

ARC Ratings, S.A. accords a public, final 'BBB(sf)' rating to the Notes issued in bearer form by BUMA LUX II Europe S.C.S. SICAV-RAIF, with stable outlook

<u>ISSUER</u>	<u>ISSUE RATING</u>	
BUMA LUX II Europe S.C.S. SICAV-RAIF	BBB(sf)	Notes issued in bearer form (BBB(sf), with stable outlook)
<u>RATING DATE</u>	<u>NEXT REVIEW DATE</u>	
17 September 2019	17 September 2020	

ARC Ratings, S.A. (ARC) has accorded a final, long-term public rating of 'BBB(sf)' to the Notes issued in bearer form by BUMA LUX II Europe S.C.S. SICAV-RAIF, with stable outlook. Should there be a change in any of the underlying assets' ratings, ARC will review the rating of this transaction. ARC has used its Global Collateralised Loan Obligation Rating Criteria (CLO), in light of returns and the investment mandate, whilst taking into consideration elements of its Global Fund and Asset Managers Rating Criteria for the analysis of historical performance and management. This press release should be read in conjunction with the full rating report available at www.arcratings.com.

COMPANY PROFILES

BUMA LUX II Europe S.C.S. SICAV-RAIF (the 'Fund' and the 'Issuer') is a closed-end investment fund established on 22 November 2018 under the laws of the Grand Duchy of Luxembourg as a limited partnership qualifying as an investment company with variable share capital. Its registered office is at 15, rue de Flaxweiler, L- 6776 Grevenmacher, Grand Duchy of Luxembourg. BUMA LUX II Europe S.C.S. SICAV-RAIF will issue Notes in bearer form under German Law.

BUMA LUX II Management S.A.R.L. is the General Partner of the fund and was established on 13 November 2018 as a limited-rate company under Luxembourg law for an unrestricted duration. Its registered office is at 15 Flaxweiler Street, L-6776 Grevenmacher (registered number: B229396).

Universal Investment Luxembourg S.A. (Universal Investment) was established on 17 March 2000 as a public limited company under Luxembourg Law (registered number: B75014). Universal Investment has been appointed as the Alternative Investment Fund Manager (AIFM) of the funds by the General Partner. Universal Investment is responsible for determining the Net Asset Value per share of the company and also performs the function of central administration.

Wells Fargo Asset Management (International) Limited has been appointed as the Asset Manager and is a private limited company that was incorporated on 10 February 1999. Its registered address is at 33 King William Street,

London, United Kingdom, EC4R 9AT (company number: 03710963). Wells Fargo Asset Management (International) Limited is a 100% owned subsidiary of Wells Fargo & Company.

TRANSACTION OVERVIEW

BUMA LUX II Europe S.C.S. SICAV-RAIF is an umbrella fund, offering a number of sub-funds, each with different investment policies. Each sub-fund will have its own Asset Manager appointed by the AIFM.

ARC has been provided with the portfolio of the sub-fund named 'BUMA LUX II ECM'. This is a closed-ended fund, with an Issue Date of 22 November 2018 and a 10-year term (terminating on 22 November 2028). However, this term may be extended by a period of 5 times a year to a maximum of 22 November 2033. The AIFM for the sub-fund is Universal Investment, which has appointed Wells Fargo Asset Management (International) Limited (formally known as ECM Asset Management Limited) as the Asset Manager of the sub-fund.

BUMA LUX II Europe S.C.S. SICAV-RAIF wishes to raise debt capital in addition to the issuance of limited partnership shares by issuing Notes in bearer form under German Law. The Notes have an aggregate nominal amount of up to EUR 200,000,000 and a Maturity Date of 22 November 2033. Interest shall accrue from the beginning of the first coupon period up to the Maturity Date at a fixed rate of 2% per annum. The interest payment day is the 15th banking day in January of each calendar year. The Notes rank pari passu amongst themselves and at least pari passu with all other outstanding unsubordinated obligations of the Issuer, however rank senior to the limited partnership shares due to their debt nature. The issuance of limited partnership shares and raising of debt must always be carried out while respecting an Equity Ratio of at least 30%.

RATING RATIONALE

Key rating drivers include:

- **Asset Manager Assessment:** ARC conducted an onsite review with Wells Fargo Asset Management (International) Limited (WFAM) on 13 August 2019, whom is responsible for dynamically managing and monitoring the performance of the sub-fund. WFAM is an investment advisory and management firm comprised of 29 independent investment teams for investments, solutions and risk management that encompass a range of needs such as capturing exposure to specific asset classes, solving complex portfolio challenges and improving defined contribution plans. At the review, ARC discussed the corporate profile, financial stability, investment decision-making process and risk management of WFAM. ARC is of the opinion that the Asset Manager has sufficient experience to effectively and efficiently manage the sub-fund portfolio.
- **Historical Performance Analysis:** ARC has analysed the returns of the BUMA LUX II ECM sub-fund compared to its benchmark, namely the Credit Suisse Institutional Non-USD Western Europe Leveraged Loan Index. The sub-fund consistently outperforms the benchmark and displays lower volatility than the benchmark. In addition, ARC has examined WFAM's performance as a company, thus the historical performance assessment is not solely limited to the sub-fund.
- **Portfolio Credit Quality:** The weighted average asset credit rating of the sub-fund is 'B'. Whilst assets rated in the 'B' rating category imply speculative grade investments with a notable degree of credit risk, ARC ran its CLO model and determined that the Notes would be unlikely to be affected by the projected level of defaults.

ARC also believes this will not adversely affect returns. The portfolio of assets exhibits broad industry distribution with the largest sector being Business Services (15.14% of the Total Asset Value). Regional distribution is primarily concentrated in the United Kingdom (21.29% of the Total Asset Value), Germany (13.67% of the Total Asset Value) and Luxembourg (12.81% of the Total Asset Value). Whilst exposure to the United Kingdom is high, WFAM highlighted that this was often due to companies having their registered office in the United Kingdom, but not actually being domiciled there. Consequently, ARC looked to the currency exposure in the portfolio, and only 10.5% of the portfolio is exposed to GBP. Although regional distribution is more concentrated than industry distribution, the economic strength of the respective nations of the other four of the top five exposures, and the otherwise diversified nature of the portfolio assists in balancing this exposure. In addition, ARC has applied additional stresses to assets which are exposed to country risk, and Wells Fargo take an active management approach to ensure that the portfolio is mitigated against such risks. ARC ran various scenarios to assess the portfolio on a worst-case basis, including equity investments, thus ARC is confident of the credit quality of the portfolio.

- Risk Management: ARC discussed the risk management procedures in place at both WFAM and Universal Investment Luxembourg S.A. (the 'AIFM'). WFAM use a number of hedging mechanisms to manage risks in the portfolio provided to ARC. The companies have integrated risk management systems for risk monitoring and reporting of the several risk types. The Risk Management Department of the AIFM conducts monthly stress tests for all investment funds using parametric default scenarios (for example interest rate and currency shocks); these are then analysed, and anomalies are reported to the risk committee. Additionally, the AIFM has a watchlist to monitor red flags in the investment fund which is prepared monthly and contains information on various factors including the liquidity situation, the fund performance and net cashflows. The key figures on the risk list will be compared over time and if risk limits are exceeded, the appropriate action will be taken (with the most severe action being termination of the business relationship).

SUMMARY OF RATING METHODOLOGIES

ARC has applied the ARC Ratings' Global Collateralised Loan Obligation ('CLO') Rating Criteria (updated February 2019) and the ARC Ratings' Global Structured Finance Rating Criteria (updated September 2018). ARC has additionally made reference to elements of the ARC Ratings' Global Master Criteria for Rating Funds and Asset Managers (updated November 2018). These methodologies are freely available from www.arcratings.com.

THIS DISCLOSURE IS FOR INFORMATION PURPOSES ONLY AND SHOULD BE READ IN CONJUNCTION WITH THE RESPECTIVE RATING REPORT

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