

Presale:

Aqueduct European CLO 8 DAC

May 29, 2024

Preliminary ratings

Class	Prelim. rating*	Balance (mil. €)	Credit enhancement (%)	Interest rate§
A	AAA (sf)	155.00	38.00	Three/six-month EURIBOR plus 1.46%
A Loan	AAA (sf)	93.00	38.00	Three/six-month EURIBOR plus 1.46%
B	AA (sf)	44.00	27.00	Three/six-month EURIBOR plus 2.05%
C	A (sf)	24.00	21.00	Three/six-month EURIBOR plus 2.55%
D	BBB- (sf)	28.00	14.00	Three/six-month EURIBOR plus 3.70%
E	BB- (sf)	17.00	9.75	Three/six-month EURIBOR plus 6.59%
F	B- (sf)	13.00	6.50	Three/six-month EURIBOR plus 8.22%
M-1	NR	15.75	N/A	N/A
M-2	NR	16.00	N/A	N/A
M-3	NR	0.10	N/A	N/A

Note: This presale report is based on information as of May 29, 2024. The ratings shown are preliminary. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Accordingly, the preliminary ratings should not be construed as evidence of final ratings. This report does not constitute a recommendation to buy, hold, or sell securities. *The preliminary ratings assigned to the class A Loan, and class A and B notes address timely interest and ultimate principal payments. The preliminary ratings assigned to the class C, D, E, and F notes address ultimate interest and principal payments. §The payment frequency switches to semiannual and the index switches to six-month EURIBOR when a frequency switch event occurs. EURIBOR--Euro Interbank Offered Rate. NR--Not rated. N/A--Not applicable.

Transaction Summary

Aqueduct European CLO 8 DAC is a European cash flow CLO transaction, securitizing a portfolio of primarily senior secured leveraged loans and bonds. HPS Investment Partners CLO (UK) LLP will manage the transaction.

Key Credit Metrics

Selected credit metrics

Total leverage (x)*	11.74
Weighted-average cost of debt (%)§	2.24

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Selected credit metrics (cont.)

Modeled WAS (%)	4.06
Modeled WAC (%)	4.00
Excess spread (%)†	1.97
SDR ('AAA') (%)	63.59
Modelled weighted-average portfolio recovery ('AAA') (%)	37.68

*Total debt/equity. §Spread over EURIBOR for all classes, excluding the subordinated notes. †WAS (calculated on the assumptions of 95.75% of the portfolio as floating-rate assets with 4.21% spread and 4.25% of the portfolio as fixed-rate assets with a coupon of 4.28%) minus the weighted-average cost of debt. WAS--Weighted-average spread. WAC--Weighted-average coupon. SDR--Scenario default rate. EURIBOR--Euro Interbank Offered Rate. N/A--Not available.

Portfolio credit benchmarks

SPWARF*	2,891.87
'AAA' default rate dispersion	472.66
Obligor diversity measure§	105.49
Industry diversity measure†	17.75
Regional diversity measure‡	1.45
Weighted-average life(years)	4.59
Weighted-average life(years) extended to cover the length of the reinvestment period	4.59

*The SPWARF is calculated by multiplying the par balance of each collateral obligation (with a rating from S&P Global Ratings of 'CCC-' or higher) by S&P Global Ratings' rating factor, then summing the total for the portfolio, and then dividing this result by the aggregate principal balance of all of the collateral obligations included in the calculation. The S&P Global Ratings' rating factor of an individual asset is the five-year default rate given its S&P Global Ratings' credit rating and the default table in the corporate CDO criteria, multiplied by 10,000. §The effective number of obligors in the underlying collateral, obtained by squaring the exposure for each obligor and taking the reciprocal of the sum of these squares [i.e., 1/sum()^2]. †The effective number of industries in the underlying collateral obtained the same way as the obligor diversity measure. ‡The effective number of regions in the underlying collateral obtained the same way as obligor diversity measure. SPWARF--S&P Global Ratings weighted-average rating factor.

Transaction Timeline

Transaction timeline

Expected closing date	June 12, 2024
Non-call period end date	Dec. 12, 2025
Reinvestment period end date	Jan. 15, 2029
Stated maturity date	July 15, 2037
Note payment frequency	Quarterly, beginning Jan. 15, 2025. Semiannually after a frequency switch event.

Participants

Collateral manager	HPS Investment Partners CLO (UK) LLP
Arranger	BNP Paribas
Trustee	U.S. Bank Trustees Ltd.

Rationale

The preliminary ratings assigned to Aqueduct European CLO 8's notes reflect our assessment of:

- The diversified collateral pool, which primarily comprises syndicated speculative-grade senior secured term loans and bonds that are governed by collateral quality tests.
- The credit enhancement provided through the subordination of cash flows, excess spread, and overcollateralization.
- The collateral manager's experienced team, which can affect the performance of the rated notes through collateral selection, ongoing portfolio management, and trading.
- The transaction's legal structure, which we expect to be bankruptcy remote.
- The transaction's counterparty risks, which we expect to be in line with our counterparty rating framework.

Environmental, Social, And Governance

We regard the exposure to environmental, social, and governance (ESG) credit factors in the transaction as being broadly in line with our benchmark for the sector (see "ESG Industry Report Card: Collateralized Loan Obligations," March 31, 2021). Primarily due to the diversity of the assets within CLOs, the exposure to environmental credit factors is viewed as below average, social credit factors are below average, and governance credit factors are average. The transaction documents prohibit assets from being related to the following industries: biological and chemical weapons, anti-personnel land mines, or cluster munitions; depleted uranium, nuclear weapons, radiological weapons, and white phosphorus; endangered or protected wildlife; pornography or prostitution; marijuana, illegal drugs, or narcotics. Besides, the transaction documents prohibit assets issued by high carbon intensity obligors or obligors that generate significant revenue from sale or extraction of thermal coal, oil sands or fossil fuels from unconventional sources. Accordingly, since the exclusion of assets from these industries does not result in material differences between the transaction and our ESG benchmark for the sector, we have not made any specific adjustments in our rating analysis to account for any ESG-related risks or opportunities.

Rating Considerations

In our analysis, we considered the factors in table 1, among others.

Table 1

Rating considerations

Risk	Risk description	Mitigating factors
Reduction in cash flow	Defaults, adverse interest rate movements, and low recoveries can reduce the cash flow generated by the underlying portfolio and affect the issuer's ability to meet its obligations in a timely manner.	Our quantitative analysis simulates various default patterns and interest rate movements, under various stress scenarios considering portfolio characteristics, payment mechanics, covenants, collateral quality tests, and excess spread.

Table 1

Rating considerations (cont.)

Risk	Risk description	Mitigating factors
Excess concentration in certain types of collateral obligations	The collateral manager's ability to invest in certain types of collateral is outlined by the indenture. Larger concentrations in certain obligations can introduce additional risks to the rated notes.	Our cash flow analysis takes into consideration the underlying portfolio's maximum allowable amount of certain types of collateral obligations to stress test the transaction for concentration risk. Examples include: 12.5% fixed rate assets. For more details, please see table 8.
Collateral manager trading performance	During the reinvestment period, the collateral manager can change the underlying portfolio's composition, thus exposing the transaction to potential deterioration in credit enhancement.	The transaction documents require that any collateral obligation sold is replaced with another of equal or higher par value (or, with respect to proceeds from credit impaired and defaulted obligations, that the obligation purchased with those sale proceeds will at least equal to the related sale proceeds). However, the principal collateral amount is not required to be maintained if the collateral manager has built sufficient excess par in the transaction so that the aggregate collateral balance is greater than or equal to the reinvestment target par balance of the portfolio after reinvestment. In addition, the indenture generally requires that each additional purchase satisfy, maintain, or improve concentration limits, coverage tests, and certain collateral quality tests.
Divergence of effective date portfolio from preliminary assumptions	Most underlying portfolios are not fully purchased by closing. Therefore, there is a risk that the fully ramped-up portfolio at the transaction's effective date will be materially different than the one presented to us for its preliminary analysis. We understand that, as of May 22, 2024, the portfolio is approximately 80% ramped.	We offer collateral managers both a model and formula-based version of its CDO Monitor at closing. This tool is intended to assist the collateral manager in maintaining a similar credit risk and cash flow profile to what was initially presented for our preliminary analysis.
Exposure to covenant-lite loans	The collateral manager can purchase covenant-lite loans (those that do not contain incurrence or maintenance covenants for the benefit of the lending party) for up to a certain percentage of the underlying portfolio (see table 8). Exposure to these types of loans may reduce the transaction's recovery prospects.	For covenant-lite loans that do not have an asset-specific recovery rating, we apply reduced recovery rates in our cash flow analysis (41% under an 'AAA' level of stress versus 50% for a senior secured first-lien loan that is not covenant-lite (in a group "A" country).
Long-dated collateral obligation can introduce market value risk	A portfolio containing long-dated collateral obligations exposes a transaction to market value risk. To repay the noteholders at the transaction's maturity, the collateral manager will be forced to sell such obligations at the prevailing market price, which may be below par.	According to the transaction documents, the collateral manager cannot purchase or acquire any long-dated collateral obligations (other than uptier priming debt, debt issued by an asset priming obligor or restructured obligations). At all times, no more than 3.5% of the portfolio shall consist of long-dated obligations.

Table 1

Rating considerations (cont.)

Risk	Risk description	Mitigating factors
Loss mitigation/workout obligations	Under the transaction documents, the issuer may purchase obligations of an existing borrower offered in connection with a workout, restructuring, or bankruptcy (workout or loss mitigation obligations), to maximize the overall recovery prospects on the borrower's obligations held by the issuer. The purchase of loss mitigation obligations is not subject to the reinvestment criteria or eligibility criteria and can be funded using interest proceeds, principal proceeds or amounts in the supplemental reserve account.	The use of interest to purchase loss mitigation obligations is subject to the manager determining that there are sufficient interest proceeds to pay interest on all the rated debt on the next payment date. The use of principal proceeds is subject to the manager having built sufficient excess par in the transaction so that the principal collateral amount is equal to or exceeds the portfolio's reinvestment target par balance after the reinvestment. All proceeds from principal-funded loss mitigation obligations are credited to the principal account.

Collateral Manager

HPS Investment Partners CLO (UK) LLP is incorporated in the UK.

We reviewed HPS Investment Partners CLO (UK) under our operational risk criteria (see "Global Framework For Assessing Operational Risk In Structured Finance Transactions," published on Oct. 9, 2014). In our view, it can manage this CLO, based on the extensive experience of its portfolio managers.

Quantitative Analysis

In analyzing this transaction, we conducted a quantitative review consisting of two analyses: a portfolio analysis and a cash flow analysis.

Portfolio analysis

For the portfolio analysis, we ran the portfolio presented to us through the CDO Evaluator model, which defaults portions of the underlying collateral based on the default probability and correlation assumptions defined in our criteria. This resulted in a set of scenario default rates (SDRs), which represent expected default levels for the portfolio under the different stress scenarios associated with each rating level.

Cash flow analysis

For the cash flow analysis, we input the transaction-specific structural features presented to us into Standard & Poor's Cash Flow Evaluator model to generate a base-case set of cash flows. We then subjected these cash flows to various default timing and interest rate stress scenarios to arrive at a break-even default rate (BDR) for each rated class of notes.

For each class, the BDR represents the maximum amount of defaults that it can withstand while still being able to pay timely interest and ultimate principal to its noteholders. Classes with higher subordination typically have higher BDRs.

The transaction allows the manager to buy a maximum of 12.50% fixed paying assets, and we considered in our cash flow analysis the BDRs where this fixed bucket is filled. Our base case is 100.0% floating assets. In our analysis, we modeled the covenanted weighted-average spread and covenanted coupon.

Connecting the portfolio and cash flow analyses

For a tranche to achieve a particular rating, it must be able to withstand the level of defaults projected by the CDO Evaluator and still pay timely interest and principal.

The results shown in table 2 indicate that the rated notes have sufficient credit enhancement to withstand our projected default levels. This scenario represents the scenario with the lowest BDR cushion at the 'AAA' level, in which we have modeled 100.0% of floating-rate assets.

Table 2

Credit enhancement

Class	BDR (%)	SDR (%)	BDR cushion (%)
A	68.13	63.59	4.54
A Loan	68.13	63.59	4.54
B	64.12	55.65	8.47
C	58.00	49.69	8.31
D	47.62	40.25	7.37
E	38.34	32.97	5.37
F	29.08	26.87	2.21

BDR--Break-even default rate. SDR--Scenario default rate.

Supplemental tests

We also conduct a largest industry default test, a largest obligor default test, a largest sovereign default test, and a largest transfer and convertibility default test according to our "Global Methodology And Assumptions For CLOs And Corporate CDOs," published on June 21, 2019, and "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published on Jan. 30, 2019. Under these assumptions, the notes can withstand the loss amounts indicated in table 3 at the assigned preliminary ratings.

Table 3

Supplemental tests

Class	Preliminary rating	Largest industry default test loss amount (mil. €)	Largest obligor default test loss amount (mil. €)	Largest sovereign test amount (mil. €)	Largest sovereign T&C test amount (mil. €)
A	AAA (sf)	44.62	53.49	23.25	0.00
A Loan	AAA (sf)	44.62	53.49	23.25	0.00
B	AA (sf)	44.62	43.99	13.5	0.00
C	A (sf)	0.00	33.80	0.00	0.00
D	BBB- (sf)	0.00	22.80	0.00	0.00

Table 3

Supplemental tests (cont.)

Class	Preliminary rating	Largest industry default test loss amount (mil. €)	Largest obligor default test loss amount (mil. €)	Largest sovereign test amount (mil. €)	Largest sovereign T&C test amount (mil. €)
E	BB- (sf)	0.00	17.10	0.00	0.00
F	B- (sf)	0.00	11.40	0.00	0.00

T&C--Transfer and convertibility.

Collateral Quality Tests and Credit Metrics

In addition to the quantitative framework, we produce and review other metrics to assess specific risks inherent in a transaction. Results for the collateral quality tests based on the portfolio provided to us are shown in table 4.

Table 4

Collateral quality metrics--performing collateral

Test	Weighted- average	Covenant	Margin
Modeled weighted-average life (years)*	4.50	8.50	4.00
Weighted-average spread including floors (%)	4.22	4.06	0.16
Weighted-average spread excluding floors (%)	4.21	4.06	0.15
Weighted-average fixed coupon (%)	4.28	4.00	0.28

*The modeled weighted-average life is the one used in our cash flow analysis and is quarterly.

Portfolio Characteristics

Metrics based on the portfolio presented to us and the level of ramp-up completion are shown in table 5.

Table 5

Target collateral obligations

Target par balance (mil. €)	400.00
Par balance of identified collateral (mil. €)	400.00
Par balance of collateral not yet identified (mil. €)	0.00
Obligors	
Number of unique obligors	122
Number of identified obligors	122
Average obligor holding (%)	0.82
Largest-obligor holding (%)	1.50
Smallest-obligor holding (%)	0.25

In the portfolio data referenced for this analysis, the issuer had identified all of the portfolio's collateral.

Obligor concentration

The underlying portfolio presented to us for our rating analysis comprises 122 distinct obligors. Table 6 below shows the respective industries of the 10 top obligors.

Table 6

Top obligor holdings

Obligor reference	Industry	S&P Global Ratings' credit rating	Notional amount (mil. €)		Notional amount (%)	
			Obligor	Cumulative	Obligor	Cumulative
1	Real estate management and development	B-	6.00	6.00	1.50	1.50
2	Real estate management and development	B	6.00	12.00	1.50	3.00
3	Diversified consumer services	NR	6.00	18.00	1.50	4.50
4	Health care providers and services	B	6.00	24.00	1.50	6.00
5	Software	B	5.84	29.84	1.46	7.46
6	Health care providers and services	B-	5.74	35.57	1.43	8.89
7	Health care providers and services	B	5.38	40.95	1.34	10.24
8	It services	NR	5.36	46.31	1.34	11.58
9	Chemicals	B-	5.00	51.31	1.25	12.83
10	Health care providers and services	NR	5.00	56.31	1.25	14.08

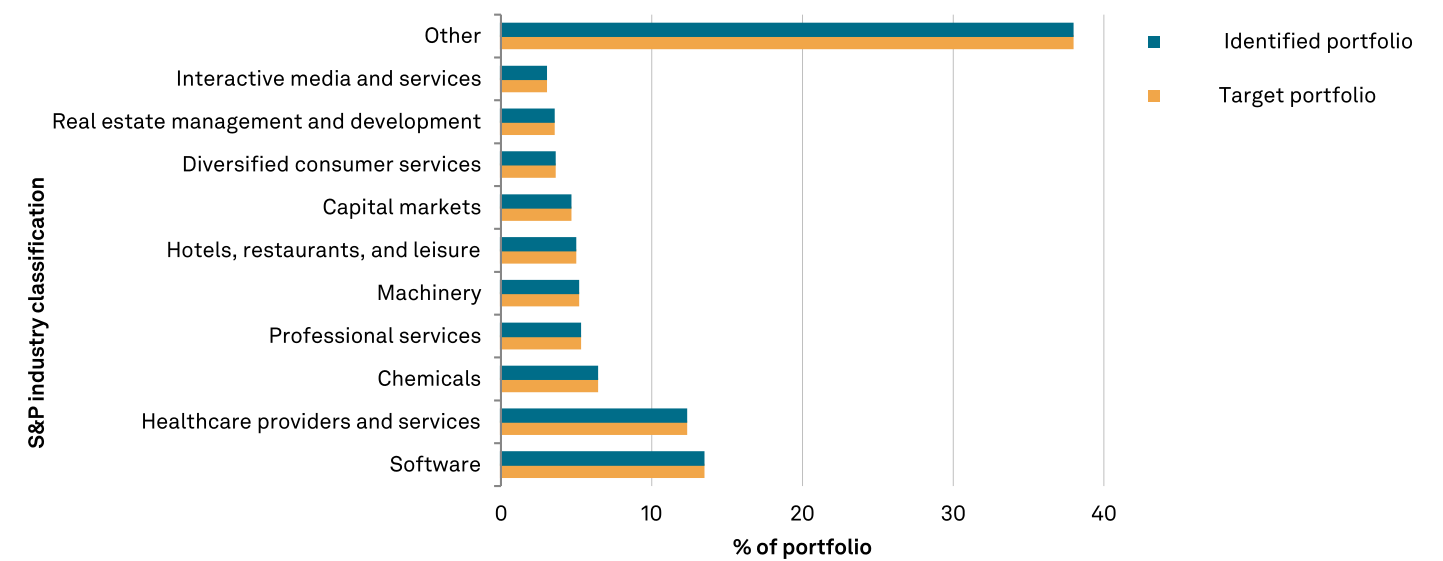
NR--Not rated.

Industry distribution

Chart 1 shows the top 10 industry distribution in the portfolio. The portfolio comprises 40 distinct industries in accordance with the Capital IQ industry – level 3 classification.

Chart 1

Top industry distribution



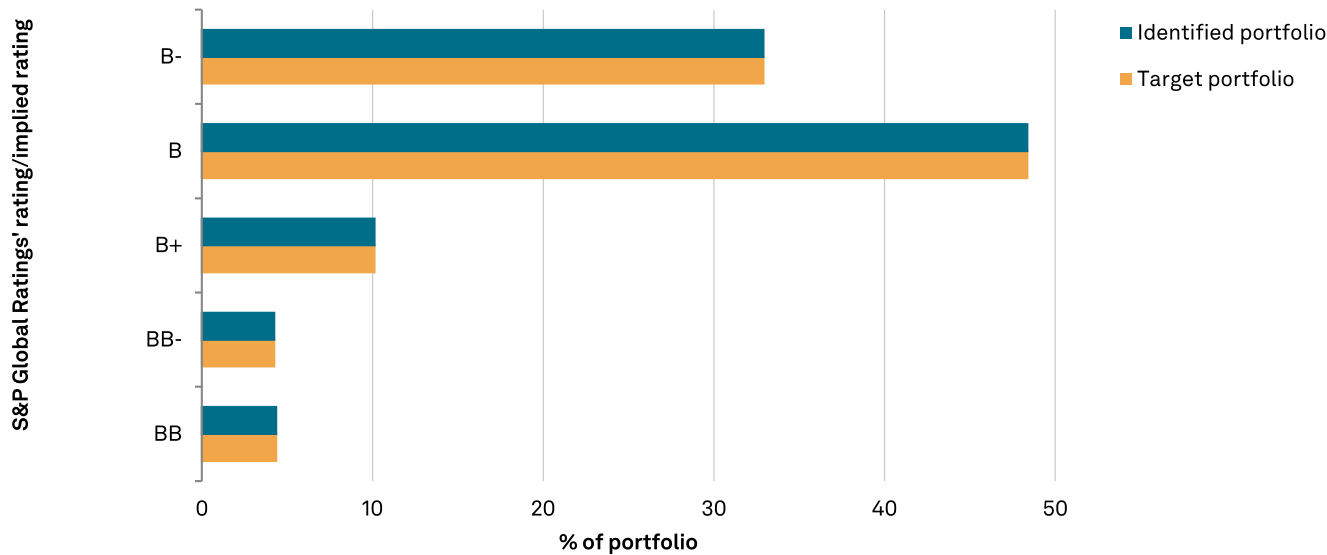
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Ratings distribution

Chart 2 shows the ratings distribution in the portfolio. Of the identified underlying collateral obligations, 99% have credit ratings assigned by us.

Chart 2

Rating distribution



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Recovery rating distribution

Table 7 presents the recovery rates modeled to calculate BDRs and actual recovery rates of the targeted portfolio. Chart 3 below presents our recovery rates distribution of the identified portfolio. Of the identified underlying collateral obligations, 98% have recovery ratings issued by us.

Table 7

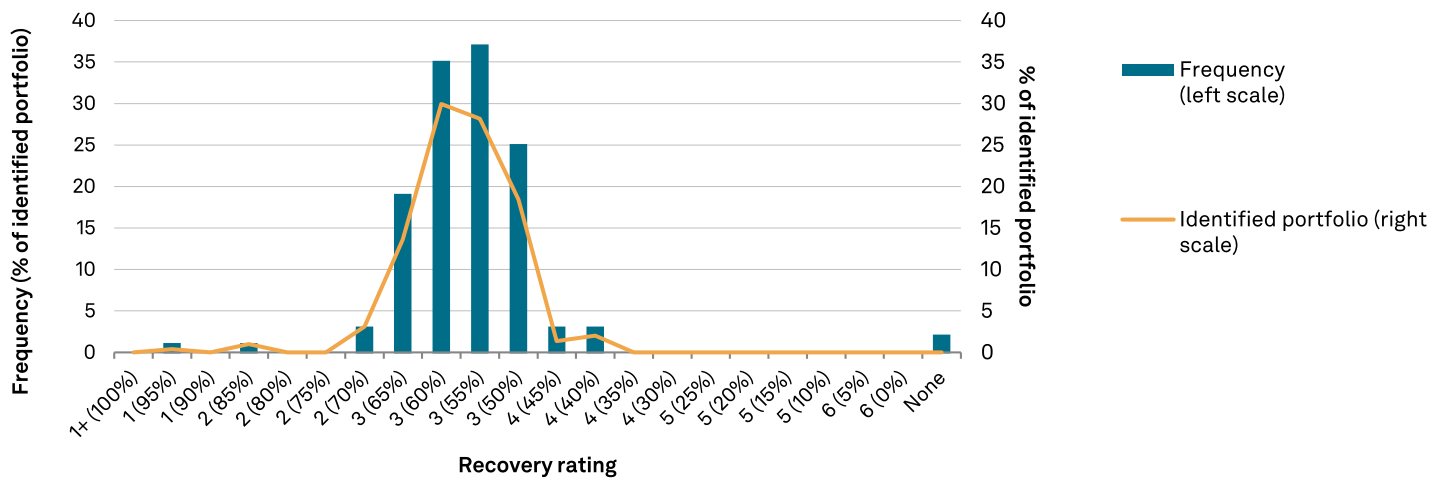
Collateral WARR

Liability rating	Modeled WARR (%)	Target pool WARR (%)	Actual WARR on identified portfolio (%)
AAA (sf)	37.7	37.7	37.7
AA (sf)	47.5	47.5	47.5
A (sf)	53.5	53.5	53.5
BBB- (sf)	60.3	60.3	60.3
BB- (sf)	65.2	65.2	65.2
B- (sf)	66.4	66.4	66.4

WARR--Weighted-average recovery rate. During the ramp-up period (generally six months from closing), the manager will buy assets to reach the modeled WARR considered in our analysis.

Chart 3

Recovery rating distribution



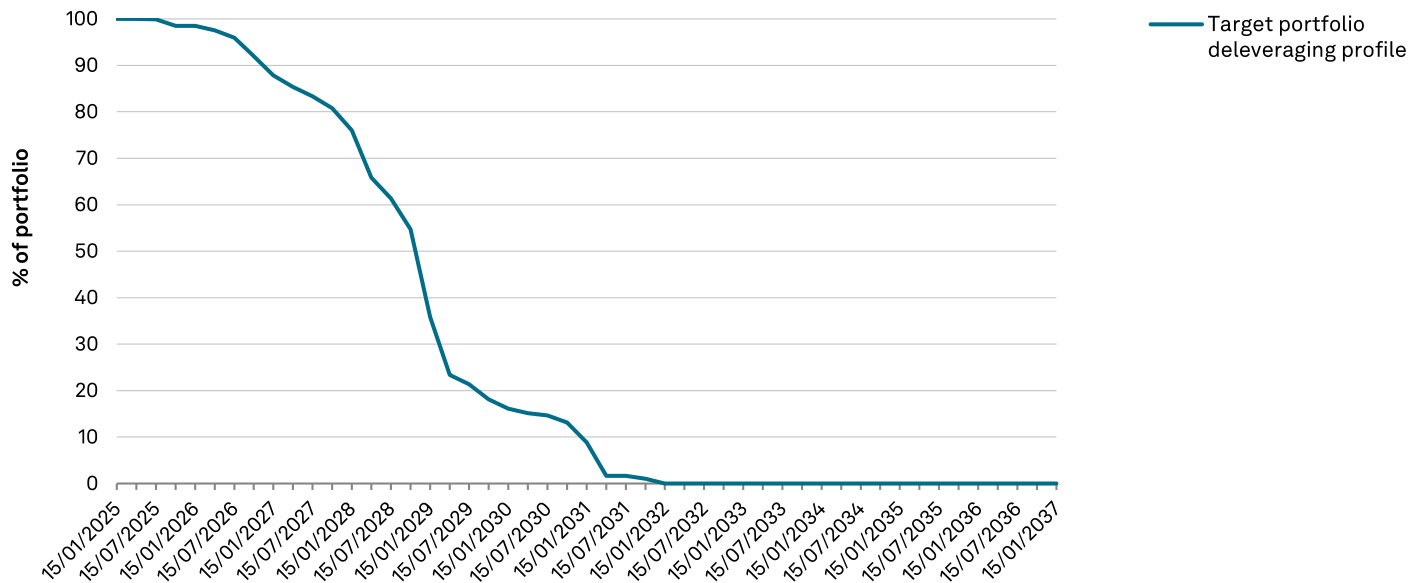
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Deleveraging profile

Chart 4 shows the portfolio's deleveraging profile.

Chart 4

Deleveraging profile
Based on the legal final maturity date



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Portfolio Investment Guidelines

The underlying portfolio will primarily comprise euro-denominated senior secured loans and bonds to broadly syndicated corporate borrowers. The collateral portfolio's effective date and reinvestment guidelines are expected to comply with the limitations shown in table 8.

Table 8

Portfolio profile test

Type of obligation	Limit (%)
Minimum senior secured loans and senior secured bonds	90.00
Minimum senior secured loans	70.00
Maximum unsecured senior loans, second lien loans, mezzanine obligations, and high yield bonds in aggregate '	10.00% (5.00% for second lien loans and mezzanine obligations)
Single obligor of collateral that is senior secured, provided up to three obligors may each represent up to 3.00%	2.50
Single obligor of collateral that is not a secured senior obligation	1.00
Maximum credit estimate obligations	10.00
Maximum private rating	15.00

Table 8

Portfolio profile test (cont.)

Type of obligation	Limit (%)
Maximum discount obligations	25.00
Maximum non-euro-denominated obligations	20.00
Maximum covenant-lite loans*	25.00
Participations	5.00
Maximum current pay obligations	5.00% (with an additional 2.50% for current pay obligations that are uptier priming debt)
Maximum unfunded amounts under revolving obligations/delayed-drawdown obligations	5.00
S&P Global Ratings' credit rating of 'CCC+', 'CCC', and 'CCC-'	7.50
Maximum corporate rescue loans, and any defaulted uptier priming debt, provided that not more than 2.0% may comprise corporate rescue loans from a single obligor	5.00
Annual obligations	3.00
Fixed-rate obligations	12.50
Obligations of 10 largest obligors	25.00
Obligors domiciled in the same country or jurisdiction rated below 'AA-' by S&P Global Ratings	20.00
Obligors domiciled in the same countries or jurisdiction rated below 'A-' by S&P Global Ratings	15.00
Obligors domiciled in the same countries or jurisdiction rated below 'BBB-' by S&P Global Ratings	10.00
Obligors domiciled in the same countries or jurisdiction rated below 'BB-' by S&P Global Ratings	5.00
Any single S&P industry classification group may not represent more than 17.50% provided that the second largest S&P industry may represent up to 15.00%, any further S&P Industry Classification Groups may comprise up to 12.0% and any three industries may comprise up to 40.0%	17.50
Maximum loans to portfolio companies	7.50
Maximum PIK obligations	4.00
Indebtedness of obligor between €200 million and €250 million	5.00

*Covenant-lite loans are assigned lower recovery ratings than similar obligations that require continued compliance with covenants.
PIK--Payment in kind.

Risk of concentration in certain obligation types

We consider larger concentrations in the types of obligations shown in table 9 to pose additional risk to the transaction. If the transaction can purchase these collateral obligations, our quantitative analysis would consider the risk associated with these types of obligations (see table 8 for transaction-specific limitations).

Table 9

Risks of obligation types

Obligation type	Risk specific to the obligation
Fixed-rate obligations	Because interest payments for all of the rated notes are tied to EURIBOR, obligations in the underlying portfolio that pay a fixed rate create exposure to interest rate movements. Should market rates change significantly over the transaction's life, this may reduce excess spread. To account for this risk, we consider the mix of fixed- and floating-rate assets at the minimum and maximum levels. The results are captured in the BDRs generated by the cash flow evaluator.
Long-dated obligations	Collateral obligations scheduled to mature after the transaction's stated maturity date introduce market value risk, as the collateral manager must sell the obligations at the prevailing market price to pay the rated noteholders. To account for this risk, our cash flow analysis haircuts the par amount of these obligations to zero, which will lower the BDRs produced by the cash flow evaluator. This stress would also be considered for long-dated assets that the transaction can hold after any maturity amendments.
Obligations that pay interest less frequently than quarterly	Because transactions typically require quarterly interest payments to be made to the noteholders, a portfolio consisting of collateral obligations that pay interest less frequently creates a discrepancy in the timing of cash inflows and outflows. If this mismatch is significant, it may result in a shortfall in cash available to pay the rated noteholders. To mitigate the effects of these timing mismatches, the transaction incorporates an interest smoothing account and a frequency switch mechanism, which if triggered, will switch the payment frequency on the rated notes to semiannual.
S&P Global Ratings' credit rating of 'CCC+' or below	Transaction documents typically limit the amount of obligations rated 'CCC+' or below that the collateral manager can purchase. A higher concentration of obligations rated 'CCC+' or lower will increase the SDRs produced by the CDO evaluator.

BDR--Break-even default rate. SDR--Scenario default rate. EURIBOR--Euro Interbank Offered Rate.

Under the transaction documents, certain conditions must be satisfied before collateral is bought for or sold from the portfolio (see tables 10 and 11).

Table 10

Summary of trading conditions during reinvestment period

Conditions to reinvest proceeds from each type of assets sold/received	Coverage tests	New asset minimum par amount	S&P CDO Monitor test	Concentration limitations	Collateral quality test
Discretionary	Satisfy otherwise maintain or improve	Not less than 100% of the principal balance of assets sold*	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve
Credit impaired	Satisfy otherwise maintain or improve	Not less than 100% of the sale proceeds of assets sold*	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve
Credit improved	Satisfy otherwise maintain or improve	Not less than 100% of the principal balance of assets sold*	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve
Defaulted (including recovery on defaulted assets)	Satisfy	Not less than 100% of the sale proceeds of assets sold*	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve
Unscheduled principal (including recoveries)	Satisfy otherwise maintain or improve	Not less than 100% of the principal balance of assets sold*	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve

Table 10

Summary of trading conditions during reinvestment period (cont.)

Conditions to reinvest proceeds from each type of assets sold/received	Coverage tests	New asset minimum par amount	S&P CDO Monitor test	Concentration limitations	Collateral quality test
Scheduled principal	Satisfy otherwise maintain or improve	Not less than 100% of the principal balance of assets sold*	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve

*Alternatively, if the aggregate principal balance of the portfolio and the amount standing to the credit of the principal account exceeds the reinvestment target par balance.

Table 11

Summary of trading conditions after reinvestment period

Conditions to reinvest proceeds from each type of assets sold/received	Coverage tests	New asset minimum par amount	Concentration limitations	Collateral quality test	New asset with an equal or a higher rating	New asset with the same or a shorter maturity
Discretionary	Reinvestment not allowed	Reinvestment not allowed	Reinvestment not allowed	Reinvestment not allowed	Reinvestment not allowed	Reinvestment not allowed
Credit impaired	Passing immediately before and after	Not less than 100% of the sale proceeds of assets sold	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve	Yes or S&P CDO SDR is not greater following reinvestment	Yes (subject to the ability to use a trading plan)
Credit improved	Passing immediately before and after	Not less than 100% of the principal balance of assets sold	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve	Yes	Yes (subject to the ability to use a trading plan)
Defaulted (including recovery on defaulted assets)	Reinvestment not allowed	Reinvestment not allowed	Reinvestment not allowed	Reinvestment not allowed	Yes or S&P CDO SDR is not greater following reinvestment	Reinvestment not allowed
Scheduled principal	Reinvestment not allowed	Reinvestment not allowed	Reinvestment not allowed	Reinvestment not allowed	Yes or S&P CDO SDR is not greater following reinvestment	Reinvestment not allowed
Unscheduled principal	Passing immediately before and after	Not less than 100% of the principal balance of assets generating proceeds	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve	Yes	Yes (subject to the ability to use a trading plan)

SDR--Scenario default rate.

Note Payment Considerations

Overcollateralization, interest coverage, and interest diversion tests

The rated notes benefit from certain structural features that require sequential mandatory redemption upon a breach of any overcollateralization or interest coverage test. Additionally, during the reinvestment period, the rated notes benefit from the reinvestment of up to a certain amount of the excess interest proceeds, captured upon breach of the transaction's interest diversion test (see table 12).

Table 12

Overcollateralization, interest coverage, and interest diversion tests

Class	Actual O/C (%)	Min. O/C required (%)	Min. I/C required (%)
A/B	136.99	127.90	120.00
C	126.58	119.50	110.00
D	116.28	110.20	105.00
E	110.80	105.80	N/A
F	106.95	102.40	N/A
Interest diversion test	106.95	102.90	N/A

O/C--Overcollateralization. I/C--Interest coverage. N/A--Not applicable.

Payment priorities

Under the transaction documents, the collateral's interest and principal collections are payable according to separate payment priorities. On each payment date during and after the reinvestment period, unless at the stated maturity or an acceleration following an event of default occurs, proceeds will be distributed in the priority outlined in table 13.

Table 13

Waterfall payment priority

Priority	Interest waterfall	Principal waterfall
A	Taxes and issuer profit amount	Payment of A through I of interest waterfall if previously unpaid
B	Accrued and unpaid trustee fees and expenses, up to the senior expense cap*	If class C is controlling class, unpaid interest
C	Due and unpaid administrative expenses, up to the senior expense cap*	If class C is controlling class, cure class C notes' coverage test(s)
D	Transfers to expense reserve account at manager's discretion	If class C is controlling class, unpaid deferred interest
E	(i) Senior collateral management fees due and payable, senior class M-2 interest amount and senior class M-3 interest amount due and payable; and(ii) Previously due and unpaid senior collateral management fees, senior class M-2 interest amount and senior class M-3 interest amount (other than deferred amounts)	If class D is controlling class, unpaid interest

Table 13

Waterfall payment priority (cont.)

Priority	Interest waterfall	Principal waterfall
F	(1) - (i) Scheduled periodic hedge issuer payments; (ii) Currency hedge issuer termination payments; and (iii) Any hedge termination payments; and (2) - Any hedge replacement payments	If class D is controlling class, cure class D notes' coverage test(s)
G	Class A debt interest (which includes the A-Loan and class A notes)	If class D is controlling class, unpaid deferred interest
H	Class B notes' interest	If class E is controlling class, unpaid interest
I	Cure class A/B notes' coverage tests	If class E is controlling class, cure class E notes' coverage test(s)
J	Class C notes' interest, current period	If class E is controlling class, unpaid deferred interest
K	Cure class C notes' coverage tests	If class F is controlling class, unpaid interest
L	Class C notes' deferred interest	If class F is controlling class, cure class F notes' par value test(s)
M	Class D notes' interest, current period	If class F is controlling class, unpaid deferred interest
N	Cure class D notes' coverage tests	Redemption following an effective date rating event
O	Class D notes' deferred interest	Make payments under a special redemption event
P	Class E notes' interest, current period	(i) During reinvestment period, to the purchase of substitute CDOs at the manager's discretion; and (ii) Purchase of substitute collateral debt representing unscheduled proceeds and credit improved/impaired obligations after reinvestment period
Q	Cure class E notes' par value test	Redeem notes after reinvestment period
R	Class E notes' deferred interest	Payment of X through AA of interest waterfall if previously unpaid post-reinvestment period
S	Class F notes' interest, current period	To the supplemental reserve account at manager's discretion during the reinvestment period if not paid in full
T	Cure class F notes' par value test	Subject to the IRR threshold (i) To the incentive collateral management fee, the IRR class M-2 amount and the IRR class M-3 amount; and (ii) To the payment of any VAT in respect of the incentive collateral management fee†
U	Class F notes' deferred interest	Residual payments to the class M-1 subordinated notes and the class M-2 subordinated notes
V	Redemption following an effective date rating event	

Table 13

Waterfall payment priority (cont.)

Priority	Interest waterfall	Principal waterfall
W	Reinvestment overcollateralization test, minimum of cure amount or 50% of remaining proceeds to either redeem notes or purchase additional collateral	
X	(i) Subordinated collateral management fee, subordinated class M-2 interest amounts and subordinated class M-3 interest amounts due and payable on such payment date; (ii) Previously due and unpaid subordinated collateral management fee, subordinated class M-2 interest amounts and subordinated class M-3 interest amounts; (iii) Deferred senior and subordinated collateral management amount, deferred senior class M-2 Amounts and deferred subordinated class M-2 amounts and deferred senior class M-3 Amounts and deferred subordinated class M-3 amounts; and (iv) Collateral manager advances and any interest thereon	
Y	Any remaining trustee fees and expenses not paid under the cap*	
Z	To the payment of any remaining administrative expense not paid under the cap*	
AA	To the payment of any defaulted hedge termination payments due to any hedge counterparty	
BB	To a supplemental reserve account at the manager's discretion during the reinvestment period	
CC	Any reinvestment amounts repaid to noteholder's who have reinvested	
DD	Subject to the IRR threshold: (i) To the incentive collateral management fee, the IRR class M-2 amount and the IRR class M-3 amount; and (ii) To the payment of any VAT in respect of the incentive collateral management fee†	
EE	Residual payments to the class M-1 the class M-2 notes	

*0.025% per year. †totaling 0.15% per year. ‡Outstanding class M-1 subordinated notes receives an annualized IRR of 12%. Note: The note payment sequence is: First, the class A debt at the applicable redemption price until it fully redeems, followed by the class B notes pro rata pari passu in the same manner. Then, the class C notes including unpaid interest and deferred interest at the applicable redemption price until they fully redeem, followed by the class D to F notes in the same manner. IRR--Internal rate of return.

Note redemption circumstances

Under the transaction documents, the notes can be redeemed before the stated maturity date of the transaction in the circumstances outlined below (see table 14).

Table 14

Note redemption

Redemption events	Redemption terms
Optional redemption through liquidation	After the non-call period, all classes of notes may be redeemed, in whole but not in part, on any payment date at the direction of the subordinated noteholders. The rated notes may also be redeemed in whole, but not in part, at the direction of the manager, if the aggregate collateral balance is less than 15% of the target par amount.
Mandatory redemption	If any applicable coverage test is not satisfied, the notes may be redeemed on any payment date before their legal final maturity dates. If a mandatory redemption occurs, the issuer will use the available principal and interest proceeds to redeem the notes according to the priority of payments outlined in table 13.

Table 14

Note redemption (cont.)

Redemption events	Redemption terms
Refinancing	After the non-call period, at the direction of the subordinated noteholders, any class of notes may be redeemed, in whole or in part, from refinancing proceeds.
Tax redemption	If a tax event occurs, at the direction of the subordinated noteholders, the rated notes may be redeemed, in whole but not in part, on any payment date before their legal final maturity dates, in accordance with the note payment sequence*.

*Note payment sequence is: First, the class A debt at the applicable redemption price until it fully redeems, followed by the class B notes in the same manner. Then, the class C notes including unpaid interest and deferred interest at the applicable redemption price until they fully redeem, followed by the class D to F notes in the same manner.

Application Of Our CDO Monitor/Compliance With Our CDO Monitor Test

Our CDO Monitor is a tool that collateral managers use during the reinvestment period to determine if a particular trade or series of trades increases the risk to the rated liabilities.

The CDO Monitor test will be considered passing if the results indicate that the current portfolio produces an SDR that is equal to or below the transaction's BDR. There is no requirement that the CDO Monitor test be considered after the reinvestment period, or when reinvesting proceeds from the sale of a credit impaired or defaulted obligation.

For this transaction, the non-model version of CDO Monitor will be used.

Events Of Default

Under certain conditions, the following events of default may result in the acceleration of payments to the preliminary rated notes or the collateral's liquidation:

- The issuer fails to pay interest, when due and payable, to the class A debt or B notes.
- A failure to pay principal payment or the redemption price on any rated class of notes when due and payable at the stated maturity date or any redemption date (each within the related five-day grace period).
- The issuer fails to disburse any amounts in accordance with the priority of payments within a ten-day grace period.
- The class A overcollateralization ratio falls below 102.5%. As defined in the transaction documents, the ratio is calculated without rating-based haircuts, but includes defaulted assets carried at their market value.
- A material default in the performance or material breach of any covenant, or other issuer agreement that is not cured within the 45-day cure period.
- The issuer's bankruptcy which is not discharged within 30 days.
- It becomes unlawful for the issuer to perform or comply with one or more of its obligations.
- The issuer becomes required to register as an investment company under the Investment Company Act and such requirement continues for 45 days.

Structural Overview

The issuer is a special-purpose entity (SPE) that was incorporated as an exempted company with limited liability under the laws of Ireland. The issuer's only purposes are to acquire the collateral portfolio, issue the notes, enter into transaction documents, and engage in certain related transactions. We expect the issuer's SPE provisions to be consistent with our bankruptcy remoteness criteria outlined in our latest legal criteria. In rating this transaction, we will review the legal matters that we consider to be relevant to our analysis, as outlined in our criteria.

Surveillance

We will maintain active surveillance on the rated notes until the notes mature or are retired, or until our credit ratings on the transaction have been withdrawn. The purpose of surveillance is to assess whether the rated notes are performing within the initial parameters and assumptions applied to each rating category. The issuer is required under the terms of the transaction documents to supply periodic reports and notices to us to maintain continuous surveillance on the rated notes.

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 | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019
- Criteria | Structured Finance | CDOs: Global Methodology And Assumptions For CLOs And Corporate CDOs, June 21, 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
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- 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

- Weekly European CLO Update, May 27, 2024
- CLO Pulse Q1 2024: High Leverage Affects Interest Coverage Ratios In European Obligors, May 15, 2024
- Global Credit Conditions Q2 2024: Between Economic Resilience And Market Exuberance, April 2, 2024
- Credit Conditions Europe Q2 2024: Credit Heals, Defense Shields; March 27, 2024
- European Secured Debt Recovery Expectations Q3 2023 Update: Recovery Prospects Stable As Issuance Slows, Nov. 16, 2023
- Leveraged Finance: A 10-Year Lookback At Actual Recoveries And Recovery Ratings, Feb 4, 2019
- 2017 EMEA Structured Credit Scenario And Sensitivity Analysis, July 6, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016

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