Presale:

Ares XXXIV CLO Ltd./Ares XXXIV CLO LLC (Refinancing And Extension)

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PRIMARY CREDIT ANALYST

Catherine G Rautenkranz
Centennial
+ 1 (303) 721 4713
c.rautenkranz
@spglobal.com

SECONDARY CONTACT

Jeffrey A Burton
Centennial
+ 1 (303) 721 4482
jeffrey.burton
@spglobal.com

Preliminary Ratings

Class	Preliminary rating	Balance (mil. $)	Overcollateralization (%)	Subordination (%)	Par subordination (%)	Interest rate (%)
A-R2	AAA (sf)	640.00	156.25	38.64	36.00	Three-month LIBOR + 1.25
B-R2	AA (sf)	120.00	131.58	27.14	24.00	Three-month LIBOR + 1.60
C-R	A (sf)	60.00	121.95	21.38	18.00	Three-month LIBOR + 2.00
D-R	BBB- (sf)	58.00	113.90	15.82	12.20	Three- month LIBOR + 3.10
E-R	BB- (sf)	42.00	108.70	11.80	8.00	Three -month LIBOR + 6.85
F-R	B- (sf)	15.00	106.95	10.36	6.50	Three-month LIBOR + 8.60
Subordinated notes	NR	108.03	N/A	N/A	N/A	Residual

Note: This presale report is based on information as of Feb. 27, 2020. 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. NR--Not rated. N/A--Not applicable.

Executive Summary

Ares XXXIV CLO Ltd. is a $1.043 billion broadly syndicated loan collateralized loan obligation (CLO) managed by Ares CLO Management LLC, a subsidiary of Ares Management L.P. This is a proposed refinancing of its September 2015 transaction, which refinanced its class A and B notes in July 2017.

Based on provisions in the transaction documents and portfolio characteristics:

- The transaction is being upsized and recapitalized, and the spreads on the notes are also changing.

- The replacement class A-R2, B-R2, C-R, D-R, and E-R notes are expected to be issued at a floating spread, replacing the current floating spread.
- The new class F-R notes are being issued at a floating spread.
- The stated maturity will be extended by approximately 6.7 years.
- The reinvestment and non-call periods are being re-established and will now end in April 2025 and April 2022, respectively.
- 99.32% of the identified underlying collateral obligations have credit ratings assigned by S&P Global Ratings.
- 96.09% of the identified underlying collateral obligations have recovery ratings assigned by S&P Global Ratings.

After analyzing the changes to the transaction, we assigned our preliminary ratings to the replacement class A-R2, B-R2, C-R, D-R, E-R, and F-R notes. The original class A-R, B-R, C, D, and E notes are expected to be fully redeemed with the proceeds from the replacement note issuance on the March 20, 2020, refinancing date. On the refinancing date, we anticipate withdrawing the ratings on the original class A-R notes and assigning ratings to the new A-R2, B-R2, C-R, D-R, E-R and F-R notes.

Key Credit Metrics

Selected Credit Metrics

	Ares XXXIV CLO Ltd.	Three-month average(i)
Total leverage (x)(ii)	8.66	9.66
Subordination ('AAA'/'BBB') (%)	38.61/15.82	37.93/13.68
Weighted average cost of debt (%)(iii)	1.83	1.96
Portfolio WAS (excluding LIBOR floors) (%)	3.35	3.57
Excess spread (%)(iv)	1.55	1.61
SDR ('AAA'/'BBB') (%)	61.00/41.86	61.27/39.69
WA portfolio recovery ('AAA'/'BBB') (%)	43.59/65.11	43.65/65.01

(i)The three-month average comprises S&P Global Ratings-rated deals for the three months ended Jan. 31, 2020. (ii)Total debt/equity (excluding any class X notes, if applicable). (iii)Spread over LIBOR for all classes, excluding the subordinated notes and, if applicable, any class X notes (if there is a fixed-rate tranche, LIBOR is subtracted from the fixed coupon in the calculation). (iv)WAS minus the weighted average cost of debt. WA--Weighted average. WAS--Weighted average spread. SDR--Scenario default rate.

Deal comparison

Compared to other broadly syndicated CLOs that S&P Global Ratings assigned preliminary ratings to in the three months ended Jan. 31, 2020, Ares XXXIV CLO Ltd. has:

- A lower total leverage and a higher subordination.
- A lower weighted average cost of debt.
- A lower weighted average spread and a lower available excess spread, which show a weaker underlying portfolio from a cash flow perspective.

- A lower 'AAA' scenario default rate, higher 'BBB' scenario default rate, a slightly lower 'AAA' weighted average recovery rate (WARR), and a slightly higher 'BBB' WARR, which show a similar underlying portfolio from a credit perspective.

Transaction Timeline

Transaction Timeline

Expected closing date	March 20,-2020.
Effective date	TBD.
Non-call period end date	April 17, 2022.
Reinvestment period end date	April 17, 2025.
Stated maturity date	April 17, 2033.
Note payment frequency	Quarterly, beginning July 17, 2020.

Participants

Collateral manager	Ares CLO Management LLC.
Initial purchaser	Goldman Sachs & Co. LLC.
Trustee	U.S. Bank N.A.

Rationale

The preliminary ratings assigned to Ares XXXIV CLO Ltd.'s floating-rate notes reflect our assessment of:

- The diversified collateral pool, which consists primarily of broadly syndicated speculative-grade (rated 'BB+' and lower) senior secured term loans 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 is expected to continue to remain bankruptcy remote.

Collateral Manager

Analysis of past CLO 2.0 transactions (i.e., deals issued after the financial crisis) that are managed by Ares CLO Management LLC and rated by S&P Global Ratings reveals the following:

- An average overlap in collateral composition of 48.12%, which is lower than the average of 57.85% for all S&P Global Ratings-rated CLO 2.0 transactions.
- An average portfolio turnover rate of 21.61% over the past 12 months, which is higher than the average of 19.74% for all S&P Global Ratings-rated CLO 2.0 transactions.

- An average margin of 7.50% between the quantity of covenant-lite assets held versus the maximum allowable amount, as reported by the trustee.
- Industry concentration favors software and health care providers and services.
- Of the transactions that are still in the reinvestment period, 33.33% have a current par amount that is above the effective date target par.
- An average senior overcollateralization (O/C) cushion of 10.14% at the transaction's closing date.

Quantitative Analysis

The results shown in table 1 indicate that the rated notes have sufficient credit enhancement to withstand our projected default levels.

Table 1

Credit Enhancement

Class	Subordination (%)	BDR (%)	SDR (%)	BDR cushion (%)
A-R2	38.64	63.81	61.00	2.81
B-R2	27.14	59.17	53.27	5.89
C-R	21.38	52.03	47.35	4.67
D-R	15.82	42.98	38.12	4.86
E-R	11.80	32.14	31.15	0.98
F-R	10.36	27.40	25.46	1.93

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

Supplemental tests

We also conduct a largest-industry default test and a largest-obligor default test according to "Global Methodology And Assumptions For CLOs And Corporate CDOs," published June 21, 2019. Under these assumptions, the notes can withstand the loss amounts indicated in table 2 at their preliminary rating levels.

Table 2

Supplemental Tests

Class	Preliminary rating	Preliminary amount (mil. $)	Largest industry default test loss amount (mil. $)	Largest obligor default test loss amount (mil. $)
A-R2	AAA (sf)	640.00	96.00	73.04
B-R2	AA (sf)	120.00	84.02	59.91
C-R	A (sf)	60.00	N/A	46.05
D-R	BBB- (sf)	58.00	N/A	31.76
E-R	BB- (sf)	42.00	N/A	24.59
F-R	B- (sf)	15.00	N/A	17.34

N/A--Not applicable.

Collateral Quality Tests

In addition to the quantitative framework, we produce and review collateral quality metrics to assess specific risks inherent in a transaction. Results for the collateral quality tests, based on the identified portfolio provided to us, are shown in table 3.

Table 3

Collateral Quality Metrics – Performing Identified Collateral

Test	Weighted average	Covenant	Margin
Weighted average life (years)(i)	5.07	9.00	3.93
Weighted average spread (including LIBOR floors) (%)	3.37	3.35	0.02
Weighted average LIBOR floor (%)	0.95	N/A	N/A
Weighted average fixed coupon (%)(ii)	N/A	6.00	N/A
Weighted average rating	B	N/A	N/A

(i)The calculated value may include an adjustment to some asset maturity inputs if the resulting pool's weighted average maturity is less than the length of the reinvestment period. (ii)The calculated value does not give credit to excess spread, which may positively adjust the calculation when determining compliance with the covenant. N/A--Not applicable.

Portfolio Characteristics

Metrics based on the portfolio presented to S&P Global Ratings and the level of ramp-up completion are shown in tables 4A and 4B.

Table 4A

Target Collateral Obligations

Target par balance (mil. $)	1,000.00
Par balance of identified collateral (mil. $)	895.28
Par balance of collateral not yet identified (mil. $)	106.10
Ramp-up completion (% of target par balance identified)	89.53
S&P Global Ratings' credit ratings and confidential indications (% of identified collateral)(i)	99.32

(i)May include confidential ratings, private ratings, and credit estimates.

Table 4B

Identified Collateral Obligations (Obligors)

No. of obligors	277
Avg. obligor holding (%)	0.36
Largest-obligor holding (%)	1.09
Smallest-obligor holding (%)	0.01

In the portfolio data referenced for this analysis, the issuer had identified approximately 89.53% of the portfolio's collateral. As the portfolio composition changes, the information and results presented in tables 5-6 and charts 1-3 are also likely to change.

Obligor concentration

Table 5 shows the top five obligors holdings of the underlying portfolio presented to S&P Global Ratings.

Table 5

Top Obligor Holdings As Of Feb. 27, 2020

						Notional amount (mil. $)		Notional amount (%)	
Obligor reference	**Industry**	**Security type**	**Standard & Poor's rating**	**Standard & Poor's implied rating**	**CreditWatch/Outlook**	**Obligor**	**Cumulative**	**Obligor**	**Cumulative**
1	Wireless telecommunication services	Senior secured	B	No	Watch Pos	9.77	9.77	0.98	0.98
2	Health care providers and services	Senior secured	N/A	Yes	N/A	8.49	18.25	0.85	1.83
3	Hotels, restaurants, and leisure	Senior secured	B+	No	Stable	7.63	25.88	0.76	2.59
4	Pharmaceuticals	Senior secured	B+	No	Stable	7.55	33.43	0.76	3.34
5	Health care providers and services	Senior secured	B	No	Stable	7.55	40.98	0.75	4.10

N/A--Not applicable.

Industry and ratings distribution

Chart 1 shows the top five industry distribution in the portfolio, and chart 2 shows the ratings distribution in the portfolio.

Chart 1

Industry Distribution

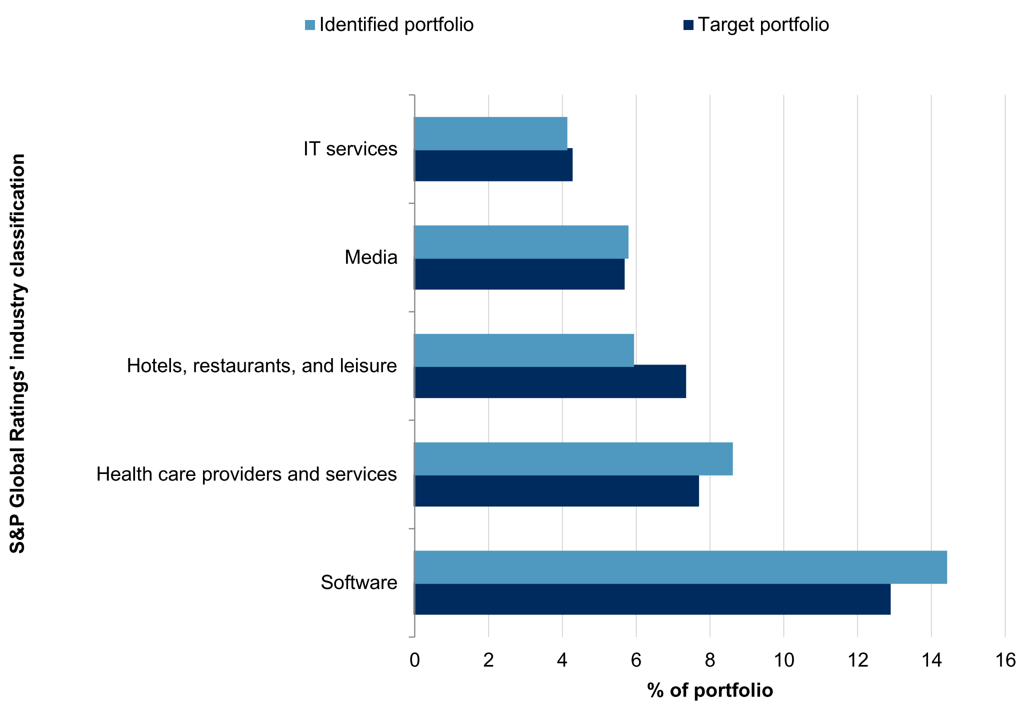
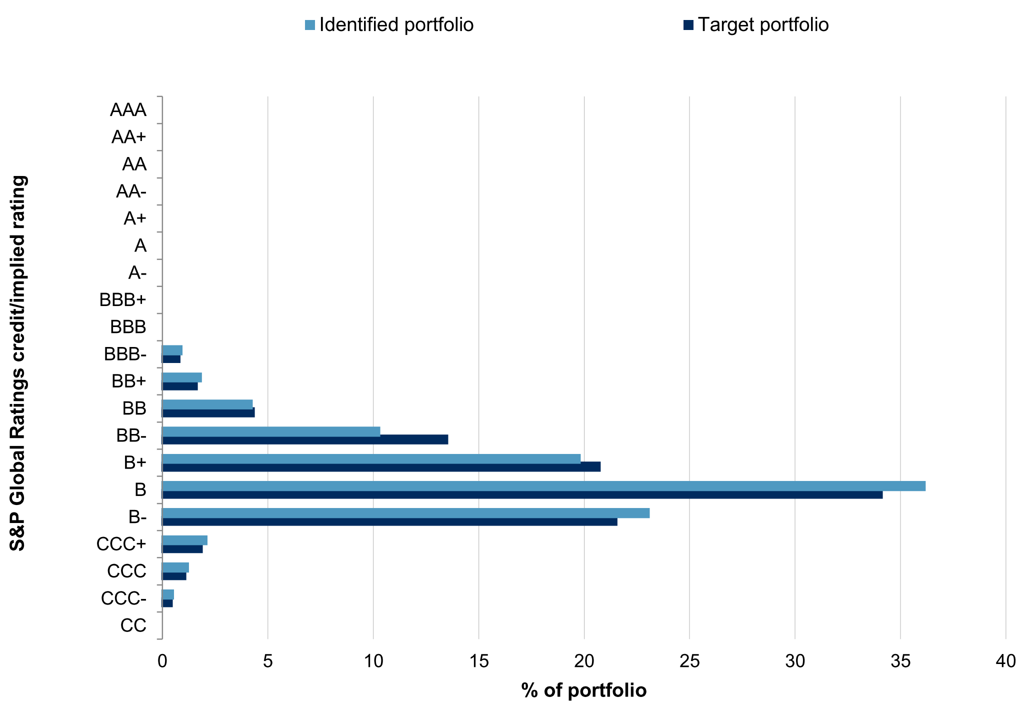


Chart 2

Rating Distribution



Recovery rating and maturity distribution

Table 6 and chart 3 present a summary of S&P Global Ratings' recovery rates on loans in the identified portfolio. Chart 4 shows the maturity distribution in the identified portfolio.

Table 6

Performing Identified Collateral Modeled WARR

Liability rating category	WARR (%)	Min. covenanted WARR (%)
AAA (sf)	43.59	40.97
AA (sf)	53.16	50.43
A (sf)	58.82	56.09
BBB (sf)	65.11	62.55
BB (sf)	69.99	67.26
B (sf)	71.55	68.77

WARR--Weighted average recovery rate.

Chart 3

Recovery Indicator Distribution

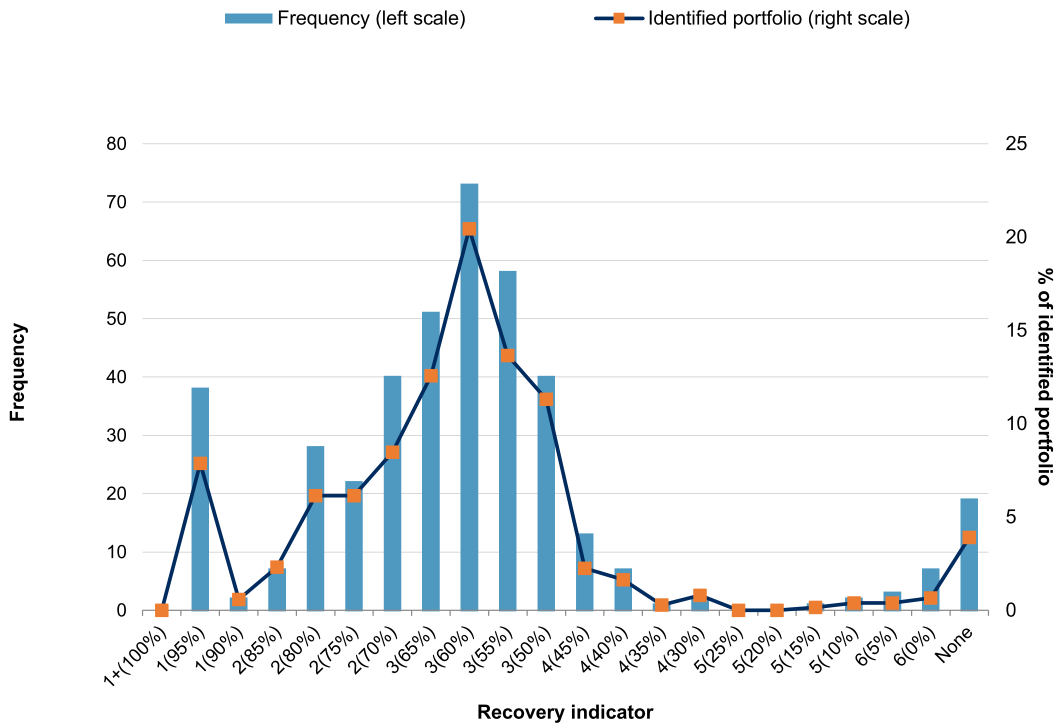
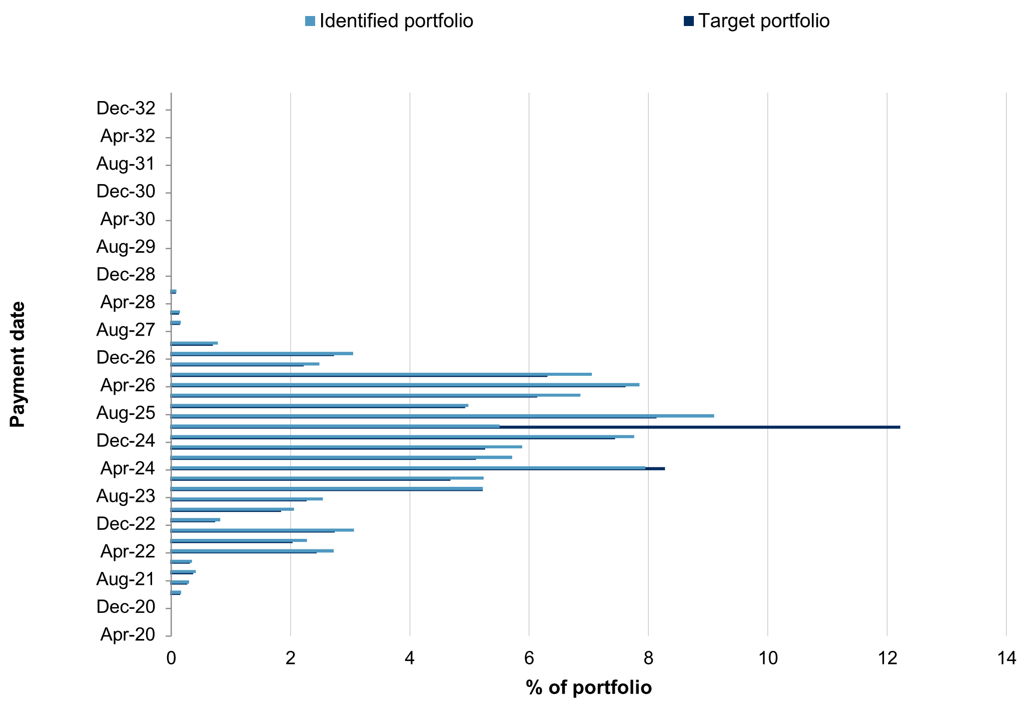


Chart 4

Maturity Distribution
Based on the legal final maturity date



Note Payment Considerations

O/C, interest coverage, and reinvestment O/C tests

The rated notes benefit from certain structural features that require sequential mandatory redemption upon a breach of any O/C 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 reinvestment O/C test (see table 7).

Table 7

Overcollateralization, Interest Coverage, And Reinvestment Overcollateralization Tests

Class	Actual O/C (%)	Min. O/C required (%)	Min. I/C required (%)
B-R2	131.58	121.60	120.00
C-R	121.95	114.00	115.00
D-R	113.90	107.40	110.00

Table 7

Overcollateralization, Interest Coverage, And Reinvestment Overcollateralization Tests (cont.)

Class	Actual O/C (%)	Min. O/C required (%)	Min. I/C required (%)
E-R	108.70	103.70	N/A
Reinvestment O/C(i)	106.95	103.00	N/A

(i)The reinvestment O/C test will be satisfied when the class F-R O/C test is equal to or higher than the specified level.
O/C-–Overcollateralization. I/C-–Interest coverage. N/A--Not applicable.

Application Of Standard & Poor's CDO Monitor/Compliance With Standard & Poor's CDO Monitor Test

Standard & Poor's 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 a scenario default rate that is equal to or below the transaction's break-even default rate. 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 risk or defaulted obligation.

For this transaction, the non-model version of CDO Monitor may be used as an alternative to the model-based approach. This version of CDO Monitor is built on the foundation of six portfolio benchmarks, which are used to provide insight into the characteristics that inform the way S&P Global Ratings assesses credit quality. These benchmarks are meant to enhance transparency for investors and other CLO market participants by allowing them to compare metrics across transactions and assess changes within a given CLO over time (for more details, see "Standard & Poor's Introduces Non-Model Version Of CDO Monitor," published Dec. 8, 2014, and "S&P Global Ratings' Updated Assumptions For CDO Monitor Non-Model Version," published June 21, 2019).

Table 8 shows the benchmarks for Ares XXXIV CLO Ltd. in the context of average values by vintage.

Table 8

CDO Monitor Metrics

	Ares XXXIV CLO Ltd.	Trailing 12-month average	Difference	Typical values
S&P Global Ratings' weighted average rating factor (SPWARF)(i)	2,613.94	2,799.32	(185.38)	2,500-3,000
Default rate dispersion (ii)	757.34	672.47	84.87	500-1,000
Obligor diversity measure(iii)	229.38	161.49	67.89	100-250
Industry diversity measure(iv)	21.92	21.90	0.02	12-22
Regional diversity measure(v)	1.18	1.15	0.03	1.0-1.3 for U.S. CLOs (higher for Euro CLOs)

Table 8

CDO Monitor Metrics (cont.)

	Ares XXXIV CLO Ltd.	Trailing 12-month average	Difference	Typical values
Weighted average life (years)(vi)	4.67	4.95	(0.28)	4-7

(i)S&P Global Ratings' weighted average rating factor (SPWARF): the SPWARF is calculated by multiplying the par balance of each collateral obligation (with a 'CCC-' or higher rating from S&P Global Ratings) by S&P Global Ratings' rating factor, then summing the total for the portfolio, and then dividing the result by the aggregate principal balance of all of the collateral obligations included in the calculation. (ii)Default rate dispersion (DRD): the DRD is calculated by multiplying the par balance for each collateral obligation (with a 'CCC-' or higher rating from S&P Global Ratings) by the absolute value of the difference between the S&P Global Ratings rating factor and the SPWARF, then summing the total for the portfolio, and then dividing the result by the aggregate principal balance of the collateral obligations included in the calculation. (iii)Obligor diversity measure (ODM): the measure of the effective number of obligors in the pool obtained by squaring the result for each obligor and taking the reciprocal of the sum of these squares [i.e., 1/sum()^2]. (iv)Industry diversity measure (IDM): the effective number of industries in the pool obtained in the same way as the ODM above. (v)Regional diversity measure: the effective number of regions in the pool obtained the same way as the ODM and IDM. (vi)Weighted average life: the portfolio's weighted average life, based on the remaining number of years to maturity for each loan.

Surveillance

S&P Global Ratings will maintain active surveillance on the rated notes until the notes mature or are retired, or until S&P Global Ratings' 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 S&P Global Ratings to maintain continuous surveillance on the rated notes. For more information on our CLO surveillance process, see "CDO Spotlight: Standard & Poor's Surveillance Process For Monitoring U.S. Cash Flow CLO Transactions," published Oct. 19, 2016.

Related Criteria

- 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 | Legal: U.S. Structured Finance Asset Isolation And Special-Purpose Entity Criteria, May 15, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Structured Finance | General: Structured Finance Temporary Interest Shortfall Methodology, Dec. 15, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria - Structured Finance - General: Global Framework For Cash Flow Analysis Of Structured Finance Securities, Oct. 9, 2014
- Criteria | Structured Finance | CDOs: CDOs Of Project Finance Debt: Global Methodology And Assumptions, March 19, 2014

- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Criteria | Structured Finance | CDOs: Global CDOs Of Pooled Structured Finance Assets: Methodology And Assumptions, Feb. 21, 2012
- Criteria - Structured Finance - CDOs: Surveillance Methodology For Global Cash Flow And Hybrid CDOs Subject To Acceleration Or Liquidation After An EOD, Sept. 2, 2009
- Criteria - Structured Finance - General: Structured Finance Criteria Introduced For Cayman Islands Special-Purpose Entities, July 18, 2002

Related Research

- S&P Global Ratings' Updated Assumptions For CDO Monitor Non-Model Version, June 21, 2019
- Rating Assigned To Ares XXXIV CLO Ltd. In Connection With Refinancing, July 31, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- S&P Global Ratings' Surveillance Process For Monitoring U.S. Cash Flow CLO Transactions, Oct. 19, 2016
- New Version Of CDO Evaluator (7.1) Includes Updated Corporate Industry Codes, Sept. 13, 2016
- How Standard & Poor's Assesses Operational And Administrative Risks Of CLO Collateral Managers, April 19, 2016
- Global Corporate Rating Trends 2016: Largest Negative Swing Since 2009, Jan. 11, 2016
- Items Updated In Corporate CDO Criteria Used To Rate CLO Transactions, Sept. 17, 2015
- S&P Adds Transparency To Its Effective Date Process For CLOs, April 20, 2015
- CDO Monitor Non-Model Approach General Definitions, March 11, 2015
- Standard & Poor's Introduces Non-Model Version Of CDO Monitor, Dec. 8, 2014
- Use Of CDO Monitor Simplified, April 7, 2014
- How Typical CLO Document Provisions Affect Maintenance Of Collateral Characteristics For Managed CLOs, Nov. 6, 2013
- How Deferrable Assets In CLOs Are Treated Under Standard & Poor's Methodology, Oct. 1, 2012
- CDO Spotlight: The Relationship Between Long-Dated Assets And Market Value Risk In U.S. Cash Flow CLOs, April 26, 2012
- Credit FAQ: What Are Credit Estimates And How Do They Differ From Ratings? April 6, 2011
- CLO Collateral Managers' Treatment Of First-Lien-Last-Out Loans Could Affect Payments To Investors, Oct. 14, 2010
- Standard & Poor's Provides Guidance For Collateral Managers And Trustees Regarding CDO Monitor, Nov. 11, 2009

In addition to the criteria specific to this type of security (listed above), the following criteria articles, which are generally applicable to all ratings, may have affected this rating action: "Counterparty Risk Framework: Methodology And Assumptions," March 8, 2019; "Post-Default

Ratings Methodology: When Does Standard & Poor's Raise A Rating From 'D' Or 'SD'?," March 23, 2015; "Global Framework For Assessing Operational Risk In Structured Finance Transactions," Oct. 9, 2014; "Methodology: Timeliness of Payments: Grace Periods, Guarantees, And Use of 'D' And 'SD' Ratings," Oct. 24, 2013; "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," Oct. 1, 2012; "Methodology: Credit Stability Criteria," May 3, 2010; and "Use of CreditWatch And Outlooks," Sept. 14, 2009.