Presale:

CLI Funding VIII LLC (Series 2023-1)

June 1, 2023

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(***Editor's Note:*** *The original version of this presale, published June 1, 2023, inadvertently misstated the stress scenarios applied in our cash flow modeling for lessee defaults. We also corrected the footnote for table 6. A corrected version follows.)*

Preliminary ratings

Class	Preliminary rating	Preliminary amount (mil. $)
A	A- (sf)	261.90
B	BBB (sf)	36.10

Note: This presale report is based on information as of June 1, 2023. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings.

Profile

Expected closing date	June 20, 2023.
Legal final payment date	June 18, 2048.
Collateral	A $1,552,619,982.18 net book value portfolio containing 294,300 containers. CLI Funding VIII LLC has the right to net operating income from the portfolio and any net residual cash flows from the sale of containers.
Structuring agent	BofA Securities Inc.
Issuer	CLI Funding VIII LLC.
Seller and manager	Container Leasing International LLC, doing business as SeaCube Containers LLC.
Indenture trustee and manager transfer facilitator	U.S. Bank N.A.

Rationale

The preliminary ratings assigned to CLI Funding VIII LLC's (the issuer) $298 million fixed-rate asset-backed notes series 2023-1 reflect our view of:

- The likelihood that timely interest and ultimate principal payments will be made on or before the legal final maturity date;
- The initial and future lessees' estimated credit quality;

- The transaction's structure;
- The portfolio characteristics, including the asset quality and lease terms;
- Certain compliance tests, concentration limitations, and early amortization events included in the transaction documents;
- The presence of a reserve account that covers the series 2023-1 notes' nine months of interest; and
- The manager's experience in managing the container portfolio.

Environmental, Social, And Governance (ESG) Factors

Our rating analysis considers the transaction's potential exposure to ESG credit factors. We generally consider these ESG credit factors in our credit quality, legal, and operational risk analysis. Although marine cargo container leasing companies are not directly exposed to environmental risks, regulations that pressure the container shipping lines could reduce their demand somewhat and increase the credit risk of their customers. At the same time, some efforts towards "slow-steaming," an environmental move to reduce fuel consumption and carbon emissions, could lead to increased demand for containers as trips take longer. Container leasing companies are less exposed to social risks than shipping lines, which could face disruption in their operations due to changing regulations, political events, or restrictions on movement of goods or people. However, such disruptions could affect the demand for leased containers and the credit risk of lessees. Governance credit factors are limited given that the transaction is structured to isolate the assets from the seller. Bankruptcy or other stress upon the manager could potentially disrupt the flow of payments to the transaction.

Transaction Strengths

We consider the following to be transaction strengths:

- The container leasing market's resiliency and stability despite the macroeconomic disruption caused by the COVID-19 pandemic. Reduced levels of capital spending continue to support a relatively stable supply.
- The portfolio's high concentration of refrigerated containers (67.3% of aggregate asset value [AAV]), which have historically experienced more stable demand and higher utilization rates.
- The performance tests, such as the asset base compliance, concentration limitations, and early amortization event tests. Concentration limitations include that to a single lessee (25.00% of the portfolio, with exceptions: 35.00% for Mediterranean Shipping Co. [MEDS] and 30.00% for Ocean Network Express Pte. Ltd.), top three lessees (65.00%), direct finance leases (DFLs; 40.00%), specials (25.00%), generator sets (gensets; 10.00%), and nonmonthly rental payments (10.00%).
- Early amortization events, which include a manager default; if, beginning with the seventh payment date, the interest coverage ratio for series 2023-1 is less than 2.0x for four consecutive payment dates; and the outstanding notes' aggregate amount exceeding the asset base for 30 days. If any of the concentration limitations are breached, the excess concentrations will cause the required overcollateralization (O/C) percentage to increase by the amount of the excess concentration percentage.
- The waterfall including a cash sweep event that occurs if the weighted average age exceeds 10

years or if the notes are not paid in full by December 2030. Following a cash sweep event, the remaining funds following scheduled principal will be distributed pro rata between the two classes.

- Approximately 95.8% of CLI Funding VIII LLC's portfolio representing long-term leases and DFLs, which are shielded from rate reductions during a downturn.
- The CLI Funding VIII LLC portfolio's low writeoffs and high recovery rates.
- The interest reserve account, which equals nine months of note interest due.
- The exclusion of leases where the lessee is subject to an insolvency proceeding and does not become current on its lease obligations within 120 days of the commencement of such insolvency proceeding (defaulted leases) from the asset-base calculation, subject to a 10% excess concentration limit on defaulted leases.

Transaction Weaknesses

We consider the following to be transaction weaknesses:

- The series 2023-1 notes have relatively little cushion in passing our rating runs. The break-even cash flow results (especially for the class A notes) are lower than other recent transactions (see tables 2 and 8).
- Global, regional, or local economic downturns could reduce the issuer's revenue because leased containers are deployed worldwide.
- Approximately 51.51% of the portfolio (by AAV) is held by the three largest customers, whose performances may affect the issuer's revenue receipts.
- The default of a customer with containers located in certain countries could make it economically or legally difficult to recover the container assets.
- The DFLs (33.60% by AAV) in the transaction may be "re-characterized" as secured debt if the lessee files for bankruptcy. Because lessors and secured lenders have different rights and remedies as creditors in a bankruptcy, a debtor may seek to recharacterize a lease to take advantage of these distinctions.
- A portion of the portfolio consists of leases with damage protection plan (DPP) coverage. Such coverage is common in other container lease portfolios. Historical performance data shows somewhat higher maintenance and repair costs associated with containers covered by DPPs.
- The issuer may rely on Container Leasing International LLC (CLI) (doing business as SeaCube Containers LLC [SeaCube]) to manage the transaction's inventory, billing, and collection of rental payments.
- The transaction documents allow for sales of container assets. As long as the transaction is in compliance with certain tests, proceeds from such sales may not have to be used to pay down the notes but will be paid out as income to the transaction's residual class, which is subordinate to the rated notes.

Mitigants To Transaction Weaknesses

We believe the following factors partly mitigate the transaction's weaknesses:

- We incorporated the stress scenarios in our cash flow modeling for lessee defaults (64.69% and 56.54% at 'A-' and 'BBB' stress levels, covering the top six and top four obligors, respectively), fleet utilization, lease rates, and operating expenses through two sector downturns--the first is four years long and the second is three years long--over the fleet's life. We model the loss of container assets following lessee defaults and six months of downtime between lessees. The transaction passed all of our rating runs (see the Cash Flow Results section).
- The containers in this pool carry a 5.60-year weighted-average remaining term, limiting the near-term lease rate exposures from renewals. In addition, the 9.63-year weighted-average remaining term on the DFLs should also provide some stability to the revenues under the base case, with limited residual risk.
- To address the associated risk of DPP-related increased costs, we stressed the operational costs associated with a certain share of the containers and found that the rated notes still have sufficient cushion to pass the 'A-' and 'BBB' rating runs.
- The transaction documents include manager events of default, based on CLI's financial performance, whereby if a manager event of default is triggered, the transition manager will assist in locating a suitable successor manager for this transaction. The transaction also has a liquidity account to cover nine months of note interest throughout the transaction's life and while finding a replacement manager.
- The manager, the issuer, the indenture trustee, and U.S. Bank N.A. as the transition manager, have entered into a manager transition agreement to mitigate the risk of an interruption in services provided by the manager and to facilitate the orderly transition to a successor manager, under which the transition manager has agreed to provide certain essential services until a new successor manager is located.
- Based on our findings that indicate no evidence of attempts by shipping lines to recharacterize DFLs as secured debt, we use recovery delay assumptions consistent with other business loan-backed securitizations. In those cases, for 'A' category ratings, we assume a 24-month delay.
- While the transaction documents allow for sales of container assets, our cash flow analysis shows that even if O/C levels were kept at or close to the minimum required level, principal and interest on the notes would still likely be paid when due. In addition, we believe under certain conditions, and as long as the notes receive their scheduled principal over the next two years, the notes can withstand the stress scenarios corresponding to their ratings, even if additional container sales were sufficient to reduce the asset base to the minimum level allowed by the transaction documents. We expect that, under base-case conditions, the transaction leverage would gradually decline over time.

Industry Characteristics: Sector Outlook

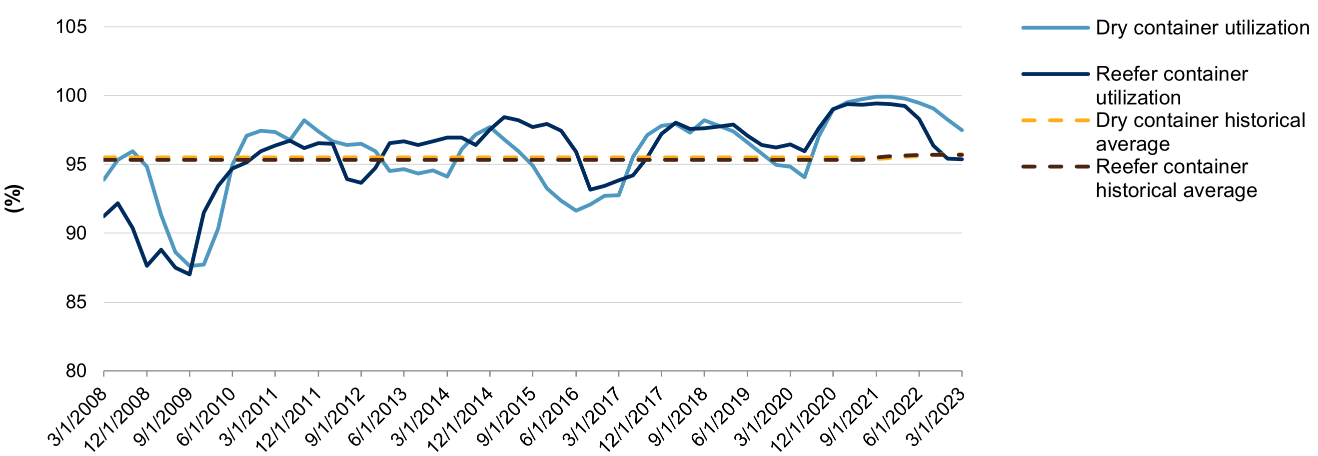
Demand for marine cargo containers is primarily based on the level of world trade, which correlates with economic cycles. We believe other factors affecting demand include the needs of shipping lines (marine cargo containers' major customers), the available supply and cost of equipment, and the availability of capital to purchase or lease the needed equipment. As of Dec. 31, 2022, the global container fleet measured about 54 million 20-foot equivalent units (TEUs). Approximately half the fleet is owned by shipping lines and other operators. The other half is owned or managed by container leasing companies.

The industry's utilization and revenues reached historic highs in 2021 and the first half of 2022, as the world economy emerged from lockdown and pent-up consumer demand for goods drove shipping rates and container prices higher. The increased prevalence of e-commerce as a result of the lockdowns, coupled with a container shortage (a result of a reduction in production from the manufacturers in China and congestion at ports globally) tied up marine cargo containers, resulting in an inability to unload and return them to be refilled with more goods. As a result, utilization for all marine cargo container lessors increased to record levels--in some cases close to 100%--during this time. Since July 2022, as the market has normalized, utilization has decreased slightly, but remains elevated in the high-90% area. Marine cargo container dislocations benefit marine cargo container lessors because incremental containers are needed to replace those still in transit or sitting on the ground at ports. Through the first half of 2022, shipping lines held on to containers longer than usual to keep excess capacity to serve customers. As the global economy has cooled, with worries of a moderate recession mounting, containers are now being returned at a higher level. However, they still present a profitable trade for lessors who can sell these used boxes in the market, often for a profit above their book value.

Even with a global recession looming, the container leasing industry is well protected as a result of stronger and more creditworthy shipping lines who experienced windfall profits the past two years and longer-term and higher-lease-rate contracts entered into during the strong rebound from the pandemic. In addition, demand for refrigerated marine cargo containers (reefers, which transport perishables) has been steadier than that for dry marine cargo containers (which tends to be more cyclical as seen from recent trends). We expect continued moderate growth in reefers as consumers continue to enjoy fresh produce, seafood, etc. that they can source globally year-round rather than just seasonally from local harvests.

Chart 1

Aggregate dry and reefer fleet utilization, weighted by TEUs, for ABS deals rated by S&P Global Ratings



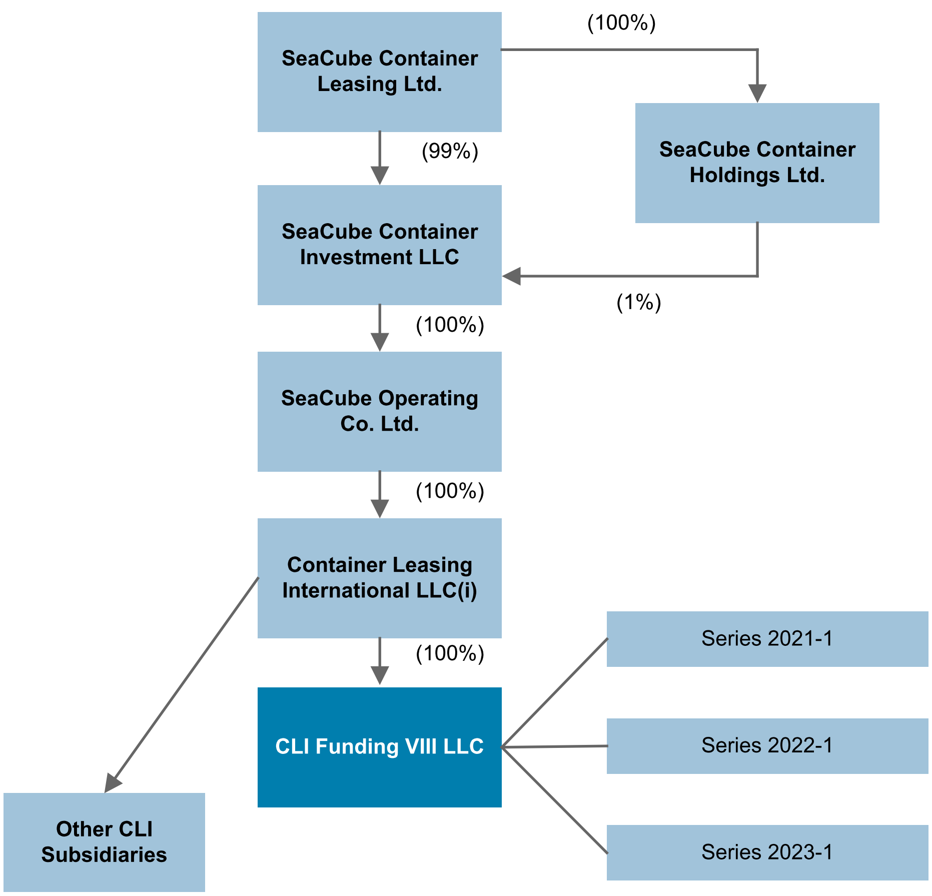
TEU--20-ft. equivalent units. ABS--Asset-backed securities.

Transaction Structure

The issuer is a bankruptcy-remote limited liability corporation organized under Delaware law. The issuer's primary assets are the containers acquired by the issuer from CLI (see chart 2 for the transaction structure).

Chart 2

Transaction structure



(i)Doing business as SeaCube Containers LLC.

Shared collateral

Additional container units will be purchased by the issuer using the proceeds from the issuance of the series 2023-1 notes. These units, together with the existing collateral portfolio of the issuer, will be held by the trustee for the benefit of the series 2023-1 bondholders and the already existing bondholders. Available collections will be allocated to each series based on the provisions of the Indenture. Similar provisions would apply to the issuance of additional series in the future. At the time of the series 2023-1 notes' issuance, it is expected that notes from the issuer's series 2022-1 and 2021-1 will be outstanding.

Related Corporate Entities

CLI, the manager, was formed in 1993 and currently conducts business under the name SeaCube. CLI is one of the world's larger container leasing companies based on total assets owned or managed, but it has a larger market share in refrigerated containers (reefers). According to industry statistics, as of Dec. 31, 2022, CLI is one of the 10 largest marine cargo container lessors based on cost-equivalent units (CEUs) with a 8.0% market share. The largest container lessors are Triton Container International Ltd., Textainer Marine Containers Ltd., Florens Container Services, Seaco SRL, and Seacube.

As of March 31, 2023, CLI owned or managed a fleet comprised of 799,898 units, representing 1,375,159 TEUs of containers and generator sets (gensets). Based on the AAV, as of March 31, 2023, approximately 95.0% of CLI's owned fleet was leased through long-term leases and DFLs, and 62.3% were reefers. DFLs provide the customer with a purchase option when the lease term expires. The average age of CLI's fleet as of March 31, 2023, is 6.5 years. Approximately 34.5% of CLI's fleet (by AAV) is dry containers, the most widely used type of equipment; 62.1% is reefers; and 3.1% is gensets.

Portfolio Characteristics

Table 1

Comparison among container transactions

	CLI Funding VIII LLC (series 2023-1)(i)	CLI Funding VIII LLC (series 2022-1)(i)	CLI Funding VIII LLC (series 2021-1)(i)	Global Container Assets 2016 Ltd. (series 2022-1)	MC Ltd. 2021-1	Beacon Container Finance II LLC (series 2021-1)	Global SC Finance VII SRL (series 2021-2)	Textainer Marine Containers VII (series 2021-3)	Textainer Marine Containers VII (series 2021-2)
Total NBV ($)	1,552,619,982	1,417,103,491	798,131,797	357,873,794	275,358,688	370,571,070	703,368,275	731,457,719	382,482,064
Total units	294,300	277,066	159,128	174,157	116,397	116,518	175,603	254,134	104,087
Weighted-average age (year, by NBV)(ii)	4.09	3.30	2.97	9	7.74	2.83	3.82	2.98	2.80
Weighted-average per diem rate (by unit) ($)(ii)	1.99	1.83	1.75	1	0.68	1.04	1.47	0.91	1.21
Lease type (% of NBV)									
Long-term	62.16	55.89(v)	59.12	62	91.55	78.77	68.63	69.94	78.93
Direct finance leases	33.60	35.24(v)	31.06	24	0.55	21.20	24.89	29.32	17.44
Master / Spot	3.46	5.32(v)	9.82	13	7.71	0.03	4.38	0.63	2.00
Off-hire	0.78	0.14(v)	0.00	0	0.19	--	1.60	0.10	1.63
Container type (% of NBV)									
Dry	29.21	29.61	27.69	90	99.80	77.80	54.59	94.29	65.67

Table 1

Comparison among container transactions (cont.)

Reefer	67.32	67.00	69.92	6	0.20	22.20	33.39	5.56	24.30
Special (including gensets)	3.47	3.40	2.39	0	--	--	6.87	0.14	1.45
Tank	--	--	--	3	--	--	5.15	--	8.58
Senior advance rate (%)	73	81	81.0	55	58.0	80.0	80.0	74.0	79.0
Utilization B/E (%)	-	-	19 (class A)/33(class B)	-	17 (class A)/4 (class B)	6	9 (class A)/19(class B)	7(class A)/15(class B)	15 (class A)/25(class B)
Re-lease rate B/E (%)(iii)	-	-	14 (class A)/19 (class B)	-	7 (class A)/2 (class B)	6	10 (class A)/12 (class B)	6(class A)/12(class B)	8 (class A)/13(class B)
Revenue B/E	0 (class A)/4 (class B)	6 (class A)/ 11 (class B)	5 (class A)/8 (class B)	5 (class A)/7 (class B)	4 (class A)/1 (class B)	4	3 (class A)/5 (class B)	4 (class A)/7 (class B)	5 (class A)/8 (class B)
S&P Global Rating's credit rating	Preliminary A- (sf)/ Preliminary BBB (sf)(class A/class B)	A (sf)/ BBB (sf)(class A/class B)	A (sf)/BBB (sf) (class A/class B)	A (sf)/ BBB (sf)(class A/class B)	A (sf)/ BBB (sf)(class A/class B)	A (sf)	A (sf)/ BBB+ (sf) (class A/class B)	A (sf)/BBB (sf)(class A/class B)	A (sf)/BBB (sf)(class A/class B)
Closing date	June 20, 2023	January 27, 2022	February 25, 2021	Feb. 17, 2022	December 1, 2021	November 3, 2021	August 17, 2021	August 11, 2021	April 20, 2021

	Global SC Finance VII SRL (series 2021-1)	Triton Container Finance VIII LLC (series 2021-1)	Textainer Marine Containers VII (series 2021-1)	CLI Funding VI LLC (series 2020-3)	TIF Funding II LLC (series 2021-1)	Global SC Finance VII SRL (series 2020-2)	Textainer Marine Containers VII (series 2020-3)	Textainer Marine Containers VII (series 2020-2)	TAL Advantage VII LLC (series 2020-1)
Total NBV ($)	700,399,977	870,230,071	652,746,662	1,918,997,689	595,998,482	701,390,934	261,211,817	766,659,716	782,225,490
Total units	176,836	310,589	180,632	440,433	160,922	230,899	71,157	253,260	237,134
Weighted-average age (year, by NBV)	4.80	4.11	2.16	4.04	0.70	5.64	3.79	4.01	6.33
Weighted-average per diem rate (by unit) ($)	1.51	1.01	1.15	1.81	1.11	1.28	1.28	0.98	1.30
Lease type (% of NBV)									
Long-term	61.95	96.64	68.95	62.65	98.09	89.79(ii)	86.15	76.73	97.09
Direct finance leases	5.12	0.00	25.53	31.44	0.25	3.75(ii)	8.63	18.91	0.00
Master	32.26	2.89	5.18	5.09	1.62	3.25	2.34	1.71	0.35
Off-hire	0.66	0.47	0.35	0.81	0.04	3.13(iv)	2.88	2.65	2.56
Container type (% of NBV)									
Dry	45.17	84.20	59.22	31.93	82.11	41.67	60.63	73.46	59.71
Reefer	41.89	14.75	40.29	63.11	14.61	40.93	38.29	22.59	22.13
Tank	4.68	1.05	0.49	--	2.68	12.70	1.08	3.95	10.61

Table 1

Comparison among container transactions (cont.)

Special (including gensets)	8.26	--	--	4.97	0.60	4.70	--	--	7.55
Senior advance rate (%)	80.0	79.0	79.0	81.0	79.0	80.0	80.0	68.0	75.0
Utilization B/E (%)	29 (class A)/33(class B)	3 (class A)/15 (class B)	10 (class A)/17 (class B)	15 (class A)/30 (class B)	4 (class A)/15 (class B)	9 (class A)/15 (class B)	5 (class A)], 19% (class B)	5 (class A)/14 (class B)	5 (class A)/17 (class B)
Re-lease rate B/E (%)(iii)	20 (class A)/23 (class B)	3 (class A)/11 (class B)	9 (class A)/17 (class B)	10 (class A)/17 (class B)	4 (class A)/14 (class B)	6 (class A)/9 (class B)	4 (class A)], 13% (class B)	3 (class A)/11 (class B)	3 (class A)/10 (class B)
Revenue B/E	9 (class A)/10 (class B)	2 (class A)/8 (class B)	5 (class A)/9 (class B)	6 (class A)/11 (class B)	3 (class A)/9 (class B)	5 (class A)/7(class B)	3 (class A)/8 (class B)	3 (class A)/8 (class B)	3 (class A)/8 (class B)
S&P Global Rating's credit rating	A (sf)/ BBB+ (sf) (class A/class B)	A (sf)/BBB (sf) (class A/class B)	A (sf)/BBB (sf)(class A/class B)	A (sf)/BBB (sf) (class A/class B)	A (sf)/BBB (sf) (class A/class B)	A (sf)/BBB+ (sf) (class A/class B)	A (sf)/BBB (sf) (class A/class B)	A (sf)/BBB (sf) (class A/class B)	A (sf)/BBB (sf) (class A/class B)
Closing date	March 17, 2021	March 17, 2021	February 10, 2021	October 19, 2020	February 3, 2021	October 19, 2020	September 21, 2020	September 21, 2020	September 21, 2020

(i)Sums and weighted averages are calculated using AAV, not NBV. (ii)Includes factory units with committed leases. (iii)The B/E rate reflects lease rate assumptions at closing. (iv)Includes factory units awaiting lease. (v)Does not include factory units. NBV--Net book value. B/E--Break-even. N/A--Not applicable. AAV--Aggregate asset value. AAV equals the NBV of containers plus NBV of finance lease receivables.

Tables 2 through 5 detail the characteristics of the underlying collateral pool.

Portfolio distribution by equipment type and age

Table 2 shows a breakdown of the issuer's fleet by major equipment category as of April 30, 2023.

Table 2

Portfolio distribution by equipment type and age as of April 30, 2023

Equipment type	No. of units	% of units	AAV ($)	% of AAV	Weighted avg. age (years)
40' HC reefer	83,241	28.28	969,691,592	62.46	3.51
40' HC dry	124,360	42.26	359,020,270	23.12	4.53
20' standard dry	48,301	16.41	57,272,521	3.69	7.86
20' standard reefer	6,338	2.15	49,872,148	3.21	4.70
Genset	4,529	1.54	47,180,987	3.04	3.32
40' standard dry	21,517	7.31	37,182,759	2.39	9.86
40ft standard reefer	1,334	0.45	25,628,109	1.65	1.05
Dry special	4,680	1.59	6,771,596	0.44	12.29
Total/weighted avg.	294,300	100.00	1,552,619,982	100.00	4.09

AAV--Aggregate asset value.

Portfolio distribution by contract type

Table 3 details the breakdown of the pool's issuer containers by lease type as of April 30, 2023.

Table 3

Portfolio distribution by lease type

Lease type	No. of units	% of units	AAV ($)	% of AAV
Long-term lease	160,523	54.54	965,072,316	62.16
Finance lease	105,079	35.70	521,738,584	33.60
Short-term lease	23,628	8.03	53,738,344	3.46
Off lease	5,070	1.72	12,070,739	0.78
Total	294,300	100.00	1,552,619,982	100.00

AAV--Aggregate asset value.

Portfolio distribution by customer

Table 4 details the issuer's expected lessee exposure by NBV for the pool of containers as of April 30, 2023.

Table 4

Portfolio distribution by customer

Customer	No. of units	% of units	AAV ($)	% of AAV
1	73,461	24.96	475,452,755	30.62
2	43,947	14.93	245,268,804	15.80
3	10,744	3.65	78,959,055	5.09
4	16,566	5.63	78,103,376	5.03
5	18,912	6.43	67,416,006	4.34
6	27,528	9.35	59,096,713	3.81
7	4,344	1.48	53,009,496	3.41
8	4,407	1.50	50,329,456	3.24
9	6,477	2.20	45,662,615	2.94
10	4,211	1.43	39,293,763	2.53
11	5,302	1.80	32,357,940	2.08
12	1,270	0.43	25,157,441	1.62
13	2,603	0.88	19,409,305	1.25
14	1,562	0.53	18,631,320	1.20
15	1,359	0.46	18,584,545	1.20
16	1,479	0.50	18,579,471	1.20
17	834	0.28	11,854,089	0.76
18	20,713	7.04	11,645,447	0.75

Table 4

Portfolio distribution by customer (cont.)

Customer	No. of units	% of units	AAV ($)	% of AAV
19	1,158	0.39	11,356,597	0.73
20	797	0.27	10,971,576	0.71
Off lease	5,070	1.72	12,070,739	0.78
Other	41,556	14.12	169,409,471	10.91
Total	294,300	100.00	1,552,619,982	100.00

AAV--Aggregate asset value.

Portfolio distribution by remaining term to maturity of the fleet term leases

Table 5 shows the expected portfolio distribution of leases by expiration year as of April 30, 2023.

Table 5

Distribution of the collateral by lease expiration year

Lease expiration year	No. of units	% of units	AAV ($)	% of AAV
2023	29,016	9.86	93,456,301	6.02
2024	22,122	7.52	76,563,513	4.93
2025	47,656	16.19	206,550,375	13.30
2026	39,121	13.29	135,314,486	8.72
2027	11,790	4.01	75,224,845	4.85
2028	21,135	7.18	224,562,670	14.46
2029	9,375	3.19	133,919,908	8.63
2030	11,946	4.06	32,845,593	2.12
2031	5,861	1.99	43,002,283	2.77
2032	18,203	6.19	172,700,664	11.12
2033	4,252	1.44	44,453,664	2.86
2034	5,586	1.90	44,563,991	2.87
2035	29,488	10.02	163,633,660	10.54
2036	897	0.30	14,501,809	0.93
2037	5	0.00	14,755	0.00
Off lease	5,070	1.72	12,070,739	0.78
Other(i)	32,777	11.14	79,240,725	5.10
Total	294,300	100.00	1,552,619,982	100.00

(i)Other includes leases that have expired but the units have remained out on lease. AAV--Aggregate asset value.

Portfolio distribution by utilization and per diem rate

Table 6 shows the portfolio's per diem rate by equipment type as of April 30, 2023.

Table 6

Portfolio distribution by per diem rates

Equipment type	Total units	Weighted avg. per diem(i)(ii)
40' HC dry	124,360	1.03
40' HC reefer	83,241	4.26
20' standard dry	48,301	0.59
40' standard dry	21,517	0.59
20' standard reefer	6,338	3.56
Dry special	4,680	0.93
Genset	4,529	5.06
40' standard reefer	1,334	6.02
Total	294,300	1.99

(i)Weighted by units. (ii)Excludes off-lease containers.

Cash Flow Assumptions

The series 2023-1 transaction's cash flows depend on a number of key inputs--some contractual (e.g., lease rates) and some modeled based on historical performance, rating-dependent economic scenarios, and our expectations of the containers' life spans. We have incorporated our stresses for each of those components into two sector downturns (one is four years long, and the other is three years long) during the fleet's life. The depth, length, and starting time of the downturns are rating-dependent, which means that to assign a higher rating, we assume deeper and longer downturns within a shorter time frame. Our internal cash flow model includes input assumptions, including:

- Fleet utilization;
- Lease rates (both long-term and per diem);
- Operating expenses (repair and storage);
- Container useful life and residual value;
- Lessee defaults;
- Container loss rate upon lessee defaults;
- DFL buyback rates; and
- DFL recharacterization risk for pools where this risk is significant.

We updated our operating and master lease rate assumptions on June 30, 2022 (see "Global Container Lease-Backed ABS Methodology And Assumptions," published June 30, 2022). Under our stress assumptions for the assigned preliminary ratings, we expect that the transaction will pay timely interest and full principal by the final maturity date.

Cash Flow Results

'A-' stress scenario and sensitivity analysis

We ran a number of stress tests in which we stressed cash flow through economic downturns, where both fleet utilization and re-leasing rates decrease while operating expenses increase. The magnitude of these stresses is rating-dependent, as described in more detail in our criteria (see "Global Container Lease-Backed ABS Methodology And Assumptions," published June 5, 2015). We modeled all stresses assuming that all of the buyouts are taken. Under all stress scenarios, the bonds paid timely interest and ultimate principal according to the payment priority (see table 7).

Table 7

Series 2023-1 cash flow results

Description	Stress modeled	Outcome
Roll stress case--class A	64.69% applied default rate. Utilization cut to between 55% and 78% during phase II of the recession period; the base-case lease rates reduced by 31% during phase II of the recession; and operating expenses increased by up to 14.2% during two sector downturns. 20% loss of containers following lessee default. No operating expenses on DFLs. 90% ST utilization rate. 20% final depreciated value for dry boxes and 10% for others. Residual haircut only happens during downturns; haircut level follows the same pattern as reduced re-lease rate. 33.3% LT leases roll to LT leases.	Timely interest and ultimate principal paid.
Roll stress case--class B	56.54% applied default rate. Utilization cut to between 66% and 82% during phase II of the recession period; the base-case lease rates reduced by 25% during phase II of the recession; and operating expenses increased by up to 12.7% during two sector downturns. 16% loss of containers following lessee default. No operating expenses on DFLs. 90% ST utilization rate. 20% final depreciated value for dry boxes and 10% for others. Residual haircut only happens during downturns; haircut level follows the same pattern as reduced re-lease rate. 50% LT leases roll to LT leases.	Timely interest and ultimate principal paid.
DFL stress case--class A	64.69% applied default rate. Utilization cut to between 55% and 78% during phase II of the recession period; the base-case lease rates reduced by 31% during phase II of the recession; and operating expenses increased by up to 14.2% during two sector downturns. 47% loss of containers under DFLs, and 20% loss of containers under operating leases. No operating expenses on DFLs. 90% ST utilization rate. 20% final depreciated value for dry boxes; 10% for others. 73.3% LT leases roll to LT leases. Residual haircut only happens during downturns, and haircut level follows the same pattern as reduced re-lease rate. 24-month default delay for FL containers.	Timely interest and ultimate principal paid.
DFL stress case--class B	56.54% applied default rate. Utilization cut to between 66% and 82% during phase II of the recession period; the base-case lease rates reduced by 35% during phase II of the recession; and operating expenses increased by up to 12.7% during two sector downturns. 42% loss of containers under DFLs and 16% loss of containers under operating leases. No operating expenses on DFLs. 90% ST utilization rate. 20% final depreciated value for dry boxes; 10% for others. 80% LT leases roll to LT leases. Residual haircut only happens during downturns, and haircut level follows the same pattern as reduced re-lease rate. 18-month default delay for FL containers.	Timely interest and ultimate principal paid.

DFL--Direct finance lease. ST—Short-term. LT--Long-term. FL--Finance lease.

Break-even analysis

We performed break-even tests, in addition to the stressed scenarios, to provide information about the transaction's cash flow to the key stress factors discussed above.

Table 8

Series 2023-1 break-even results

Description	Stress modeled	Maximum haircut/cost increase where noteholders are paid in full
Revenue reduction break-even analysis	Gross revenue collection haircut at the rating scenario.	Class A cannot withstand any haircut to gross revenue while class B can withstand 4% haircut.

If we lower our re-lease rate or utilization assumptions in the future, this will decrease our projected revenue generated by the portfolio and make our rating stress scenarios more severe. Transactions with lower break-even percentages will generally be more vulnerable to a downgrade.

Asset sale sensitivity analysis

We performed an additional stress scenario assuming a discretionary sale of containers over two years, in amounts permitted by the transaction documents. We calculated a 4.78% reduction in AAV (in addition to the estimated 24-month depreciation based on the issuer's depreciation policy), total original equipment cost, and number of units, and we rolled forward 24 months of scheduled note balance, lease expiration, and repline age. The test indicated timely interest and ultimate principal paid at both the 'A-' and 'BBB' rating stress levels.

Payment Priority

On any payment date the trustee will distribute the available distribution amounts according to the payment priority.

The collections for each series' account are payable according to the series collection allocation percentage. This percentage takes into account each series' initial or current principal balance, the restricted cash amount, and the required O/C amount.

On any payment date before an early amortization event and an event of default, the trustee will distribute the amounts according to the payment priority in table 9.

Table 9

Payment waterfall

Priority	Payment
1	To the indenture trustee (capped at $40,000 annually for this series).
2	To the manager, unpaid management fees.
3	Reimburse manager advances.
4	Transition manager fees, capped at $48,000 annually per series, and transition costs.
5	Issuer expenses capped at $100,000 annually.
6	Class A note interest payments.

Table 9

Payment waterfall (cont.)

Priority	Payment
7	Class B note interest payments.
8	Fund the restricted cash account in a sufficient amount so that the total amount on deposit equals the interest due on the notes for the next nine months.
9	Class A minimum principal amount.
10	Class A scheduled principal amounts.
11	Class A supplemental principal payment.
12	Class B minimum principal amount.
13	Class B scheduled principal amounts.
14	Class B supplemental principal payment.
15	If a series 2023-1 cash sweep event shall then exist, principal pro rata to class A and B.
16	To other series per shared available funds.
17	Defaulted interest and indemnified amounts to class A and then class B.
18	Any amounts due to the transition manager and backup manager, pro rata.
19	Additional indenture trustee fees and indemnified amounts.
20	Manager indemnities and other payments.
21	Remaining proceeds distributed to the issuer.

Payment priority after an early amortization event

If an early amortization event occurs, the trustee will distribute the available amounts according to the payment priority in table 10.

Table 10

Payment waterfall after amortization event

Priority	Payment
1	To the indenture trustee (capped at $40,000 annually for this series).
2	To the manager, unpaid management fees.
3	Reimburse manager advances.
4	Transition manager fee, capped at $48,000 annually per series, and transition costs.
5	Issuer expenses not to exceed $100,000 annually.
6	Class A note interest payments.
7	Class B Note interest payments.
8	Fund the restricted cash account in a sufficient amount so that the total amount on deposit is equal to the interest due on the notes for the next nine months.
9	Class A principal until reduced to zero.
10	Class B principal until reduced to zero.
11	Class A default interest, indemnities, costs, expenses, and other amounts due.
12	Class B default interest, indemnities, costs, expenses, and other amounts due.

Table 10

Payment waterfall after amortization event (cont.)

Priority	Payment
13	Any amounts due to the transition manager and backup manager, pro rata.
14	Indenture trustee fee.
15	Manager indemnities and other payments.
16	To other series per shared available funds.
17	Remaining proceeds distributed to the issuer.

Payment priority after an event of default

If an event of default occurs and the notes are being accelerated, collections will be distributed according to the payment priority outlined in table 11.

Table 11

Payment waterfall after event of default

Priority	Payment
1	To the indenture trustee.
2	To the manager, any unpaid management fee.
3	Reimburse manager advances.
4	Transition manager fees (uncapped).
5	Issuer expenses capped at $100,000 annually.
6	Class A note interest payments.
7	Class B note interest payments.
8	Class A principal until reduced to zero.
9	Class B principal until reduced to zero.
10	Class A default interest, indemnities, costs, expenses, and other amounts due.
11	Class B default interest, indemnities, costs, expenses, and other amounts due.
12	Any amounts due to the transition manager and backup manager, pro rata.
13	Manager indemnities and other payments.
14	To other series in accordance with shared available funds.
15	Remaining proceeds distributed to the issuer.

Trust-level Events Of Default

Under the transaction documents, each of the following constitutes an event of default:

- A default in the performance or a breach of any issuer covenants that materially and adversely affects noteholder interests (subject to an applicable grace period);
- A breach of issuer or certain seller representation and warranties included in the transaction documents that materially and adversely affects noteholder interests (subject to a grace

period);

- The issuer's involuntary or voluntary bankruptcy (subject to an applicable grace period);
- The indenture trustee's failure to have a first-priority perfected security interest in a material portion of the issuer's containers (subject to an applicable grace period);
- Any transaction document ceasing to be the issuer's legal, valid, and binding obligation unless it expires;
- A manager default and termination without an appointed replacement manager within 90 days;
- Any contribution failure to a retirement plan occurs that may give rise to a lien on the issuer's asset;
- A final judgment of $1 million or more, not covered by insurance, occurring against the issuer (subject to an applicable grace period);
- An event of default under any related document has been continuing for 60 or more days;
- The issuer being required to be registered under the Investment Company Act of 1940; and
- CLI failing to have all the equity interest or sole control of the issuer.

Additionally, series 2023-1 events of default include:

- A default on interest payments due on the notes on each payment date (subject to an applicable grace period) or a default on payments of the notes' then-unpaid principal balance on the final maturity date;
- A default in the payment of any indenture trustee fees when due and payable and unpaid for five business days;
- A default in the performance or a breach of any issuer covenants that materially and adversely affects noteholder interests (subject to an applicable grace period);
- A breach of issuer or certain seller representation and warranties included in the transaction documents that materially and adversely affects noteholder interests (subject to a grace period); and
- The indenture trustee's failure to have a first-priority perfected security interest in a material portion of the issuer's containers (subject to an applicable grace period).

According to the transaction's documents, when an event of default occurs and is continuing, distributions will be made across all series of notes in the order described in the payment waterfalls above. If the default results from the issuer's bankruptcy, whether voluntary or involuntary, the notes will be declared due and payable. If the default does not result from the issuer's bankruptcy, control parties on behalf of more than 50.00% of the outstanding notes or existing commitments from all series, both senior and subordinated, may declare the notes to be immediately due and payable, institute judicial proceedings for collection, and sell the containers.

Trust Early Amortization Events

Under the transaction documents, a trust early amortization event will occur if any of the following events or conditions occurs:

- A trust event of default has occurred and is continuing.
- A manager default has occurred and is continuing.

If there is a trust early amortization event on any payment date, then the early amortization event will continue until the business day when the requisite global majority waives the early amortization event in writing.

Series-specific early amortization events for series 2023-1

As of any date of determination, the existence of any one of the following events or conditions shall constitute an early amortization event for the series 2023-1 notes:

- The occurrence and continuation of a series-specific event of default;
- Beginning with the seventh payment date, the interest coverage ratio (the ratio of total collections after subtracting senior fees during the most recent six collection periods, and the sum of interest and net payment under interest rate hedges during the most recent six collection periods) is less than 2.0x for series 2023-1 for four consecutive record dates; or
- On any determination date, the aggregate amount of the outstanding notes exceeds the asset base, and that amount remains unremedied for 30 days.

If there is a series-specific early amortization event caused by the event described in the first series-specific bullet above, then the early amortization event will continue until the business day when the requisite global majority waives the early amortization event in writing. If the early amortization event was caused by the failure described in the second series-specific bullet above, the event will continue until the failure is cured. If the early amortization event was caused by the failure described in the third series-specific bullet above, the event will continue until cured by the issuer. However, if such event is continuing on the 24th payment date following its occurrence, the event will continue until the earlier of the business day when the requisite global majority waives the early amortization event in writing or the business day on which the notes are paid in full.

Series 2023-1 Cash Sweep Events

Each of the following events constitutes a series 2023-1 cash sweep event for the series 2023-1 notes:

- The weighted average age as of any determination date exceeds 10 years; and
- The principal balance of the series 2023-1 notes is not paid in full on or before the Dec. 18, 2030, payment date.

If the series 2023-1 cash sweep event was caused by the failure described in the first bullet point above, the event will continue until the failure does not exist for two consecutive subsequent payment dates.

Legal Matters

In rating this transaction, we will review the legal matters that we believe are relevant to our analysis, as outlined in our criteria.

Surveillance

We use surveillance data to perform periodic reviews on all rated container securitizations to identify potential and emerging trends. Our ratings reflect our opinion of the transaction's ongoing risk profile. Our surveillance group undertakes a number of steps to determine whether the ratings assigned to a transaction continue to reflect our view of that transaction's performance. These steps include, among others:

- Analyzing the servicer reports that detail the underlying collateral's performance;
- Making periodic telephone calls and holding meetings with the issuer's and servicer's key management personnel to identify any emerging trends or changes in servicing standards;
- Monitoring the supporting ratings on a transaction; and
- Remaining informed of related industry developments and events that may affect a rated transaction's overall performance.

Despite the extensive and immediate disruption in certain sectors, the impact of the COVID-19 pandemic has been far less severe on the container leasing markets. For more information, see "Container And Railcar Leasing ABS Risks In Light Of COVID-19" published April 15, 2020. We will continue to review whether, in our view, the ratings assigned to the notes remain consistent with the credit enhancement available to support them, and we will take further rating actions as we deem necessary.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities , Dec. 22, 2020
- Criteria | Structured Finance | Legal: U.S. Structured Finance Asset Isolation And Special-Purpose Entity Criteria , May 15, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions , March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions , Jan. 30, 2019
- Criteria | Structured Finance | ABS: Global Container Lease-Backed ABS Methodology And Assumptions , June 5, 2015
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions , Oct. 9, 2014
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts , May 31, 2012
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

Related Research

- ESG Credit Indicator Report Card: Shipping, Road, And Rail, Dec. 10, 2021
- Container And Railcar Leasing ABS Risks In Light Of COVID-19, April 15, 2020
- Guidance: Global Container Lease-Backed ABS Methodology And Assumptions, Feb. 21, 2018
- Credit Rating Model: Container Assumptions Analyzer, Feb. 26, 2016
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016