ARC Ratings accords a public, final 'A+(sf)' rating to the Guaranteed Floating Rate Notes issued by ELQ Investors II Ltd and to the Guaranteed Floating Rate Notes issued by ELQ Investors VI Ltd

ISSUERS	ISSUE RATING	
ELQ Investors II Ltd ELQ Investors VI Ltd	A+(sf)	Guaranteed Floating Rate Notes issued by ELQ Investors II Ltd (A+(sf), with stable outlook)
	A+(sf)	Guaranteed Floating Rate Notes issued by ELQ Investors VI Ltd (A+(sf), with stable outlook)
RATING DATE	**NEXT REVIEW DATE**	
28 February 2019	28 February 2020	

ARC Ratings, S.A. (ARC) has accorded a final, long-term public rating of 'A+(sf)' to the Guaranteed Floating Rate Notes issued by ELQ Investors II Ltd and has accorded a final, long-term public rating of 'A+(sf)' to the Guaranteed Floating Rate Notes issued by ELQ Investors VI Ltd, both with stable outlook.

COMPANY PROFILE

ELQ Investors II Ltd ('ELQ II', company number: 06375035) and ELQ Investors VI Ltd ('ELQ VI', company number: 08491527) are both private limited companies incorporated in England and Wales and act as the 'Issuers' in this transaction.

The Guaranteed Floating Rate Notes ('Notes') benefit from cross-collateralisation which, as indicated in the deed of covenant, implies that the Notes issued by ELQ II are guaranteed by GLQC S.à r.l. ('GLQC'), GLQL S.à r.l. ('GLQL') and ELQ VI and the Notes issued by ELQ Investors VI Ltd are guaranteed by GLQC, GLQL and ELQ II.

Notes issued by ELQ II benefit from a Security Trust Deed, entered into between ELQ II and Goldman Sachs International as Security Trustee and an English law charge in respect of all shares in the share capital of ELQ II entered into between ELQ Investors IX Ltd and Goldman Sachs International (the 'Security Trustee'). Accordingly, Notes Issued between ELQ VI benefit from a Security Trust Deed entered into by ELQ VI and the Security Trustee and an English law charge in respect of all shares in the share capital of ELQ VI entered into between ELQ Holdings (UK) Ltd and the Security Trustee.

In February 2019, ARC accorded a final, long-term public rating of 'A+(sf)' to the Guaranteed Floating Rate Notes issued by GLQC and accorded a final, long-term public rating of 'A+(sf)' to the Guaranteed Floating Rate Notes issued by GLQL, both with stable outlook. It should be noted that assets from ELQII, ELQVI, GLQC and GLQL are all fully fungible and cross-collateralise each pool, providing additional support to each other. This has resulted in further support being provided than if analysed on a stand-alone basis, as each pool benefits from the total pool of underlying security.

The ratings address the legal and financial structure of the transaction, the quality of the underlying collateral and the timely payment of interest and the ultimate repayment of principal on maturity of the obligations.

TRANSACTION OVERVIEW & CAPITAL STRUCTURE

In November 2018, Goldman Sachs International Bank ('GSIB', company number: 01122503) held a Reverse Repurchase Agreement over the Secured Notes owned by GLQ International Holdings Ltd. ('GLQI') in two wholly owned subsidiaries GLQC and GLQL.

GLQC issued Secured Notes in the amount of USD 91,000,000 and GLQL issued Secured Notes in the amount of USD 550,000,000, both due in November 2023. Due to the cross-collateralisation of the assets between both vehicles, ARC has rated the Secured Notes issued by GLQC and GLQL together, assuming a Note issuance amount of USD 641,000,000.

In the Subscription Agreements, GLQI agreed to provide Transferable Preferred Equity Certificates (TPECs) to GLQC and GLQL to partially offset the subscription amount due to the Issuers.

In the second stage, the existing TPECs issued by GLQC to GLQI will be redeemed in full. The resulting proceeds will be used by GLQI to subscribe for additional TPECs of GLQC. Consequently, GLQC will use the net cash proceeds from the first stage to subscribe for new Notes issued by GLQC. Therefore, the issuance amount of GLQC Notes will be increased to USD 423,600,000 (from the initial USD 91,000,000). The terms of the GLQC and GLQL Notes will be amended to allow cross-guarantee by GLQL, ELQ II, ELQ VI and GLQC, ELQ II, ELQ VI, respectively.

In the next stage, GLQI intends to raise USD 2,063,700,000 of short-term debt from GS Group. For this purpose, ELQ II will issue USD 1,298,500,000 of Notes to GLQI which in the later stage will be repaid to GS Group. Accordingly, ELQ VI will issue USD 765,200,000 of Notes to GLQI which will be repaid to GS affiliates. Both Notes are due November 2023.

Finally, GSIB will acquire ELQ II, ELQ VI and new GLQC Notes from GLQI under repurchase agreement for USD 2,396,300,000 which will allow GLQI to use the proceeds from GSIB to repay USD 2,063,700,000 of short-term debt to GS Group. It should be noted that residual proceeds will be used for the acquisition of ELQ II.

Due to the Guarantees outlined above, there is cross-collateralisation of the assets between all four vehicles. Therefore, ARC has rated the Notes issued by ELQ II, ELQ VI, GLQC and GLQL together, assuming a total Note issuance amount of USD 3,037,300,000. The current aggregate Fair Market Value (FMV) of the underlying assets is USD 4,853,433,276. ARC was appointed to credit assess 47.3% of underlying loans of the portfolio prior to this transaction. The capital structure remains unchanged.

RATING HIGHLIGHTS

Key rating drivers include:

- Credit Enhancement (CE): For the Guaranteed Floating Rate Notes CE comprises of over-collateralisation, which amounts to 37.41%, as the portfolio amount is greater than the issuance amount of the Notes. ARC believes this is sufficient to protect the Guaranteed Floating Rate Notes against losses at a 'A+(sf)' rating level.
- 'B/B-' Weighted Average Asset Quality: The weighted average credit rating of the portfolio is 'B/B-'. Whilst issuers

rated in the ´B/B-’ rating category imply relatively weak credit quality, ARC considers the Secured Notes are unlikely to be affected by the projected level of defaults (weighted average 1-year probability of default rate is 10.07%) - primarily given the available CE in the ‘A+(sf)’ scenario.

- Strong Recovery Expectations: The portfolio mostly consists of 33.8% Term Loans, 16.2% Private Equity and 12.7% NPLs. ARC stressed the recoveries of the 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 32.7% in ARC´s ‘A+(sf)’ scenario.
- Industry and Regional Diversification: The portfolio assets demonstrate broad industry distribution with no individual sector accounting for more than 24.5% of the portfolio, with the largest corporate sectors being Real Estate (24.2%) and Industrial and Manufacturing (20.8%). Regional distribution is concentrated primarily in the United Kingdom, Netherlands, Russia and France. Although this shows a degree of concentration, the underlying assets have been marked down to the FMV (which is more conservative than the Notional Value) and are rated according to current risk expectations. Monthly surveillance of the FMV will commence after the Guaranteed Floating Rate Notes are issued.
- Cross collateralisation: Assets from ELQ II, ELQ VI, GLQC and GLQL are all fully fungible and cross collateralise each pool providing additional support to each other. This has resulted in further support being provided than if analysed on a stand-alone basis, as each pool benefits from the total pool of underlying security.

SUMMARY OF RATING METHODOLOGIES

ARC has applied the ARC Ratings Global Structured Finance Rating Criteria (updated in September 2018) in conjunction with the ARC Ratings Collateralised Loan Obligation (CLO) Rating Criteria (updated in February 2019). The methodologies are freely available from www.arcratings.com.

THIS DISCLOSURE IS FOR INFORMATION PURPOSES ONLY

ARC Ratings, S.A.

11 Hollingworth Court
Turkey Mill, Ashford Road
Maidstone, Kent ME14 5PP
UNITED KINGDOM
Phone: +44 (0) 1622 397350
E-mail: arcratings@arcratings.com
Site: www.arcratings.com

Key Contacts:

Paulina Mileryte
Lead Analyst
paulina.mileryte@arcratings.com

Alexander Pluckrose
Back-up Analyst
alexander.pluckrose@arcratings.com

Emma-Jane Fulcher
CRO & Panel Chairperson
emma.fulcher@arcratings.com

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Ratings assigned by ARC Ratings represent opinions on the capacity and willingness of an entity to make all required payments on a given obligation in a timely manner.

The rating(s) assigned by ARC in this report was / were sought by the entity whose financial commitments are being rated.

Prior to the assignment or revision of a rating, ARC 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 in the assignment of the rating.

ARC's historical default rates are published in the European Securities and Markets Authority Central Repository (CEREP) which can be accessed on the website cerep.esma.europa.eu/cerep-web/. ARC's default rate is the probability of lack of full and timely payment of capital or interest or of the occurrence of any event that explicitly indicates that the future full and timely payment of those commitments will not occur (e.g., in case of insolvency).

Ratings do not constitute a recommendation to buy or sell, but only one of the factors to be weighted by investors.

Throughout the entire period during which ratings are valid, ARC monitors the issuer's performance on a constant basis and may even bring forward the date of the review unless stated as point in time. Hence, prior to an investor using a rating, ARC recommends that it be confirmed, namely by consulting the list of public ratings available at the web site www.arcratings.com.

Ratings are assigned based on information, including confidential information, collected from a wide group of sources, and in particular from the entity whose financial commitments are being rated. ARC uses and treats this information with due care and attention. Although all due care was taken in the collection, verification and processing of the information for the purposes of the rating analysis, ARC cannot be held liable for its accuracy. ARC must make sure that the information has a minimum level of quality prior to assigning a rating based on such information.

In the rating process, ARC adopts procedures and methodologies aimed at ensuring transparency, credibility and independence, and also that rating classifications are not influenced by situations of conflict of interests. Any exceptions to these principles are disclosed by ARC together with the rating of the financial commitment in question.