

Case study

Strengthened credit risk oversight for a G-SIB's growing fund financing portfolio

Background



The fund financing desk at a US-based subsidiary of a European global systemically important bank (G-SIB) was facing a surge in volumes, particularly in net asset value (NAV) lending. It sought our support in updating risk rating scorecards, performing portfolio monitoring and preparing annual reviews for its private funds' portfolio.

Challenges



- A growing fund financing portfolio with rising monthly volumes impacted timely processing of deals
- Substantial manual workflows, given the private nature of data such as borrowing base assessments and portfolio company performance, delayed risk assessments and created large backlogs

Our solution



We deployed a team of over five credit and structured finance specialists to support the bank's fund financing desk in assessing credit risk of investment funds, comprising private equity, real estate and infrastructure funds.

The team helped clear the backlog and supported business growth at the bank through:

- **Comprehensive risk assessments:** Updating risk rating scorecards aligned with the bank's internal risk framework to support preliminary assessment of limited partners, across subscription, NAV and hybrid financing solutions during onboarding and periodic reviews
- **Judgment-based adjustments:** Incorporating pro forma notching adjustments to rating models to reflect expert judgment, credit officers' assumptions and material events
- **Detailed memos:** Preparing annual reviews and extension memos covering fund and sponsor profile analysis, key risks and mitigants, financial assessment, capital structure, liquidity assessment, investment portfolio analysis, debt profile and source of repayment, and covenant analysis, as well as recommendations for credit actions with supporting rationale
- **Continuous portfolio surveillance:** Monitoring the funds' performance and flagging potential breaches to the bank's credit officers based on pre-defined triggers
- **Data-driven risk insights:** Developing risk dashboards to track key credit metrics and covenants, and perform trend analysis

Impact



Reduced the backlog significantly by updating rating scorecards of **15 funds, comprising 250 limited partners on average**, in the first two months

Streamlined the bank's credit monitoring process for private funds with a four-eye review check and ensured compliance with internal guidelines and regulatory norms

Enabled a scalable, future-ready operating model, improving operational efficiency, turnaround times and overall client experience

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