IC Brief

Portfolio-Level Interest Rate Hedge Consolidation

(Restoring control across fragmented infrastructure hedge books)

Scenario Type: Infrastructure – Multi-Asset Portfolio (Operating Phase)
Asset Class: Diversified infrastructure portfolio (transport, utilities, renewables, regulated assets)
Situation Type: Scaled operating platform with asset-level debt hedging accumulated through serial acquisitions
Primary Issue: Structural interest-rate and liquidity drag caused by fragmented hedge architecture, not unhedged exposure or market view

1. Decision Context

The fund operates a scaled Australian infrastructure portfolio built through serial acquisitions over multiple vintages. Each asset was financed and hedged independently at acquisition, resulting in a portfolio that appears conservatively hedged on an asset-by-asset basis.

On paper, interest rate risk is "managed." In practice, the hedge book has evolved into a fragmented system with no portfolio-level design authority.

The IC decision is not whether hedging is appropriate. It is whether the current hedge architecture remains fit for purpose at platform scale, given refinancing cycles, collateral behaviour, counterparty concentration, and governance complexity.

This is not a market view decision. It is a portfolio operating-model decision.

2. What Changed

At early platform build-out:

- Assets were acquired individually and financed standalone
- Asset-level swaps were executed contemporaneously with debt
- Hedge decisions were locally optimal and defensible at the time
- No portfolio-level hedge mandate existed

As the platform scaled:

- Assets accumulated across vintages, curves, and refinancing profiles
- Hedge maturities clustered unintentionally
- Counterparties multiplied across SPVs

- CSAs and hedge accounting treatments diverged
- Refinancings triggered repeated derivative rework

The portfolio grew intentionally. The hedge architecture did not.

3. How the Risk Actually Manifests

The failure mode is not outright rate exposure. It is path-dependent structural drift.

- Fixed-rate protection remains static while debt amortises, refinances, or extends
- Curve and tenor mismatches accumulate invisibly
- Cash interest expense diverges from board-approved projections
- Collateral behaves gross, not net, across entities
- Refinancing becomes derivative-constrained rather than credit-led

Nothing appears “broken.” But the hedge book begins to dictate capital decisions.

4. What Surfaces on Review

When assessed at portfolio level, consistent issues emerge:

- The same economic hedge position replicated across multiple entities
- No single owner accountable for portfolio-wide rate exposure
- Counterparty concentration breaches masked by SPV silos
- Trapped collateral driven by non-netting CSAs
- Inconsistent hedge accounting creating non-economic P&L noise
- Treasury effort dominated by processing rather than control

This is not inefficiency. It is governance fragmentation.

5. Structural Assessment

This is not:

- A bad hedge
- A trading error
- A failure of risk discipline

It is:

- A portfolio architecture failure
- A legal-economic coupling problem
- An operating-model mismatch at scale

Any response must preserve:

1. Project finance ring-fencing
2. Embedded hedge value
3. Lender and audit defensibility
4. Refinancing optionality

Blunt unwind or wholesale re-hedging destroys value.

6. Structuring Logic

Effective remediation focuses on **decoupling**, not replacement.

Core principles:

- Separate economic risk ownership from legal hedge counterparty alignment
- Centralise external derivatives at portfolio level
- Allocate hedge economics internally back to asset SPVs
- Standardise CSAs to enable netting and collateral efficiency
- Rationalise counterparties to restore relationship leverage
- Sequence changes around refinancing and consent leverage points

The objective is not simplification for its own sake. It is restoring portfolio-level coherence and control.

7. Intended Outcomes

When executed correctly:

- Interest expense behaves predictably at portfolio level
- Collateral becomes a net portfolio number, not gross friction
- Counterparty exposure is visible and governable
- Hedge accounting becomes consistent and explainable
- Refinancing decisions are driven by asset fundamentals again
- Treasury capacity shifts from processing to value work

The hedge book stops being an anchor. It becomes infrastructure. It supports the platform rather than constraining it.

8. IC Takeaway

Every individual hedge decision was reasonable in isolation. Collectively, they created a system that no longer behaves as intended.

Portfolio-level interest rate risk does not fail loudly. It fails quietly – through fragmentation, trapped liquidity, and lost optionality.

Treating derivatives as a portfolio system, not a collection of deals, restores control before flexibility is lost.

9. Applicability

Most relevant where:

- Multiple operating assets exist across vintages
- Asset-level hedging has accumulated over time
- Collateral movements are becoming a liquidity issue
- Refinancing frequency is increasing
- Counterparty and accounting complexity is rising

Less relevant where:

- The platform has only one or two assets
- Hedging is already centralised
- Highly bespoke derivatives dominate the book

10. Engagement Path

Primary Offer: Hedge Rebuild™ – Portfolio-Level Interest Rate Structuring, Centralisation, CSA redesign, counterparty rationalisation, and refinancing-aware hedge architecture.

Secondary / Bespoke: Hedge accounting redesign, governance framework reset, treasury operating-model support.

A full structural narrative is available for readers who wish to review the underlying mechanics, trade-offs, and remediation sequencing in greater detail.

Disclaimer

Illustrative scenario for discussion purposes only. Not a transaction summary or client-specific case study.