

Fund Finance Friday



Player Profile — Pramit Sheth

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This week we connect with Pramit Sheth, a Managing Director at Kroll Bond Rating Agency, where he manages the Funds group. Pramit has over 13 years of experience in the credit rating industry. Before leading the Funds group, Pramit was a senior analyst in KBRA's CMBS analytical team, where he led ratings analysis on a wide range of complex real estate transactions and helped refine KBRA's rating methodologies in that dynamic market.

Prior to joining KBRA, Pramit was an analyst in the CMBS group at S&P. Earlier in his career, Pramit founded and led a real estate development and construction company. Pramit holds a B.S. in Finance and Information Systems with a minor in Mathematics from the Stern School of Business at New York University.

FFF: Pramit, tell us a bit about yourself. How did you end up rating fund products at KBRA?

KBRA's fund ratings business was growing rapidly in size and complexity, and our CEO saw my team-building skills and my background in complex cash flow analysis as being a great fit.

FFF: Can you give our readers an overview of the rated securities business and where it fits into the fund finance landscape?

Fund finance is only one form of debt issued by an investment vehicle that we see at KBRA. Other transactions include fund investments, collateralized fund interests (platform transactions) and sponsor balance sheet debt. An example of fund investments would be where a limited partner lends to the fund through a note and also invests equity that is subordinate to the note. We refer to this type of transaction as a "Bifurcated LP Interest." Collateralized fund interests include notes secured by realizations from a passive portfolio of fund investments. Sponsor balance sheet transactions are notes that typically provide a fund's sponsor with balance sheet capital for general corporate purposes or for additional co-investments in the underlying funds.

FFF: How big is the fund securities market and where do you see it getting to?

It is hard to estimate the size of the market from the rating agency perspective given that a lot of the transactions are private, but it is safe to say that the market is growing very quickly in size and complexity. As insurance companies continue to seek ways to expand their participation in the alternative space, we believe the growth will continue.

FFF: Can you give us some insight into the sponsor motivation for a fund note issuance and an overview of the buyer base?

In KBRA's experience, sponsor motivation varies from one transaction to another. And this motivation is an important consideration in our rating analysis. Examples include sponsors wanting to expand their subscription or other lending providers beyond traditional banks. Other examples include sponsors wanting to accelerate realizations or fee streams in order to coinvest in opportunities they feel will enhance fund returns. Other examples include more traditional fund leverage or securitization of pre-existing LP positions.

FFF: Fund finance has a limited capital markets presence compared with many other bank lending products. What are the challenges for funds in accessing the debt capital markets?

Depending on the type of debt they are contemplating, funds that have not entered the capital markets before will likely need to beef up their legal teams to design structures that meet capital market preferences, improve their cash flow modeling skills to demonstrate ability to meet debt service requirements under various stress cases, and develop ways to communicate with a different kind of investor base – among other things.

FFF: Have you seen anything particularly innovative from issuers and arrangers?

Yes! The professionals in this space are very intelligent and innovative. Earlier this year, KBRA published ratings on two groundbreaking transactions – one for KKR and one for Blackstone that were each unique and very innovative platform deals. But what they had in common was that they generated enormous global investor interest. Many months later, we continuously speak with other platforms, sponsors, issuers, and bankers about new transactions they are considering as a result of what they learned from those two transactions. It has definitely been interesting to hear about the structural variations that some market players are developing.

FFF: What is your sense of the current pipeline for fund securities?

KBRA's pipeline is large and rapidly growing. We are working with professionals from all sides of the business who are working on numerous bespoke transactions, with a wide variety of collateral types and complex legal structures – all of which plays well to KBRA's strengths. Experience matters at KBRA. We attract and retain senior analysts who often have experience across asset classes and are responsive to market needs.