

ARC Ratings accords a public final 'A(sf)' rating to the senior notes and 'BBB-(sf)' rating to the mezzanine tranche of Aqueduct European CLO 2-2017 Designated Activity Co.

ISSUER/REFERENCE OBLIGATION ISSUER	ISSUE RATINGS	
Aqueduct European CLO 2-2017 Designated Activity Co.	A(sf)	Senior Tranche - Long Term (A(sf), with a Stable outlook)
RATING DATE	BBB-(sf)	Mezzanine Tranche - Long Term (BBB-(sf), with a Stable outlook)
22 December 2016		

ARC Ratings, S.A. (ARC Ratings) has accorded a final, long-term public rating of 'A(sf)' to the senior tranche to be issued, and a final long-term public rating of 'BBB-(sf)' to the mezzanine tranche to be issued by Aqueduct European CLO 2-2017 Designated Activity Co. in both its proposed capital structures, Limited, both with Stable outlooks. The methodology used is ARC's Global Structured Finance Rating Criteria (published September 2016) and ARC's Collateralised Loan Obligation (CLO) Rating Criteria (published February 2016). These methodologies are available from www.arcratings.com.

COMPANY PROFILE

HPS Investment Partners (UK) LLP ('HPS' or the "Issuer") has an experienced London-based investment team currently managing approximately \$4bn in dedicated European leveraged finance assets and \$4bn in CLO's as part of HPS \$34bn (global) capital under management. On 31st March 2016 the senior executives of HPS acquired HPS and its subsidiaries from JPMorgan Asset Management Holdings Inc and Highbridge Capital Management LLC. HPS CLO Performance Summary since 2012, 8 CLO's named Highbridge Loan Management and the first CLO to be closed under the new management HPS was on 6th August 2016, HPS Loan Management 9-2016 Ltd €500m. HPS have vast experience within the team and can provide comprehensive coverage of the European leveraged loan universe as well as globally, with proven sourcing and investment experience.

The rating addresses the legal and financial structure of the transaction, the quality of the underlying collateral, the management capability of Blackrock, and the ultimate repayment of principal and interest at maturity of the obligations.

TRANSACTION OVERVIEW & CAPITAL STRUCTURE

The maximum warehouse amount is EUR 400,000,000. Two potential capital structures have been proposed as follows:

- A EUR 400m structure with a Senior Tranche 77.00%: and Mezzanine Tranche: 12.50%; and a
- A EUR 320m structure with a Senior Tranche 81.5%: and Mezzanine Tranche: 12.50%.

RATING RATIONALE

- Credit Enhancement (CE): For the senior note, CE comprises the 23.00% (EUR400m)/18.5%(EUR300m) subordination provided by the transaction structure, and excess spread of 3.90%/3.85% (factoring in the senior rate of interest and senior expense cap). ARC believes this is sufficient to protect the senior notes against losses at an 'A(sf)' rating level, whilst the mezzanine tranche passes at a BBB-(sf) rating level with protection from the junior tranche and excess spread.
- 'B+' Weighted Average Asset Quality: The weighted average credit rating of the indicative portfolio is 'B+'. Whilst issuers rated in the 'BB-/B+' rating category denote relatively weak credit quality, ARC considers the senior and mezzanine tranches are unlikely to be affected by the projected level of defaults (primarily given the available CE) in the 'A(sf)' and 'BBB-(sf)' rating scenarios, respectively.
- Strong Recovery Expectations: ARC stressed the recoveries of the indicative portfolio by assuming a higher concentration of assets with weak recovery prospects and applying a further haircut to recovery assumptions for higher ratings, resulting in recovery rate assumptions of 50.4% and 59.8% in ARC's 'A(sf)' and 'BBB-(sf)' scenarios, respectively.
- Collateral Manager Expertise: The management team of HPS possesses significant relevant experience, and implemented credit research and investment processes are suitably thorough. Internal systems are robust, and policies and procedures are generally well documented.
- Industry and Regional Diversification: The indicative portfolio assets exhibit broad industry distribution. Whilst regional distribution is moderately more concentrated, the economic strength of the respective nations, and the otherwise diversified nature of the portfolio assists in counterbalancing this exposure. Largest geographic exposure Germany (24%) and largest corporate sector Media (16.55%) noting that several of the other businesses although more specifically classified otherwise relate to healthcare and pharmaceuticals (production and sale).

THIS DISCLOSURE IS FOR INFORMATION PURPOSES

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Prior to the assignment or revision of a rating ARC Ratings provides to the entity whose financial commitments are being rated the documents that substantiate the rating to be attributed (the preliminary rating report). This entity is thus given the opportunity to clarify or correct factual details, thus allowing the rating assigned to be as accurate as possible. The comments made by the entity whose financial commitments are being rated are taken into account by ARC Ratings in the assignment of the rating.

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