



Portfolio-Level Interest Rate Hedge Consolidation

SCENARIO TYPE	Infrastructure – Multi-Asset Portfolio (Operating Phase)
ASSET CLASS	Diversified portfolio – transport, utilities, renewables, and regulated assets with staggered vintages
RISK FOCUS	Portfolio-level interest rate drift, hedge fragmentation, refinancing asymmetry, curve mismatch, governance blind spots from asset-by-asset decisions
PRIMARY OFFER	Hedge Rebuild™
RELEVANT SERVICES	Portfolio hedge architecture · Refinancing-aware hedge design · Curve and tenor optimisation · CSA standardisation · Counterparty rationalisation · Governance and hedge mandate redesign

THE SITUATION

A mid-sized Australian infrastructure fund managed roughly AUD 4.2bn across 14 operational assets – regulated utilities, transport assets, and renewables. Built through serial acquisitions since 2015, each deal was financed on a standalone basis and hedged at the asset SPV level.

The portfolio appeared conservatively hedged. Every major debt facility had an associated swap. DVO1 reporting showed high hedge ratios. Interest rate risk was considered managed.

The hedges had been constructed incrementally over multiple years, across different rate environments, curves, and refinancing assumptions – with no portfolio-level design authority. The result was not unhedged risk but uncontrolled interaction risk across tenors, curves, and optionality. By late 2023, the fund held approximately AUD 3.2bn notional across 14 interest rate swaps spread across six counterparties – largely expressing the same economic position repeatedly, trapped inside separate legal entities, separate ISDAs, and inconsistent CSAs.

HOW THE DRIFT SETS IN

Each acquisition adds one more financing package, one more hedge, one more counterparty touchpoint, one more audit trail. Over time, the treasury function stops steering and starts processing. The fund's real exposure becomes harder to explain internally – not because it is complex, but because it is fragmented.

Portfolio-level interest rate risk fails through path dependency rather than outright exposure. As assets refinance, amortise, or are partially sold, original hedge assumptions decay. Fixed-rate protection remains in place while underlying debt reprices or shortens. Curve exposures accumulate unintentionally. Cash interest expense begins to diverge from board-approved projections, yet no single hedge appears wrong.

The risk becomes visible only once the platform reaches scale – often just as refinancing cycles accelerate and LP scrutiny increases. What was tolerable complexity becomes a binding constraint precisely when flexibility matters most.

WHAT TYPICALLY BREAKS

Operational drag becomes structural

A central treasury team spending material time each quarter validating settlements, reconciling statements, and maintaining hedge accounting packs across 14 separate facilities – with no portfolio netting benefit. The same work repeated fourteen times is not a workload issue; it is a design failure.

Counterparty risk quietly breaches policy

Portfolio aggregation reveals a concentration breach that went unnoticed because hedges were managed in silos. One counterparty exceeded internal limits. Not an institutional failure – a governance failure caused entirely by fragmentation.

Accounting treatment drifts into inconsistency

Some entities treat swaps as cash flow hedges, others use fair value hedges. The result is non-economic P&L volatility requiring repeated explanation to the board and LPs – reputationally corrosive and a signal of governance weakness to institutional investors.

Netting does not exist if the structure cannot net

When rates move, some swaps are in-the-money and some out-of-the-money – but positions across multiple entities and multiple CSAs cannot offset. Collateral is posted gross and received net. Real cash trapped in margin accounts that could otherwise fund acquisitions, debt reduction, or distributions.

THE STRUCTURAL INSIGHT

The objective was not tighter hedge metrics – it was to change the operating architecture, so the hedge book behaves like a portfolio, not fourteen isolated deals.

In the existing state, each asset SPV is both the economic bearer of interest-rate risk and the legal counterparty to the hedge. That coupling creates entropy: every new asset adds a new ISDA/CSA, new audit pack, new settlement process, and new collateral behaviour.

Consolidation decouples those roles. A fund-level vehicle becomes the legal counterparty to banks; the asset SPVs remain the economic bearers through an internal hedge allocation mechanism. This preserves project finance ring-fencing while enabling portfolio netting, CSA standardisation, and consistent hedge accounting.

Execution is sequenced deliberately: clean novations first where facility documents already permit them; refinancing-window assets next where lender cooperation is highest; hard-consent assets last. Counterparty rationalisation happens alongside – reducing from six banks to three or four concentrates wallet share enough to extract Tier-1 CSA terms. An onboarding rule ensures future acquisitions route through the hub, preventing entropy from returning within eighteen months.

INTENDED OUTCOMES

- ▶ Collateral efficiency made structural – consolidated CSA netting reduces peak collateral calls during rate shocks, improves average collateral balances, and frees capital for acquisitions, distributions, and debt covenants.
- ▶ Hedge portfolio auditable and governable at platform level – one dashboard view of exposure, one counterparty concentration framework, consistent limit monitoring, and a clean governance chain for decisions.
- ▶ Accounting noise reduced – consistent hedge designation methodology eliminates recurring investor questions about why earnings moved when cash did not.
- ▶ Refinancing becomes repeatable rather than bespoke – each asset refinancing is no longer a derivative project; the hub is already the counterparty and derivative mechanics stop being the pacing item.
- ▶ Strategic options reopen – portfolio leverage management, cross-collateralisation, securitisation feasibility, and faster acquisition execution all become viable once derivative complexity is no longer the constraint.

WHERE THIS APPLIES

Works best where multiple assets carry broadly similar interest rate exposure; multiple ISDAs and CSAs have accumulated with inconsistent hedge accounting treatment; collateral movements are becoming a funding issue rather than just a middle-office annoyance; and refinancing or new acquisitions are planned and a scalable structure is needed.

Less relevant where the portfolio is small (one to three assets); lenders have hard prohibitions on derivative novations with no available leverage points; or highly bespoke hedges exist that should remain siloed.

TYPICAL ENGAGEMENT PATH

Hedge Rebuild™ – Portfolio-Level Hedge Consolidation module. Secondary: CSA optimisation, hedge accounting redesign support, counterparty rationalisation, refinancing integration.

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