FitchRatings

Corporates
Global

Investment Holding Companies Rating Criteria

Sector-Specific

Table of Contents

This report replaces *Exposure Draft: Investment Holding Companies Rating Criteria*, dated 19 February 2023 and *Investment Holding Companies Rating Criteria*, dated 12 November 2021

Related Criteria

Corporate Rating Criteria (October 2022)

Corporates Recovery Ratings and Instrument Ratings Criteria (April 2021)

Parent and Subsidiary Linkage Rating Criteria (December 2021)

National Scale Rating Criteria (December 2020)

Country-Specific Treatment of Recovery Ratings Criteria (March 2023)

Corporates Exceeding the Country Ceiling Criteria (December 2022)

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Scope

These criteria specify Fitch Ratings' methodology for assigning new and monitoring ongoing Issuer Default Ratings (IDRs), instrument ratings and Recovery Ratings (RRs) for corporate entities whose main activity comprises holding generally non-controlling stakes in other companies for the purpose of generating capital gains and dividend income on a long-term basis. Operational integration between the various investments is normally non-existent, with completely separate funding arrangements.

Issuers that share characteristics of both investment holding companies (IHCs) and industrial conglomerates would be analysed on the basis of this framework when the subsidiaries representing the majority of the value of the group are not controlled, or the various subsidiaries are held by the holding company as investments rather than as integrated businesses. Otherwise, the *Parent and Subsidiary Linkage Rating Criteria* would apply.

The criteria do not cover investment companies, investment funds and alternative asset managers (such as private equity firms and hedge funds). Please see page 3 for further details on how we distinguish between investment holdings, conglomerates and investment companies or funds.

The criteria should be read in conjunction with Fitch's *Corporate Rating Criteria* as the evaluation of any IHC involves consideration of risks common to all corporate entities. In addition, the *Corporate Rating Criteria* describe how Rating Navigators guide the application of the broad concepts of the criteria on a sector-specific basis.

However, the provisions of this criteria report apply to the assignment of instrument ratings and RRs for IHC-issued debt, rather than the provision of the *Corporates Recovery Ratings and Instrument Ratings Criteria*.

Key Rating Drivers

Fitch's ratings reflect qualitative and quantitative factors encompassing the business and financial profile of an entity. The weighting between individual and aggregate qualitative and quantitative factors varies between entities in the sector, as well as over time. As a general guideline, where one factor is significantly weaker than others, this weakest element tends to attract a greater weight in the analysis.

Transparency and Execution of Investment Strategy. The clarity and consistency of an IHC's investment strategy as well as its adherence to its stated strategy.

Risk Appetite and Investment Track Record: The appetite towards investment risk, both business and financial risk, as well as the record of returns against relevant market indicators.

Portfolio Diversification: The geographical and business sector diversification as well as the asset value concentration, measured in equity value, within the investment portfolio.

Portfolio Credit Characteristics: The average credit quality of the investment portfolio and the quality of disclosure on the investments.

Financial Structure: The gross de-consolidated debt (i.e. debt at the IHC level) to the equity value of the investment portfolio (loan-to-value or LTV) is generally the focus of the financial structure analysis. The net LTV and the LTV under stressed asset valuations are complementary metrics. The cashflow-based leverage and foreign exchange (FX) exposure will be considered, where relevant.

Financial Flexibility: The liquidity of investments in the portfolio, the readily available liquidity from other sources, the IHC-level cash cover (recurring cash received by the IHC, divided by its cash expenses, taxation and interest payments), the stability and control over recurring cash flows received from investments as well as the financial discipline.

Access to Capital: The ability of the IHC to access a variety of capital markets to raise funds to meet obligations should other sources of liquidity be unavailable or unattractive.

Operating Environment and Management & Corporate Governance: Details of these factors, which are common to all corporate entities, can be found in the *Corporate Rating Criteria*.

Rating Range

It is unlikely, although not impossible, that an IHC, even with no debt and with broad diversification, will be rated in the 'AA' rating category or higher because the rating range of most corporate sectors typically peaks in the 'A' rating category. IHCs' general lack of control over investments, compared with conglomerates, also limits the rating range.

Criteria Application

What differentiates IHCs from industrial conglomerates is mainly the lack of control, lack of operational integration, funding being organised on a strictly separate basis, and the ultimate intention to dispose of the investments to generate capital gains, albeit with a relatively long time horizon. Conversely, conglomerates tend to control their various investments and integrate them at least within each business line, with a more centralised approach to funding. Conglomerates' investments are generally not held for the purpose of creating capital gains to be realised.

Holding companies with mostly controlling stakes in subsidiaries with significant operational integration and a more centralised approach to funding would be analysed on the basis of Fitch's *Parent and Subsidiary Linkage Rating Criteria*.

Holding companies where the majority of portfolio equity value is not derived from Corporates (from financial institutions, for example) would be covered under the relevant sector's criteria (*Non-Bank Financial Institutions Rating Criteria*, for example).

Depending on their objectives, investment funds tend to hold a larger number of investments in a portfolio to reduce single-name risk. As a consequence of the larger number of holdings, most investment companies/funds are usually more passive investors, whereas IHCs tend to influence the strategy of the companies they are investing in. Investment companies/funds can be rated under Fitch's *Non-Bank Financial Institutions Rating Criteria*.

IHCs vs. Conglomerates and Investment Companies/Funds

	IHCs	Conglomerates	Investment companies/funds
Operational integration	None.	Strong within each business line. More modest across business lines.	None.
Number of investments or business lines	Generally between five and 10 investments account for the bulk of the portfolio's equity value.	Usually fewer than five business lines but there may be a large number of controlled, integrated companies.	Large number.
Stability of portfolio	Long-term investments with holding periods typically extending over several years.	High.	Ongoing rebalancing of investments.
Control	A few percentage points to large minority stakes and, possibly, some controlling stakes. Influence over strategy but not control.	Mostly controlling stakes. Strategy dictated by holding company.	Generally small stakes only. Usually little or no influence on strategy or management.

IHCs vs. Conglomerates and Investment Companies/Funds (Cont.)

	IHCs	Conglomerates	Investment companies/funds
Funding	Strictly separate financing of holding company and the various investments.	Some centralised funding.	Strictly separate financing of the investment fund and the investments.
Value creation	Capital gains and dividend income.	Improve cash flows from operations, consolidated earnings.	Capital gains and dividend income.
Source of debt repayment	Usually sale of investments or introduction of new capital.	Cash flows.	Sale of investments.
Key risks	Liquidity and access to capital — the latter driven by asset liquidity and ability to monetise, investment portfolio valuation volatility and financial risk.	Volatility of cash flows.	Liquidity of investments and their value, dividend volatility and investor demand.
Covered by these criteria?	Yes	No	No

Source: Fitch Ratings

While the focus of these criteria is on IHCs, which have a number of investments, they also cover holding companies with a minority stake in a single corporate entity.

In addition, we may assess a holding company as an IHC even if it holds majority stakes in investments if: it tends to exert moderate influence over the strategy, rather than tight control of the investment; there is little operational or organisational integration between the two; funding is strictly separate; and/or investments are expected to be sold for capital gains, albeit with a long time horizon.

Key Rating Drivers

Operating Environment

The operating environment (OE) solely reflects the primary location of the IHC itself. In contrast, for other multi-jurisdictional corporates, the OE incorporates a blended assessment of the countries in which the corporates operate.

Our assessment of OE comprises three elements:

- Economic Environment. For an IHC this is likely to be where its headquarters and principal, non-investment assets are located and where its staff are employed and its tax jurisdiction.
- Issuer Financial Access. For an IHC, the Financial Market Development sub-factor assessment would reflect the debt market jurisdiction considered to be "domestic" for the IHC.
- Systemic Governance. Fitch's Corporate Rating Criteria states: "An issuer ['s Systemic Governance jurisdiction] will generally be assessed based on the location of its headquarters." This applies to IHCs too.

The OE is an asymmetric consideration in that it will only have an impact on the issuer's rating when it is negative. Companies can succeed and fail in the most hospitable environments, typically rendering that environment a neutral ratings consideration. However, a higher-risk environment can actively constrain a company's potential and overall credit profile.

Further details can be found in the *Corporate Rating Criteria*.

Management and Corporate Governance

This factor is common to all corporate entities and includes an assessment of the following sub-factors for the IHC: management strategy, the structure and quality of corporate governance, risks related to the group structure and the degree of financial transparency. Further details can be found in the *Corporate Rating Criteria*.

Assessment of these factors for the IHC's investments is captured in the Weighted-Average Portfolio Credit Strength by Equity Value sub-factor of the Portfolio Credit Characteristics Key Rating Driver.

Transparency and Execution of Investment Strategy

Clear, well-articulated investment guidelines benefit our assessment of an IHC's attitude to investment risk by providing transparency and improving the predictability of future investment or monetisation events. Public strategy commitments would be considered stronger than private policies. Fitch also assesses a company's adherence to its guidelines, as a clearly articulated strategy becomes less meaningful the more frequently an IHC deviates from it to make opportunistic decisions contrary to its stated strategy.

Transparency and Execution of Investment Strategy

Score	
a	Well-articulated, long-term investment strategy with very few material examples of deviation.
bbb	Long-term investment strategy coherent but less-well articulated, implementation generally consistent. Includes IHCs where the strategy is not explicitly articulated but is readily apparent from a long-term history of investments and divestments.
bb	Investment strategy may not be clearly articulated or changes frequently, some deviations from strategy. Includes IHCs where the strategy is not explicitly articulated but is somewhat apparent from long-term history of investments and divestments.
b	Largely opportunistic behaviour, significant deviations from stated investment strategy or investment strategy not articulated nor apparent from history.
ccc	No investment strategy or investment strategy ignored and actions threaten IHC viability.

Source: Fitch Ratings

Risk Appetite and Investment Track Record

An IHC's risk appetite and its risk assessment and management framework will affect its credit profile. For example, cash generated by the investment portfolio and portfolio equity value are likely to be more stable if the business and financial risks of investments are lower. Therefore, Fitch assesses the IHC's attitude to the investments' risk— for example, stability and maturity of their markets and their market positions, consistency of dividends disbursed, financial leverage and financial flexibility — as well as the IHC's investment risk assessment framework and investment decision-making processes, where possible.

Although the overall portfolio investment record will generally be reflected in the financial performance of the IHC, we also review investment returns — value accretion and cash flow generation — against stated targets and broader market performance indicators. Where possible, we assess these returns in comparison to investments with similar risk profiles. For example, a single technology-sector investment returning more than the all-sector market index might be assessed as having a weak return if it has not performed as well as a broad technology index over the same period.

A record of poor returns, for example repeated material write-offs, or aggressive investment decisions would generally not be consistent with an investment-grade rating.

Risk Appetite and Investment Track Record Sub-Factors

Score	Risk Appetite	Investment Track Record
a	Very conservative appetite for investment risk (business and financial risk of investments).	Consistent record of returns exceeding targets and relevant market performance indicators.
bbb	Conservative appetite for investment risk (business and financial risk of investments).	Successful record of returns generally meeting targets and relevant market performance indicators.
bb	Higher appetite for investment risk (business and financial risk of investments).	Less successful or inconsistent record of returns compared with targets and relevant market performance indicators.
b	Aggressive appetite for investment risk (business and financial risk of investments).	Record of returns is poor compared with targets and relevant market performance indicators.
ccc	Appetite for investment portfolio with very high risk (business and financial risk of investments), which threatens IHC viability.	Record of returns is very poor compared with targets and relevant market performance indicators and threatens IHC viability.

Source: Fitch Ratings

Portfolio Diversification

A well-diversified investment portfolio will generally offer greater stability of equity value or dividends generated than one with greater concentration, as sector-specific or geographical market-specific fluctuations will have less overall impact.

Portfolio Diversification Sub-Factors

Score	Business and geographic diversification	Asset value concentration
a	Portfolio assets are well diversified, either geographically by market or by sector. If a single sector dominates, then geographical diversification is very strong and vice versa. Geographical exposure can be to a single large economy, if regional diversification is strong within that market.	Low - Equity value of the three largest investments represents up to 50%, or largest asset up to 25%, of portfolio equity value.
bbb	Portfolio assets are moderately diversified either geographically by market or by sector. The portfolio may have a strong bias towards a single geographical market (region in a large economy) or sector but not both.	Moderate - Equity value of the three largest investments represents 51%-60%, or largest asset 26%-40%, of portfolio equity value.
bb	Portfolio assets' diversification is limited. There is a strong portfolio bias in terms of both geographical market and sector.	High - Equity value of the three largest investments represents 61%-80%, or largest asset 41%-60%, of portfolio equity value.
b	Portfolio assets' diversification is weak. There is little diversification by geographic market or sector.	Very High - Equity value of the three largest investments represents > 80%, or largest asset > 60%, of portfolio equity value.
ccc	Portfolio is highly concentrated in regions where cash flows are materially affected by recessionary or disruptive conditions or to sectors that are in secular decline.	Concentration Threat - Very high concentration in assets that are in secular decline, or in, or approaching, distress.

Source: Fitch Ratings

For Asset Value Concentration, where the equity value share of the largest asset indicates a different category from that indicated by the equity value share of the top-three assets, Fitch will generally take the lower category as its sub-factor assessment.

Portfolio Credit Characteristics

Fitch assesses the average credit quality of the asset portfolio — weighted by equity value of investments — to provide an indication of both the quality of investments and the risk of equity value falling sharply from investments' financial distress and/or material decline of dividend distributions to the IHC. Because these risks do not change in a linear manner across the rating scale – the probability increases rapidly towards the lower end of the rating spectrum – we weight each investment's credit quality using the following Weighted Average Rating Factors (WARF), which are derived from 10-year observed default frequencies.

Rating Factors

Credit Strength	Rating Factor	Credit Strength	Rating Factor
aaa	0.136	bb+	8.903
aa+	0.349	bb	11.844
aa	0.629	bb-	15.733
aa-	0.858	b+	19.627
a+	1.237	b	23.671
a	1.572	b-	32.221
a-	2.099	ccc+	41.111
bbb+	2.630	ccc	50.000
bbb	3.162	ccc-	63.431
bbb-	6.039		

Source: Fitch Ratings

The following table shows an example of the calculation of Weighted Average Portfolio Credit Strength using the WARF approach.

Example – Calculating Weighted Average Portfolio Credit Strength

Asset	Share of Portfolio equity value	Credit strength	Rating factor (WARF)	WARF x share of portfolio equity value
Asset 1	31%	b	23.671	7.3
Asset 2	28%	bbb-	6.039	1.7
Asset 3	22%	bbb+	2.630	0.6
Asset 4	19%	a-	2.099	0.4
total	**100%**			**10.0**
				Closest to bb+ on WARF scale

Source: Fitch Ratings

In this example, the Weighted Average Portfolio Credit Strength by Equity Value is 'bb+' as this is closest to 10.0 (the aggregate of the final column in the example table) in the WARF table.

For this purpose, the credit strength of the investment is evaluated using the *Corporate Rating Criteria*, leveraging the relevant Sector Navigator and/or peer analysis. Where the investment is not covered by Fitch's *Corporate Rating Criteria*, we will apply the principles of the appropriate criteria — e.g. *Infrastructure & Project Finance Rating Criteria*, *Bank Rating Criteria* or *Non-Bank Financial Institutions Rating Criteria* — to assess the investment's credit strength.

A Rating or Credit Opinion of the investment is not required as the credit quality of each investment is one of many inputs in assessing the credit profile of an IHC. Fitch will aim to form an assessment of the credit strength of 85% of the IHC's investment portfolio by value, as a minimum. Where this is not possible, Fitch will disclose the proportion of the portfolio value assessed, the reasons why the 85% threshold has not been met, and an explanation of why not meeting the threshold has no impact on the IHC's rating.

Our assessment of the individual credit strength of investments is on a Local Currency (LC) basis; it incorporates the business and financial risks of the entity, as well as the risks relating to the OE. It excludes any Country Ceiling constraint, which reflects the risk that transfer and convertibility (T&C) restrictions could be put in place, which affects only the Foreign Currency (FC) credit strength. This reflects the low likelihood that T&C restrictions would be in place simultaneously across all relevant jurisdictions. Our approach to T&C risks is further described on page 11, including when Country Ceilings may become relevant for investment portfolios with concentrated geographic exposure.

We also evaluate the quality and frequency of information available on investments, as this will affect Fitch's ability to monitor equity valuation and dividend generation. The Investments' Financial Transparency sub-factor is a negative modifier in the Portfolio Credit Characteristics factor; low transparency would affect our overall assessment of the Portfolio Credit Characteristics factor, but high transparency is unlikely to lift this factor. The transparency assessed relates only to the investments, as IHC-level transparency is assessed in the Management and Corporate Governance factor.

Portfolio Credit Characteristics Sub-Factors

Score	Weighted-average portfolio credit strength by equity value	Investments' financial transparency
a	a	Investments provide high-quality and timely financial reports.
bbb	bbb	Investments provide good-quality reports without significant failings. Consistent with the average of listed companies in major exchanges.
bb	bb	Investments' financial reporting is appropriate but with some failings (e.g. lack of interim or segment analysis).
b	b	Investments' financial reporting is defective and/or includes aggressive accounting policies.
ccc	ccc	Sustained absence of financial reporting by investments for reasons other than force majeure, change of auditor or corporate restructuring.

Source: Fitch Ratings

Where the Portfolio Credit Characteristics factor is assessed at 'bb' or below and is weaker than most of the others, Fitch would generally assign it a "Higher" relative importance in our Navigator assessment because the equity value of investments can deteriorate rapidly if they approach financial distress and default.

Financial Structure

As IHC's maturing debt is generally replaced with similar debt or repaid on asset monetisation, measures of debt to cash flow are generally less relevant for IHCs than for other corporates and LTV metrics better capture the funding profile of IHCs. IHCs can monetise investments to reduce debt or use equity in invested assets as security to access the debt market. Therefore, IHCs with lower LTVs have greater ability to raise debt, and/or are likely to have to monetise less of their investment portfolio, to replace maturing debt.

We assess LTVs on a gross and a net-of-cash basis. For unlisted stakes, equity value is estimated using relevant market measures, such as similar peers' enterprise value/EBITDA or price/earnings ratios. Some IHCs may maintain a higher cash buffer for risk management purposes — to address unforeseen liquidity needs related to debt servicing — or as a war chest for investments, or both. We would give more weight to net LTVs, where such cash is deducted from debt in the numerator, if a cash balance is consistently maintained for risk mitigation purposes.

Portfolio valuation tends to be volatile, especially if an IHC's portfolio is concentrated in a relatively limited number of holdings, and monetisation can be difficult, especially if an IHC holds relatively large stakes. In addition, there can be a rapid deterioration in equity value should the investment fall into financial distress. For these reasons, the LTV consistent with each rating level is relatively low.

Fitch also calculates LTVs on a stressed valuation basis because of the potential volatility of portfolio equity value. In the case of listed stakes, Fitch haircuts the current share price by three times the standard deviation of the month-on-month percentage change in the average share price (calendar month basis) observed in the shorter of 10 years or the longest available period. For unlisted stakes, Fitch takes a more conservative approach to valuation using relevant market measures or uses a listed peer's haircut — as previously described — as a proxy. Greater weight would be placed on the stressed LTV when there is a significant difference (a category or more based on the below table) between the unstressed and stressed LTVs, indicating greater volatility of value of the portfolio.

IHCs with illiquid portfolio assets or which are very reluctant to raise capital by selling down assets — including being unable to divest due to commitment to maintain a minimum level of ownership — will be more reliant on cash generated by investments to raise and service debt. For these IHCs, we are likely to give more weight to cashflow-based leverage — IHC-level debt/recurring cash received sub-factor — rather than LTV. Recurring cash received comprises dividends, fees and any similar recurring income.

Fitch also assesses the currency mismatch between an IHC's debt and the equity value of, or cash receipts from, its investments. The greater the mismatch, the higher the risk that leverage and debt servicing will be affected by currency movements. This is an asymmetric factor; a weaker score on this sub-factor may weigh on the overall score for the Financial Structure factor but a stronger assessment than other sub-factor scores will not raise the factor assessment.

Financial Structure

Score	Gross LTV (%)	Net LTV (%)	Stressed gross LTV (%)	Gross IHC debt/recurring cash received (x)	FX mismatch
a	<20	<15	<25	2.5	No significant FX mismatch between IHC debt and currency denomination of asset value, or between IHC interest payments and cash flow received, after taking hedging into account.
bbb	35	30	45	3.5	Limited FX mismatch between IHC debt and currency denomination of asset value, or between IHC interest payments and cash flow received, after taking hedging into account.
bb	45	40	60	4.5	Moderate FX mismatch between IHC debt and currency denomination of asset value, or between IHC interest payments and cash flow received, after taking hedging into account.
b	55	50	70	6.0	Large FX mismatch between IHC debt and currency denomination of asset value, or between IHC interest payments and cash flow received. No significant/ineffective hedging in place.
ccc	>60	>55	>80	>7.0	FX exposure dominant in impairing the issuer's ability to refinance or service debt in cash terms.

Source: Fitch Ratings

Financial Flexibility

Financial Flexibility is key to an IHC's credit strength and is assessed through the following five sub-factors. In general, IHCs meet their capital obligations from monetisation of assets, like-for-like replacement funding or unused liquidity rather than from cash flows accrued from investments. Therefore, Asset Liquidity and Readily Available Liquidity are often of greater importance to Financial Flexibility than the IHC Cash Cover and the Stability and Control of Recurring Cash Flows.

Asset Liquidity

The ability to dispose of investments easily is an important source of financial flexibility. Broad portfolio diversification helps preserve an ability to sell assets at all times, whereas concentration in assets from one single emerging market, for example, could be viewed negatively because the depth of these markets tends to be relatively limited. The focus of the assessment is on an IHC's ability to sell down its investment reasonably quickly without triggering a significant decline in the value of the assets.

Unlisted assets, listed assets with only a small free float, assets with significant practical restrictions on disposal (e.g. tax, shareholders' agreement) are considered assets with poor liquidity. Conversely, relatively small stakes (e.g. 5% or less) in otherwise widely distributed shareholdings of blue-chip companies are usually considered very liquid.

Readily Available Liquidity

Refinancing is a key risk for IHCs as their cash-flow leverage tends to be high and generally debt cannot be reduced significantly through cash distributed from assets. Sale of assets or refinancing is usually needed to repay maturing debt.

Selling investments and refinancing maturing debt may be difficult during periods of market disruption. In addition, dividends received could be under stress during periods of economic uncertainty. It is therefore important for IHCs to keep a sufficient buffer of liquidity to cover such periods and avoid clustering of debt repayments. Liquidity buffers should therefore cover a longer period than for a typical non-financial corporate entity.

We define the Readily Available Liquidity score with reference to the number of months (as defined in the table below) for which the following liquidity ratio exceeds 1.25x:

(cash + available undrawn committed credit lines with ample covenant headroom + free cash flow)/(debt maturities)

Where free cash flow and debt maturities are over the number of months specified in the table below.

We may also deduct capital funding and investments commitments in the numerator, where we believe these are likely. Highly liquid assets can be considered to offset a temporary liquidity shortfall.

Financial Flexibility – Table 1

Score	Asset liquidity	Readily available liquidity
a	At least five different assets with excellent liquidity. This includes, for example, assets where a deep, established market exists, investment-grade assets and widely distributed securities. Listed stakes without significant impediments to sale account for 80% or more of equity valuation.	Liquidity ratio greater than 1.25x over the next 30 months.
bbb	At least five different assets with good liquidity. This includes, for example, assets where market demand exists, albeit is relatively less stable compared with the 'a' rating category, investment-grade assets and widely distributed securities. Listed stakes without any significant impediments to sale account for 50% or more of equity valuation.	As above over 24 months.
bb	At least three different assets with good liquidity and no significant impediments to sale. This includes, for example, assets where market demand exists, but could be susceptible to some modest stability concerns, investment- or non-investment-grade assets and moderately wide security distribution.	As above over 18 months.
b	Questionable liquidity of assets. This may include non-investment-grade assets, unlisted/material concentrated shareholdings potentially with limited free float, listed assets with significant impediments to sale, assets that are highly susceptible to market sentiment and assets with significant restrictions on disposal, weak emerging-market assets.	As above over 12 months.
ccc	Very low levels of asset liquidity. All, or almost all, of asset portfolio is unlisted, listed with limited float, or unable to be readily monetised for any other reason.	Liquidity ratio worse than 1.25x over 12 months.

Source: Fitch Ratings

IHC Cash Cover

Fitch uses cash cover to assess an IHC's ability to sustainably cover interest obligations, its own operating costs and tax, from recurring cash received. It is an indicator of an IHC's ability to meet recurring commitments without drawing on credit facilities, raising new capital or monetising assets.

IHC cash cover is defined as:

Recurring cash received/(IHC's [interest + tax + expenses])

Stability and Control of Recurring Cash Flows

Both the likelihood of future dividend stability — informed by past variability and the likelihood of restriction on investments' dividends in the future — and the ability to influence investments' dividend distribution policies can lead to greater certainty over the ability to meet interest commitments without raising new capital or monetising assets.

Financial Discipline

We assess an IHC's financial discipline, similar to all other corporate Sector Navigators. Focus is on clarity and conservativeness of the financial policy, as well as adherence to stated policy.

Financial Flexibility – Table 2

Score	IHC cash cover (x)	Stability and control of recurring cash flows	Financial discipline
a	4.5	Record of stability of cash flows received (indicative maximum one-year decline below 25%), no restriction on distributions, ability to influence distribution policy.	Clear commitment to maintain a conservative policy with only modest deviations allowed.
bbb	3.5	Some volatility of cash flows received (maximum one-year decline below 35%), no particular ability to influence distributions.	Financial policies less conservative than peers but generally applied consistently.
bb	2.5	More volatility of cash flow received (maximum one-year decline below 50%), minor restrictions on distributions could kick in.	Financial policies in place but flexibility in applying them could lead to temporarily exceeding downgrade guidelines.
b	1.5	Volatile cash flows received (maximum one-year decline below 65%), material restrictions on distributions.	No financial policy or record of ignoring it. Opportunistic behaviour.
ccc	<1.0	Volatility of cash flows received very high (maximum one-year decline above 65%), material restrictions on distributions.	Financial management has lost much of its discipline, and subject to frequent, sudden changes consistent with a crisis environment.

Source: Fitch Ratings

Access to Capital

While access to capital is a form of financial flexibility, we assess it separately because weak access to capital has the ability to significantly constrain an IHC's rating. IHCs with access to many and deep capital markets will be better able to raise funds to meet obligations should other sources of liquidity be inadequate or unattractive. Limited unencumbered investments — i.e. unpledged shares in investments — can also weaken an assessment, as this indicates lower flexibility to raise additional funding.

Access to Capital

Score	
a	Market-leading access through cycles to all of equity, unsecured bonds/bank debt, secured debt.
bbb	Solid access to all of equity, unsecured bonds/bank debt, secured debt.
bb	Limited access to some of the following markets: equity, unsecured bonds/bank debt and secured debt and/or small value of investments' equity without share pledge with some adverse selection.
b	Access limited to periods of buoyant market conditions to equity, unsecured bonds/bank debt and secured debt and/or limited value of investments' equity without share pledge with adverse selection.
ccc	Conditional access to capital and/or rapidly shrinking value of investees' equity without share pledge with adverse selection.

Source: Fitch Ratings

Capturing Transfer and Convertibility Risks

Fitch considers it unlikely that T&C controls will be imposed in multiple jurisdictions at the same time thus reducing the relevance of Country Ceilings for IHCs with geographically diversified investment portfolios. Nonetheless, investments' Country Ceilings may become relevant to our analysis of portfolios with geographic concentration because the imposition of T&C controls can affect an IHC's ability to:

- get full value for monetisation of investments to a buyer willing to pay in an unaffected currency, as a buyer is likely to discount any offer in such circumstances; and
- meet FC obligations from cash flows upstreamed by investments, or from proceeds received in the local currency of the investment from the monetisation of shares.

Fitch will generally cap an IHC's LC IDR at the Country Ceiling of any jurisdiction that accounts for 75% or more of the IHC's portfolio equity value. Fitch will reflect a meaningful exposure to any jurisdiction, 50% to 74% of its portfolio equity valuation, by capping the Portfolio Credit Characteristics factor at the Country Ceiling. In both these cases, this approach is taken only if the investments' FC credit quality is constrained at the level of the Country Ceiling.

Under Fitch's *Corporates Exceeding the Country Ceiling Criteria*, an individual investment's FC credit quality may be notched above the Country Ceiling or the Country Ceiling may not apply if there are substantial multinational operations that ensure the company has clear financing sources outside the purview of the sovereign. In the latter case, the FC credit quality would be the same as the LC credit quality.

Where an investment's FC credit quality is not constrained by the Country Ceiling — i.e. it is the same as the LC credit quality — that investment's value is excluded from the numerator of the above ratio to assess whether the 75% or 50% thresholds are met.

Where an investment's FC credit quality is constrained because it is notched above the Country Ceiling, the applicable cap on the IHC LC IDR or Portfolio Credit Characteristics factor will be at an average of the Country Ceiling-constrained investment FC credit profiles in that jurisdiction, weighted by applicable equity value.

These provisions of the previous two paragraphs only apply where the investment's FC credit quality exceeds the Country Ceiling due to operations or committed credit lines outside the jurisdiction of the Country Ceiling. They do not apply if the investment's FC credit quality exceeds the Country Ceiling solely due to implied support from the IHC.

See the table below for an example where an IHC has two investments, X and Y, in a jurisdiction with a Country Ceiling of 'B-'.

Country Ceiling Impact Examples

Asset X share of portfolio value (%)	Asset Y share of portfolio value (%)	Asset X FC credit quality	Asset Y FC credit quality	Impact	Rationale
40	20	Constrained to 'B-'.	Constrained to 'B-'.	Portfolio Credit Characteristics factor capped at 'B-'.	The total value of constrained FC assets greater than 50% but less than 75%.
20	55	Constrained to 'B-'.	Constrained to 'B-'.	IHC's LC IDR capped at 'B-'.	The total value of constrained FC assets 75% or greater.
55	20	Unconstrained at 'B+'. (i.e. FC = LC)	Constrained to 'B-'.	No impact	Asset X's FC credit quality is unconstrained by the Country Ceiling, therefore less than 50% (i.e. 20%) of the portfolio value is affected by Country Ceiling.

Country Ceiling Impact Examples (Cont.)

Asset X share of portfolio value (%)	Asset Y share of portfolio value (%)	Asset X FC credit quality	Asset Y FC credit quality	Impact	Rationale
40	40	Constrained to 'B-'.	Constrained to 'B+'. (i.e. Country Ceiling + 2 notches)	IHC's LC IDR capped at 'B'.	The total value of constrained FC assets 75% or greater. Cap at value-weighted average of constrained credit qualities.
30	30	Constrained to 'B-'.	Constrained to 'B+'. (i.e. Country Ceiling + 2 notches)	Portfolio Credit Characteristics factor capped at 'B'.	The total value of constrained FC assets greater than 50% but less than 75%. Cap at value-weighted average of constrained credit qualities.
25	55	Unconstrained at 'B+'. (i.e. FC = LC)	Constrained to 'B+'. (i.e. Country Ceiling + 2 notches)	Portfolio Credit Characteristics factor capped at 'B+'.	The total value of constrained FC assets greater than 50% but less than 75%. Cap at value-weighted average of constrained credit qualities.
25	55	Unconstrained at 'B-'. (i.e. FC = LC)	Constrained to 'BB-'. (i.e. Country Ceiling + 3 notch)	Portfolio Credit Characteristics factor capped at 'BB-'.	The total value of constrained FC assets greater than 50% but less than 75%. Cap at value-weighted average of constrained credit qualities.
30	60	Constrained at 'B-'.	Constrained to 'BB-'. (i.e. Country Ceiling + 3 notch)	IHC's LC IDR capped at 'B+'.	The total value of constrained FC assets 75% or greater. Cap at value-weighted average of constrained credit qualities.

Source: Fitch Ratings

Fitch may not cap an IHC's LC IDR, or Portfolio Credit Characteristics factor, if there are mitigating considerations such as:

- very robust liquidity at the IHC — excluding monetisation of assets or cash flows from investments in the jurisdiction of the potential cap; or
- clear and credible near-term path to materially reduce the exposure to the jurisdiction of the potential cap. This could involve the IHC actively working towards geographic diversification or our expectation that concentration of value is due to short-term market volatility.

In any case, an IHC's FC ratings will generally be constrained by the Country Ceiling of the jurisdiction in which the IHC itself operates.

Instrument and Recovery Ratings

In general, Fitch will rate senior IHC debt — including debt secured by the equity of investments — at the same level as the IDR across the rating spectrum. Fitch will assign Recovery Ratings (RRs) of 'RR4', reflecting average recovery expectations, for IHCs with IDRs of 'BB+' or below.

Instrument-level ratings are capped at the IDR to reflect the lower predictability of recovery prospects given the volatility of investments' equity valuations, which can deteriorate rapidly when an investment approaches financial distress, as well as the absence of control over investments.

Similarly, Fitch views below-average recovery prospects of below 31% as difficult to predict given the conservative LTVs thresholds set for IHCs, and the volatility of investments' equity valuations approaching financial distress.

Subordinated IHC debt will be rated one notch below the IDR, i.e. RR of 'RR5'. IHC hybrid debt will be rated per the *Corporate Hybrids Treatment and Notching Criteria*.

A criteria variation would be required for a rating committee to rate a senior IHC instrument above or below the IDR. The rationale for the rating and the details of the assumptions behind this assessment would be disclosed in the relevant Rating Action Commentary.

Rating Assumption Sensitivity

Fitch's opinions are forward-looking and include analysts' views of future performance. IHCs' ratings are subject to positive or negative adjustment based on actual or projected business or financial key risk factors. Below is a non-exhaustive list of the primary sensitivities that can influence the ratings and/or Outlook.

Country Risk: Deterioration in an IHC's OE due to weakening of the general economic environment, financial market health and systemic governance in the countries where the issuer is operating as well as possible imposition of FX controls.

Portfolio and Business Risk: Deterioration in one or more of the following key risk factors: Management and Corporate Governance, Transparency and Execution of Investment Strategy, Risk Appetite and Investment Track Record, Portfolio Diversification, Portfolio Credit Characteristics.

Financial Risk: Changes in an issuer's financial profile due to the impact of operational developments, the issuer's management financial policy or the availability of funding due to market disruption, potentially leading to liquidity pressures.

Liquidity of Assets: The ability to sell assets can be volatile and is susceptible to changes in market conditions beyond the control of the IHC.

Variations from Criteria

Fitch's criteria are designed to be used in conjunction with experienced analytical judgment exercised through a committee process. The combination of transparent criteria, analytical judgment applied on a transaction-by-transaction or issuer-by-issuer basis, and full disclosure via rating commentary strengthens Fitch's rating process while assisting market participants in understanding the analysis behind our ratings.

A rating committee may adjust the application of these criteria to reflect the risks of a specific transaction or entity. Such adjustments are called variations. All variations will be disclosed in the respective rating action commentaries, including their impact on the rating where appropriate.

A variation can be approved by a ratings committee when the risk, feature or other factor relevant to the assignment of a rating and the methodology applied to it are both included within the scope of the criteria, but when the analysis described in the criteria requires modification to address factors specific to the particular transaction or entity.

Criteria Disclosures

The following elements are included in Fitch's Rating Action Commentaries and issuer research reports:

- A Rating Derivation section which explains the positioning of the issuer's rating against its peers and/or the Navigator thresholds, and describes additional considerations affecting the rating not included in the Navigator. These include in particular cross-sector criteria considerations such as the Country Ceiling or the impact of Parent-Subsidiary relationships. Ratings that fall outside the three-notch band centred around any reasonable combination of the mid-points of the Navigator's Key Factors will be explained in this section.
- A description of those factors most relevant to the individual rating action.
- Where Fitch has not assessed 85% by equity value of the investments for the sub-factor Weighted-Average Portfolio Credit Strength by Equity Value, we will disclose the proportion of the portfolio value assessed, the reasons why the 85% threshold has not been met, and an explanation of why not meeting the threshold has no impact on the IHC's ratings.

- Where the Fitch-calculated LTV ratios differ materially from those published by an issuer, Fitch expects to publish the key reasons for the differences in its Rating Report.

Data Sources

Key assumptions underlying these criteria are developed by the analysis of historical financial and non-financial data on corporates and their vulnerability to credit risk. This includes the analysis of the key rating drivers and their historical and projected performance over prolonged periods, analytical conclusions drawn from financial reports, public and private sector information, and analytical information received from issuers and other market participants. Assumptions are derived from experienced analytical judgement using such information. This information is also used to assign ratings to IHCs covered by these criteria.

Limitations of Criteria

The same limitations as the Corporate Rating Methodology apply. Moreover, when the IHC has non-corporate portfolio assets, the limitations of the relevant Master Criteria apply to the assessment of the credit quality of those assets.

Ratings, including Rating Watches and Outlooks, assigned by Fitch are subject to the limitations specified in Fitch's Ratings Definitions and available at www.fitchratings.com/site/definitions.

Appendix

The Appendix tabulates the sector-specific Key Rating Drivers and sub-factors for IHCs.

Appendix: Key Rating Drivers – Investment Holding Companies

	Transparency and Execution of Investment Strategy	Risk Appetite and Investment Track Record	Portfolio Diversification	Portfolio Credit Characteristics
Score	**Transparency and Execution of Investment Strategy**	**Risk Appetite**	**Business and Geographic Diversification**	**Weighted-Average Portfolio Credit Strength by Equity Value**
aa	n.a.	n.a.	n.a.	n.a.
a	Well-articulated, long-term investment strategy with very few material examples of deviation.	Very conservative appetite for investment risk (business and financial risk of investments).	Portfolio assets are well diversified, either geographically by market or by sector. If a single sector dominates, then geographical diversification is very strong and vice versa. Geographical exposure can be to a single large economy, if regional diversification is strong within that market.	a
bbb	Long-term investment strategy coherent but less-well articulated, implementation generally consistent. Includes IHCs where the strategy is not explicitly articulated but is readily apparent from a long-term history of investments and divestments.	Conservative appetite for investment risk (business and financial risk of investments).	Portfolio assets are moderately diversified either geographically by market or by sector. The portfolio may have a strong bias towards a single geographical market (region in a large economy) or sector but not both.	bbb
bb	Investment strategy may not be clearly articulated or changes frequently, some deviations from strategy. Includes IHCs where the strategy is not explicitly articulated but is somewhat apparent from long-term history of investments and divestments.	Higher appetite for investment risk (business and financial risk of investments).	Portfolio assets' diversification is limited. There is a strong portfolio bias in terms of both geographical market and sector.	bb
b	Largely opportunistic behaviour, significant deviations from stated investment strategy or investment strategy not articulated nor apparent from history.	Aggressive appetite for investment risk (business and financial risk of investments).	Portfolio assets' diversification is weak. There is little diversification by geographic market or sector.	b
ccc	No investment strategy or investment strategy ignored and actions threaten IHC viability.	Appetite for investment portfolio with very high risk (business and financial risk of investments), which threatens IHC viability.	Portfolio is highly concentrated in regions where cash flows are materially affected by recessionary or disruptive conditions or to sectors that are in secular decline.	ccc
		Investment Track Record	**Asset Value Concentration**	**Investments' Financial Transparency**
aa		n.a.	n.a.	n.a.
a		Consistent record of returns exceeding targets and relevant market performance indicators.	Low - Equity value of the three largest investments represents up to 50%, or largest asset up to 25%, of portfolio equity value.	Investments provide high-quality and timely financial reports.
bbb		Successful record of returns generally meeting targets and relevant market performance indicators.	Moderate - Equity value of the three largest investments represents 51%-60%, or largest asset 26%-40%, of portfolio equity value.	Investments provide good-quality reports without significant failings. Consistent with the average of listed companies in major exchanges.
bb		Less successful or inconsistent record of returns compared with targets and relevant market performance indicators.	High - Equity value of the three largest investments represents 61%-80%, or largest asset 41%-60%, of portfolio equity value.	Investments' financial reporting is appropriate but with some failings (e.g. lack of interim or segment analysis).
b		Record of returns is poor compared with targets and relevant market performance indicators.	Very High - Equity value of the three largest investments represents > 80%, or largest asset > 60%, of portfolio equity value.	Investments' financial reporting is defective and/or includes aggressive accounting policies.
ccc		Record of returns is very poor compared with targets and relevant market performance indicators and threatens IHC viability.	Concentration Threat - Very high concentration in assets that are in secular decline, or in, or approaching, distress.	Sustained absence of financial reporting by investments for reasons other than force majeure, change of auditor or corporate restructuring.

Source: Fitch Ratings

Key Rating Drivers – Investment Holding Companies Financial Profile

	Access to Capital	Financial Structure	Financial Flexibility
Score	**Access to Capital**	**Gross LTV**	**Financial Discipline**
aa	n.a.	n.a.	n.a.
a	Market-leading access through cycles to all of equity, unsecured bonds/bank debt, secured debt.	<20%	Clear commitment to maintain a conservative policy with only modest deviations allowed.
bbb	Solid access to all of equity, unsecured bonds/bank debt, secured debt.	35%	Financial policies less conservative than peers but generally applied consistently.
bb	Limited access to some of the following markets: equity, unsecured bonds/bank debt and secured debt and/or small value of investments' equity without share pledge with some adverse selection.	45%	Financial policies in place but flexibility in applying them could lead to temporarily exceeding downgrade guidelines.
b	Access limited to periods of buoyant market conditions to equity, unsecured bonds/bank debt and secured debt and/or limited value of investments' equity without share pledge with adverse selection.	55%	No financial policy or record of ignoring it. Opportunistic behaviour.
ccc	Conditional access to capital and/or rapidly shrinking value of investees' equity without share pledge with adverse selection.	>60%	Financial management has lost much of its discipline, and subject to frequent, sudden changes consistent with a crisis environment.
		Net LTV	**IHC Cash Cover**
aa		n.a.	n.a.
a		<15%	4.5x
bbb		30%	3.5x
bb		40%	2.5x
b		50%	1.5x
ccc		>55%	<1.0x
		Stressed Gross LTV	**Stability and Control of Recurring Cash Flows**
aa		n.a.	n.a.
a		<25%	Record of stability of cash flows received (indicative maximum one-year decline below 25%), no restriction on distributions, ability to influence distribution policy.
bbb		45%	Some volatility of cash flows received (maximum one-year decline below 35%), no particular ability to influence distributions.
bb		60%	More volatility of cash flow received (maximum one-year decline below 50%), minor restrictions on distributions could kick in.
b		70%	Volatile cash flows received (maximum one-year decline below 65%), material restrictions on distributions.
ccc		>80%	Volatility of cash flows received very high (maximum one-year decline above 65%), material restrictions on distributions.
		Gross IHC Debt/Recurring Cash Received	**Asset Liquidity**
aa		n.a.	n.a.
a		2.5x	At least five different assets with excellent liquidity. This includes, for example, assets where a deep, established market exists, investment-grade assets and widely distributed securities. Listed stakes without significant impediments to sale account for 80% or more of equity valuation.
bbb		3.5x	At least five different assets with good liquidity. This includes, for example, assets where market demand exists, albeit is relatively less stable compared with the 'a' rating category, investment-grade assets and widely distributed securities. Listed stakes without any significant impediments to sale account for 50% or more of equity valuation.

Key Rating Drivers – Investment Holding Companies Financial Profile (Cont.)

bb	4.5x	At least three different assets with good liquidity and no significant impediments to sale. This includes, for example, assets where market demand exists, but could be susceptible to some modest stability concerns, investment- or non-investment-grade assets and moderately wide security distribution.
b	6.0x	Questionable liquidity of assets. This may include non-investment-grade assets, unlisted/material concentrated shareholdings potentially with limited free float, listed assets with significant impediments to sale, assets that are highly susceptible to market sentiment and assets with significant restrictions on disposal, weak emerging-market assets.
ccc	>7.0x	Very low levels of asset liquidity. All, or almost all, of asset portfolio is unlisted, listed with limited float, or unable to be readily monetised for any other reason.

Source: Fitch Ratings

Key Rating Drivers – Investment Holding Companies Financial Profile (Cont.)

	Financial Structure (cont.)	Financial Flexibility (cont.)
Score	**FX Mismatch**	**Readily Available Liquidity**
aa	n.a.	n.a.
a	No significant FX mismatch between IHC debt and currency denomination of asset value, or between IHC interest payments and cash flow received, after taking hedging into account.	Liquidity ratio greater than 1.25x over the next 30 months.
bbb	Limited FX mismatch between IHC debt and currency denomination of asset value, or between IHC interest payments and cash flow received, after taking hedging into account.	Liquidity ratio greater than 1.25x over the next 24 months.
bb	Moderate FX mismatch between IHC debt and currency denomination of asset value, or between IHC interest payments and cash flow received, after taking hedging into account.	Liquidity ratio greater than 1.25x over the next 18 months.
b	Large FX mismatch between IHC debt and currency denomination of asset value, or between IHC interest payments and cash flow received. No significant/ineffective hedging in place.	Liquidity ratio greater than 1.25x over the next 12 months.
ccc	FX exposure dominant in impairing the issuer's ability to refinance or service debt in cash terms.	Liquidity ratio worse than 1.25x over 12 months.

Source: Fitch Ratings

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