An unrated private bank domiciled in a country that has a BICRA economic risk score of 6 makes capital commitments on its own behalf (i.e., it is identified as responsible for future capital commitments in the LP agreement). We may use an SCE-based rating input of 'BB' for financial sector entities domiciled in a group 6 country.

Private banks investing on behalf of their clients. A private bank makes capital commitments on behalf of its clients (i.e., the clients are identified as responsible for future capital commitments in the LP agreement). We do not have detailed information about those underlying clients, who are ultimately responsible for the capital calls. We may assume a rating input of 'CCC-' unless we have reason to assume lower.

KEY FEATURES

For subscription line facilities, we:

- Evaluate the creditworthiness by considering the likelihood that LPs' capital commitments can be relied upon to repay facility draws.
- Use CDO Evaluator to assess the capacity of funding available from LPs through their capital commitments. This measures the ability of this repayment source.
- Assess willingness/structure because LPs may choose not to perform despite being able. And even if they do perform, the flow of payments could be compromised.

IMPACT ON OUTSTANDING RATINGS

There are no outstanding ratings on AIF subscription lines secured by capital commitments.

RELATED PUBLICATIONS

Partly superseded criteria

- Alternative Investment Funds Methodology, July 26, 2024

Related criteria

- Alternative Investment Funds Methodology, Aug. 30, 2024
- Methodology For Determining Ratings-Based Inputs, July 26, 2024
- Global Not-For-Profit Education Providers, April 24, 2023
- General Project Finance Rating Methodology, Dec. 14, 2022
- Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Group Rating Methodology, July 1, 2019
- Global Methodology And Assumptions For CLOs And Corporate CDOs, June 21, 2019
- U.S. Structured Finance Asset Isolation And Special-Purpose Entity Criteria, May 15, 2019
- Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012

- CDOs And Pooled TOBs Backed By U.S. Municipal Debt: Methodology And Assumptions, April 3, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- Public Pension Funds, June 27, 2007
- Structured Finance Criteria Introduced for Cayman Islands Special-Purpose Entities, July 18, 2002

Other publications

- RFC Process Summary: Methodology For Rating Subscription Lines Secured By Capital Commitments, Aug. 30, 2024
- Criteria Released For Rating Subscription Lines Secured By Capital Commitments, Aug. 30, 2024
- Questions And Answers About RFC On Proposed Framework For Determining Ratings-Based Inputs, Jan. 17, 2024
- Guidance: Global Methodology And Assumptions For CLOs And Corporate CDOs, June 21, 2019
- S&P Global Ratings Definitions, updated from time to time

Contact List

ANALYTICAL CONTACTS

Thierry Grunspan
Columbia
+ 1 (212) 438 1441
thierry.grunspan@spglobal.com

ANALYTICAL CONTACTS

Philippe Raposo
Paris
+ 33 14 420 7377
philippe.raposo@spglobal.com

ANALYTICAL CONTACTS

Nick Nelson
Englewood
+ 303-721-4524
nick.nelson@spglobal.com

ANALYTICAL CONTACTS

Matthew B Albrecht, CFA
Englewood
+ 1 (303) 721 4670
matthew.albrecht@spglobal.com

METHODOLOGY CONTACTS

Russell J Bryce
Charlottesville
+ 1 (214) 871 1419
russell.bryce@spglobal.com

METHODOLOGY CONTACTS

Nik Khakee
New York
+ 1 (212) 438 2473
nik.khakee@spglobal.com

ANALYTICAL CONTACTS

Winston W Chang
New York
+ 1 (212) 438 8123
winston.chang@spglobal.com

ANALYTICAL CONTACTS

Belinda Ghetti
New York
+ 1 (212) 438 1595
belinda.ghetti@spglobal.com

METHODOLOGY CONTACTS

Terry Sham, CFA, FRM
London
+ 44 20 71760432
terry.sham@spglobal.com

METHODOLOGY CONTACTS

Lapo Guadagnuolo
London
+ 44 20 7176 3507
lapo.guadagnuolo@spglobal.com