RATING ACTION:

ARC RATINGS ASSIGNS A PUBLIC, FINAL LONG-TERM PRINCIPAL A- RATING TO THE MULTICURRENCY REVOLVING LOAN FACILITY ('FACILITY B') PROVIDED BY BNP PARIBAS TO THE BORROWER, WITH STABLE OUTLOOK

Lisbon, 25 March 2022 - ARC Ratings, S.A. (ARC) has assigned a public, final long-term principal rating of A- to the multicurrency revolving loan facility ('Facility B') provided by BNP Paribas to the Borrower, with stable outlook.

LENDER	MAXIMUM FUNDING AMOUNT	RATING CLASS	RATING	OUTLOOK	NEXT REVIEW DATE
BNP Paribas	EUR 270m	Facility B	A-	Stable	27 March 2023

The A- credit rating assigned to Facility B relates to the ultimate repayment of principal only.

TRANSACTION OVERVIEW

ARC was requested to provide a principal only rating on a pre-existing transaction which has been undergoing some amendments in recent months. Under the amendments, BNP Paribas (the 'Facility B Initial Lender') and a second multinational investment bank (the 'Facility A Initial Lender') will make certain funds available to the Borrower from time to time, each by way of multicurrency revolving loan facilities (together, the 'Facilities), for the purpose of funding the purchase or origination by the Borrower of Collateral Obligations, which will predominantly be senior secured broadly syndicated loans. The Borrower is an Irish Designated Activity Company (DAC). The collateral manager is one of the world's leading alternative asset managers, whose active management approach has allowed for consistently low loan principal loss rates through the cycle. ARC views the experience of the collateral manager as a key mitigant for this transaction.

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The Maximum Funding Amount of the Facilities is EUR 540m, provided by the Facility A Lender and the Facility B Lender on the basis of their Funding Share, both of which are 50%. In ARC's view the equal weighting of funding provides an alignment of interest between both lenders. The Revolving Period is set to run for a period of three years, until 25 March 2025. The Facility B Lender has an optional redemption trigger on 25 March 2026, if exercised repayments will be made pro rata and pari passu on the basis of each Lender's Funding Share from liquidation proceeds. The Facility B Maturity Date will occur on 25 March 2032, which coincides with the latest legal final maturity allowable for the Collateral Obligations under the Eligibility Criteria, mitigating market value risk. In ARC's view the optional redemption trigger would not be exercised were it to result in a loss for the Facility B Lender, as such ARC ran its cashflow analysis up to the Facility B Maturity Date.

One of the triggers noted below ensures there will be 25% par subordination stemming from overcollateralisation, which ARC utilised as a key assumption in its analysis. Additional funding for the Borrower comes from the issuance of profit participating notes, which are subordinated to the Facilities. There is a natural hedge in place, with separate accounts maintained for funding amounts provided in USD or GBP (with a EUR equivalent calculated to determine the proportion of the Maximum Funding Amount). Amounts drawn under the facility agreement pay an Applicable Base Rate (EURIBOR, SOFR or SONIA) plus an Applicable Margin. The current weighted average spread of the Collateral Obligations as at December 2021, of 3.73%, results in significant excess spread for consideration which, in certain circumstances, may be used to repay the principal of the Facilities. Additionally, there is an amortisation schedule in place for Facility B that ensures the weighted average life of the underlying portfolio is expected to be far shorter than the term of Facility B.

Key Triggers

- Subordination Test – will be satisfied if the Coverage Ratio (principal balance of all collateral divided by total funded amount) is above 133.33%. If this test is not satisfied, then the Borrower cannot obtain additional funding under the Facility Agreement. This gives the worst-case par subordination assumption of 25% assumed by ARC.
- Security Coverage Test – if the Coverage Ratio deteriorates further, then all available interest proceeds will be used to pay down the Facilities pro rata and pari passu (and thereafter principal proceeds), until satisfied.
- Event of Default Coverage Test – if the Coverage Ratio deteriorates even further then, in addition to the accelerated amortisation as a result of the Security Coverage Test, the Lender's may designate an Early Repayment Date on which all Funding Amounts are to be repaid. Given the alignment of interest between the Lenders, ARC's analysis assumed that this option would not be triggered were it to result in the portfolio being liquidated at a loss (ie. it would result in a loss of principal for the Lender's).

KEY COUNTERPARTIES

Blackstone Corporate Funding DAC (the 'Borrower') – a company incorporated in Ireland, having its registered office at 2nd Floor, 1-2 Victoria Buildings, Haddington Road, Dublin 4, Ireland

Facility A Lender – a national banking association validly incorporated under the laws of the United States of America.

BNP Paribas ('Facility B Lender') - a société anonyme validly incorporated under the laws of the Republic of France acting through its London Branch at 10 Harewood Avenue, London NW1 6AA, United Kingdom.

Citibank Europe PLC, UK Branch (the 'Administration Agent') – a public limited liability company validly incorporated under the laws of Ireland acting through its UK Branch at 5th Floor, Citigroup Centre, 25 Canada Square, Canary Wharf, London, E14 5LB, United Kingdom.

Citibank, N.A. London Branch (the 'Account Bank', the 'Custodian') – a national banking association validly incorporated under the laws of the United States of America acting through its Agency and Trust business located at Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB, United Kingdom – having short-term issuer ratings of P-1/A-1/F1 by Moody's/S&P/Fitch, satisfying ARC's Counterparty Risk Criteria.

Citibank, N.A. London Branch (the 'Trustee') – a national banking association validly incorporated under the laws of the United States of America acting through its Agency and Trust business located at Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB, United Kingdom.

Virtus Group LP (the 'Collateral Administrator') – a limited partnership incorporated under the laws of Texas and having its operating office at 25 Canada Square, Level 33, London E14 5LQ.

KEY RATING DRIVERS

Portfolio Credit Quality: ARC's weighted average credit rating of the current portfolio as at December 2021 is 'B', implying a relatively weak to moderate credit quality and thus moderate to high risk. Asset Profile Tests in place ensure that the weighted average credit rating cannot migrate lower than approximately a 'B-', which was a key assumption in ARC's analysis.

Recovery Expectations: An additional Asset Profile Test ensures that at least 90% of the Collateral Obligations must be senior secured which, combined with the strong legal frameworks present in many of the expected jurisdictions, provides moderate recovery prospects in the event where an obligor defaults.

Portfolio Diversification: Additional Asset Profile Tests impose limits on obligor concentrations, industry-specific exposure and exposure to assets with high country risk.

The current portfolio, as at December 2021, is relatively well-diversified with respect to underlying industries and countries. The largest industry, healthcare and pharmaceuticals, accounts 18.2% of total principal balance and the largest country, the United Kingdom, accounts 20.2% of total principal balance. Whilst the United Kingdom is the largest country concentration, ARC notes that EUR-denominated obligations account for 94.1% of total principal balance. Also, at present, the majority of metrics subject to the Asset Profile Tests are well within their respective limits. The expected portfolio credit quality and diversification have a direct impact on the asset-level model (ARC's Portfolio Risk Calculator), which ARC considered under various downside scenarios owing to the fact the transaction remains in its Revolving Period.

Credit Enhancement: The Subordination Test ensures a minimum 'hard' credit enhancement of 25% for ARC's consideration. In addition, the significant level of excess spread expected provides additional credit support in the downside scenarios ARC analysed.

Collateral Manager Experience: ARC performed an operational review of the collateral manager and was satisfied with the diligent nature of their asset management processes and strong historical performance of their credit strategies.

Cash Flow Analysis: ARC's cash flow analysis assessed the ultimate repayment of principal of Facility B by the legal final maturity date of 25 March 2032, under varying downside scenarios. In doing so, ARC determined that the transaction can withstand stresses commensurate with a 'A-' rating, with front loaded, stable, and back loaded default vectors applied to the selected scenario. In this scenario, ARC assumed a default frequency of 51.5% and loss severity of 28.7%, with the Borrower continuing to ultimately repay Facility B principal.

SENSITIVITY ANALYSIS AND TURNING POINTS

ARC ran sensitivity tests to determine to what extent the performance of the portfolio would need to deteriorate in order for the rating to be downgraded. The table below shows the increase in the Weighted Average Probability of Default (WAPD) for the underlying assets that would trigger a rating downgrade.

Increase in the base WAPD	Rating Change?
5%	No Change
10%	One Notch Downgrade
20%	One Notch Downgrade

ARC will continue to perform regular surveillance of the transaction.

Positive Turning Points	Negative Turning Points
- Significant increase in the market value of the assets versus their purchase price. - Positive migration of the weighted average rating of the portfolio. - Increased diversification benefits, stemming from underlying industry, geography and obligor concentrations.	- Significant reduction in the market value of the assets versus their purchase. - Negative migration of the weighted average rating of the portfolio. - Reduced diversification benefits (compared with ARC's downside scenarios) stemming from underlying industry, geography and obligor concentrations.

RELATED CRITERIA

ARC Ratings' Global Structured Finance Rating Criteria (Sep 2021).

ARC Ratings' Collateralised Obligation (CLO) Rating Criteria (Feb 2022)

The rating was assigned by ARC Ratings, S.A. and endorsed by ARC Ratings (UK) Limited in accordance with Statutory Instrument 2019 nº 266 - The Credit Rating Agencies (Amendment etc.) (EU Exit).

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ARC Ratings provides to the entity whose financial commitments are being rated the documents that substantiate the rating to be attributed. This entity is thus given the opportunity to clarify or correct factual details. ARC Ratings also grants the issuer the possibility of appealing a rating accorded by ARC as long as this appeal is supported on additional information that hasn't been taken into account in the original rating accordance.

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In the rating process, ARC Ratings adopts procedures and methodologies aimed at ensuring transparency, credibility and independence, and also that rating classifications are not influenced by conflicts of interest.

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