BUMA LUX II Europe S.C.S. SICAV-RAIF – Universal Investment Luxembourg S.A.

Class	Issue Rating	Outlook
Notes Issued in bearer form	BBB(sf)	Stable

INTRODUCTION

ARC Ratings, S.A. (ARC) has affirmed the final, long-term public rating of 'BBB(sf)' accorded to the EUR 200,000,000 Notes issued in bearer form under German Law by BUMA LUX II Europe S.C.S. SICAV-RAIF.

BUMA LUX II Europe S.C.S. SICAV-RAIF ('Fund') is an umbrella fund comprising of a closed-end Sub-fund named 'BUMA LUX II ECM' ('Sub-fund'). The investment objective of the Fund is to provide investors with periodic returns from an actively managed portfolio of predominantly European Debt Obligations, high yield bonds and leveraged loans ('leverage finance market'), which are primarily Senior Secured Obligations.

The Notes have a Maturity Date of 22 November 2033 and a Fixed Interest Rate of 2.0% per annum; the first Coupon Period ends on 31 December 2020. The rating addresses the timely payment of interest and ultimate repayment of principal.

RATING HIGHLIGHTS

Key rating drivers include:

- **Covid-19:** The outbreak of Covid-19 caused European economies to contract in 2020 and led to unprecedented pressure in the European High Yield Bond and Leverage Loan markets as a consequence of the government-imposed enforcement measures. Subsequently, there was a wave of downgrades from rating agencies reflecting the ongoing credit concerns. More recently, however, the European economies and more specifically the leveraged finance market have begun displaying signs of recovery, as issuance volumes have started to increase above levels seen in the first quarter of 2020. To account for the negative impact of Covid-19 and the potential for there to be a second wave of downgrades in the leverage finance market, ARC has applied a combination of stresses after examining each industry and country comprising the Sub-fund's portfolio. In line with what was seen in the market, higher stresses have been applied to industries and countries which suffered a greater impact from Covid-19. Although this resulted in an increase in the portfolio's loss rate, ARC notes the structural enhancements in place, are sufficient to protect the transaction against expected losses at 'BBB(sf)' rating level.
- **Portfolio Credit Quality:** The weighted average asset credit rating of the Sub-fund is 'B/B-', these reflective of ARC's conservative rating assumptions where more than one rating is available. Despite the weighted average rating of the Sub-fund deteriorating slightly, there has only been one company 'Lecta' which has defaulted (0.53% of the current portfolio balance) in the last year, this company had already defaulted prior to the crisis in December 2019 and subsequently defaulted again in May 2020 due to Covid-19 pressures. This shows a degree of resilience by the assets in the portfolio,

ISSUER
BUMA LUX II Europe S.C.S. SICAV-RAIF

ALTERNATIVE INVESTMENT FUND MANAGER
Universal Investment Luxembourg S.A.

ASSET MANAGER
Wells Fargo Asset Management (International) Limited

GENERAL PARTNER
BUMA LUX II Management S.A.R.L

DEPOSITARY
Hauck & Aufhäuser Privatbankiers AG – Luxembourg Branch

RATING DATE
16 September 2020

INITIAL RATING DATE
17 September 2019

NEXT REVIEW DATE
16 September 2021

METHODOLOGY APPLIED
ARC Ratings' Global Structured Finance Rating Criteria
ARC Ratings' Global Collateralised Loan Obligation (CLO) Rating Criteria
ARC Ratings' Global Master Criteria for Rating Funds and Asset Managers
available at www.arcratings.com

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particularly as the sharp contraction in economic activity has created financial difficulties and defaults for high-yield issuers, some of whom are not overly leveraged. This is evidenced by European high-yield bond default rates increasing to 2.4% in the first-half of 2020, from 1.2% at the end of 2019. Thus, ARC is of the opinion that credit risk in the portfolio is already incorporated into the NAV, given the current yield levels already have priced in this risk. Given the evolving macro-economic environment resulting from Covid-19, ARC will however continue to monitor the ratings of the assets within the portfolio closely.

- **Industry diversification:** The portfolio of assets exhibits broad industry distribution with the largest sector being Computer and Electronics (17.39% of the Total Asset Value). Assets comprising this sector are predominantly in the software and IT services sub-sectors, ARC is of the opinion that this is a credit positive given the defensive nature of the sectors. An example of such would be Avaloq Group (rated 'B' by two other leading credit rating agencies), which is a software company specialising in banking software and the largest contributor to the Sub-fund's performance. The potential long-term impacts on these sub-sectors are predicted to be positive, in ARC's opinion, due to the switch to remote working and online learning. Forecasts for IT spending indicate continued demand for cloud infrastructure services whilst specialised software, communications equipment and telecom services are anticipated to experience increased demand.
- **Regional distribution:** The portfolio is primarily concentrated in the United Kingdom (23.03% of the Total Asset Value), Germany (13.83% of the Total Asset Value) and Luxembourg (13.45% of the Total Asset Value). Whilst exposure to the United Kingdom is high, WFAM highlighted that this was often due to companies being domiciled in the United Kingdom, but not actually trading there. This is supported by the currency exposure where only 7.86% of the portfolio is exposed to GBP, whilst 89.08% is exposed to EUR. The portfolio is predominantly exposed to economically strong European countries with only 3.13% of the Total Portfolio Amount comprised of assets from weaker sovereigns that have been more severely affected by Covid-19.
- **Credit Enhancement:** The structural enhancement mechanisms in place for the Notes, include a minimum equity buffer of 30% which, combined with excess spread, is sufficient to protect the Notes at a 'BBB(sf)' rating level in ARC's worst-case scenario. In this scenario, ARC modelled the Sub-fund's equity exposure reaching the maximum amount permissible, in this regard WFAM has reduced its internal investment limit to 5% of NAV from 15% of NAV.
- **ARC Cashflow Model:** ARC ran its cash flow model to assess the ability of the transactional cash flows to repay interest on a timely basis and principal on an ultimate basis by the Maturity Date. ARC's cashflow analysis assumed that the assets with the highest margins defaulted first, up to the level determined in ARC's default model. ARC also ran front and back loaded vectors and calculated that the transaction with its current level of credit enhancement is able to withstand stresses commensurate with a 'BBB(sf)' rating scenario.

Summary of Rating Methodology

ARC has applied the ARC Ratings' Global Collateralised Loan Obligation ('CLO') Rating Criteria (updated February 2020) and the ARC Ratings' Global Structured Finance Rating Criteria (updated September 2019). ARC has additionally made reference to elements of the ARC Ratings' Global Master Criteria for Rating Funds and Asset Managers (updated November 2019). These methodologies are freely available from www.arcratings.com.

KEY TIPPING POINTS	
Positive Turning Points	Negative Turning Points
– Significant improvement in the weighted average credit quality of the portfolio due to multiple rating upgrades or acquisition of higher rated credits.	– Second wave of Covid-19 outbreaks resulting in another bond market deterioration and the subsequent decrease of the weighted average credit quality of the portfolio due to multiple rating downgrades – Acquisition of lower rated credits – An increased and sustained equity exposure above predefined limits (5% of NAV).

TRANSACTION STRUCTURE

BUMA LUX II Europe S.C.S. SICAV-RAIF is an umbrella fund, offering a number of Sub-funds which will have their own Asset Manager appointed by the Alternative Investment Fund Manager (AIFM) whom is Universal Investment Luxembourg S.A. ('Universal Investment'). The transaction structure has remained unchanged since ARC last rated this transaction in September 2019, in that there is only one Sub-fund underpinning the Notes issued. The Sub-fund has a 10-year term (terminating on 22 November 2028), extendable by a period of 1 year, 5 times to a maximum maturity of 22 November 2033. The Sub-fund is actively managed by WFAM as the Asset Manager. In this regard WFAM are responsible for portfolio management tasks such as:

1. The purchasing of assets for the Sub-fund;
2. Entering into and closing out of derivative positions both for investment and hedging purposes;
3. Executing foreign exchange transactions;
4. Managing cash;
5. Loan servicing.

WFAM has USD 482.7bn assets under management as at 30 June 2020 (not including an additional USD 95.3bn from Galliard Capital Management). The asset management team has remained largely unchanged from the initial rating conducted by ARC. Furthermore, the asset management and credit research team still represent a highly experienced team with an average of 18 years' experience in the industry. Therefore, ARC is of the opinion that there have not been any notable changes in WFAM's ability to effectively and efficiently manage the Sub-fund portfolio over the review period.

Universal Investment is responsible for the risk management of the Sub-fund, thus they have established investment restrictions that the Sub-fund must comply with to minimise concentration risk. In addition, Wells Fargo have set additional internal investment restrictions, these were detailed in the previous ARC report dated 17 September 2019. It should be noted that, one of the investment limits has been updated; the maximum proportion of equity like instruments allowed in the Sub-fund has been reduced from 15% of NAV to 5% of NAV. In this regard, on its update call with WFAM on 1 September 2020 ARC was advised that there have been no equity positions in the portfolio since its inception date. However, any equity exposures in the Sub-fund would only be as a result of restructurings of existing debt instruments (mainly Senior Secured Obligations as per the Fund's investment objective). Of the other funds that are managed to a similar mandate, only two funds had minor equity positions of 16bps and 56bps of NAV. WFAM conservatively values the equities through DCF analysis and then applies haircuts. Thus, any equity exposure that may arise would be very small and, in any event, subject to maximum 5% of NAV limit. Once the equity positions have been sold in the open market, WFAM will revalue the position based on transaction price data, this may lead to a temporary increase in the amount of equity held within the portfolio as capital gains are realised. This lower equity investment limit, which ARC has accounted for in its models, is viewed positively due to the negative correlation between the amount of equity comprising the portfolio and the portfolio's probability of default. The updated internal investment restrictions set by WFAM are shown below.

Item	Current Limit (% of NAV)
Investment in Equity like instruments/senior unsecured/subordinated secured/CLO obligations	5%
Borrowing (overdraft facilities)	10%
Funds	10%
Single Obligor	5%

ARC notes the degree of flexibility available to WFAM given the lack of stringent investment criteria on minimum ratings as well as industry and region concentrations. As such, ARC formed a very conservative view on the portfolio composition and will maintain frequent surveillance in order to monitor the credit quality of the portfolio. ARC expects the Sub-fund's equity exposure in relation to the NAV to remain low (c. 1-1.5%); this view has been formed by the information provided by WFAM in addition to the 0% historical and current equity exposure percentage, whereby there have been no equity positions in this portfolio since its inception date. As such, should there be a prominent or sudden rise in the Sub-fund's equity exposure, above ARC's expectations and beyond the 5% investment limit, which in turn causes a significant deterioration in the credit quality of the portfolio, rating action could follow.

MARKET OVERVIEW

The outbreak of Covid-19 caused a large sell-off and reduction in issuance volumes in the European loan market which reached its peak in late March 2020. The significantly lower issuance volumes led to markets pricing in a degree of elevated stress, resulting in European leverage loan prices declined by c.20% across the investment spectrum regardless of risk profile. As such, ARC takes the view that the credit risk has been sufficiently factored into prices at current yield levels as a study by Aviva Investors Global Services Limited shows that, European high yield instruments are currently pricing in an expected default rate of 35% assuming almost zero recovery rates. By way of context, the highest historical global 5-year cumulative default rate was 32%.

In addition, Covid-19 has resulted in a high number of rating actions and alterations of rating outlooks across sectors, with credit rating downgrades at the fastest pace since 2007 in March 2020. For example, S&P Global made 1,190 rating downgrades by the start of July (7 months of data) which compares with the record of

1,326 downgrades in 2009 (12 months of data) during the global financial crisis. Downgrades have also grown as a share of rating changes, from about 40% at the beginning of the year to over 80% by the end of Q2 2020. Following the surge in downgrades in March and April, the number of downgrades gradually slowed. But the widespread level of downgrades is reflected in the slight deterioration of the weighted average rating factor from 'B' to 'B/B-', this will be discussed in more detail of Asset Quality section.

Rising corporate indebtedness, fuelled by the search for yield and benign financing conditions, has made issuers more vulnerable to the sharp fall in revenues that occurred during the crisis. Within the investment grade universe, BBB-issuers, which account for 40% of rated corporates are particularly vulnerable as 59% have negative rating outlooks and only 1% have positive outlooks, according to industry studies by ESMA.

Resultantly, credit spreads significantly widened in March due to extreme levels of market volatility and investors reallocating from higher risk assets to lower risk ones. European high yield spreads rose from 300bps in January to a maximum of 866bps in March, this has declined to around c. 500bps as of June 2020. Signs of recovery can be seen as levels of issuances has risen by 63.6% (EUR 49.2bn) in Q2 2020 from Q1 2020 (EUR 30.1bn)

The volatility in the high-yield market has been partially offset by the global government's monetary and fiscal stimulus measures, such as government guarantees and furlough schemes, which have cushioned the negative impact by mitigating defaults and extending the cycle in credit markets. More specifically, the European Central Bank (ECB) and Bank of England (BoE) have eased capital requirements for the banking sector. In addition, the ECB announced that its Pandemic Emergency Purchase Programme has increased to EUR 1.35 trillion and has a EU Recovery Fund totalling EUR 750bn, providing additional support to the countries most impacted by Covid-19; these being Italy, Spain, Portugal and Greece. In this regard, it should be highlighted that the portfolio's exposure to economically weaker countries is limited, with only 3.13% of the Total Portfolio Amount located in Spain and 0% from Italy, Portugal or Greece and therefore does not pose a significant risk to the transaction.

PERFORMANCE ANALYSIS AND PORTFOLIO QUALITY

HISTORICAL RETURNS, DEFAULT AND RECOVERY RATES

ARC has analysed the returns of the BUMA LUX II ECM Sub-fund in respect of the Credit Suisse Institutional Non-USD Western Europe Leveraged Loan Index. To date, the portfolio displayed greater annual returns of -1.66% (net) compared to the benchmark which displayed a -6.84% (net) annual return rate. Furthermore, the Sub-fund has now reached positive returns in the last quarter which is a sign of recovery.

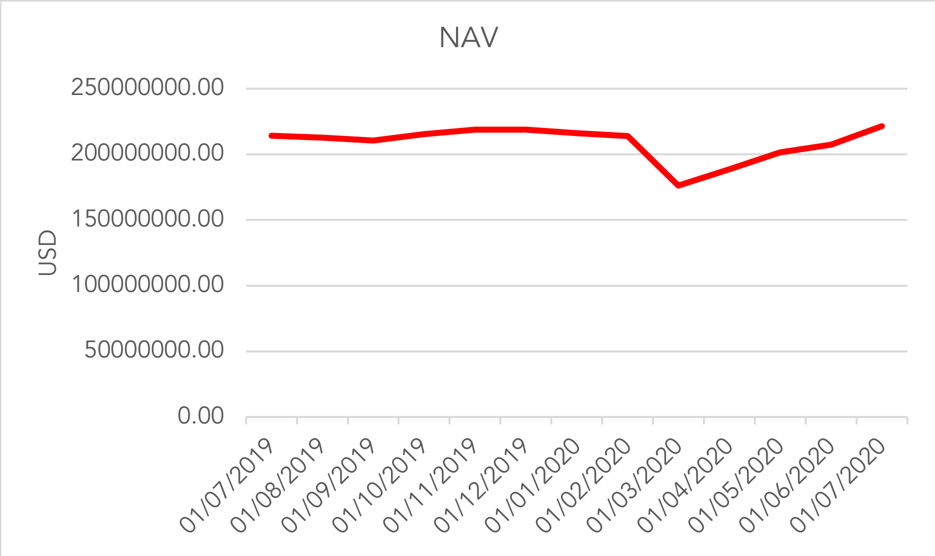
Since inception, the average return of the Sub-fund is 0.82% (net), whereas the average return of the Credit Suisse Institutional Western European Leveraged Loan Index is -2.84% (net). WFAM has shown net return of 4.43% to date (June 2020), since the inception (July 2006) of its European Loans Strategy. This in comparison with 0.69% net return on the benchmark over the same period.

To date, the Sub-fund has experienced 2 defaults, both of which were by the same company 'Lecta' that operates in the paper making industry. The first default occurred in December 2019 with the loan subsequently restructured through a recapitalisation agreement. The second default occurred on the recapitalisation agreement in May 2020 following weak trading due to the outbreak of Covid-19, coupled with plant operational issues. The company entered a new restructuring agreement with existing stakeholders to recapitalise the business in May 2020.

Further performance metrics of the Sub-fund include the WFAM Credit Europe's 12-year average default rate which was 1.2% in comparison to the benchmark funds 2.9% for the same period. Similarly, Wells Fargo displayed a higher average recovery rate of 65% compared to 51% for the benchmark. As such, given the outperformance of the benchmark, ARC concludes that WFAM has a strong credit selection process.

SUB-FUND'S NET ASSET VALUE (NAV)

The NAV of the of the Sub-fund's portfolio is currently USD 221.49m as at July 2020, which has slightly increased from USD 212.17m in July 2019. The below graph shows the progression of the NAV over the last 12-months.



During the period, the NAV decreased to a low of USD 176.21m in March 2020, following the industry wide sell-off. However, as depicted in the graph, the NAV of the Sub-fund has been steadily increasing, reaching USD 221.5m in July 2020, as the European high-yield market shows signed of recovery after significant re-pricing of high-yield assets, which is positive for the transaction.

OBLIGOR CONCENTRATION

The portfolio is granular and well diversified in respect of obligor concentration, with exposure to 140 obligors. The largest obligor represents 1.94% of the Total Asset Value (below the single obligor limit of 5%) and is rated 'B', and the largest 10 obligors represent 17.36% of the Total Asset Value, all rated in the single-B range. Whilst the largest 10 obligors represent a relatively high percentage of the Total Asset Value (insert), the otherwise diversified nature of the portfolio in terms of industry and regional diversification mitigates against this risk, this in addition to the minimum equity buffer of 30%. The highest rated asset in the portfolio currently has a rating of 'BBB-' and represents an EUR 0.4m (0.22% of current portfolio balance) exposure to the Automobiles industry, this depicts the first time that an asset in the portfolio has been rated higher than 'BB+'. In July 2019, the portfolio's highest rated asset was rated 'BB' and represented a EUR 0.5m (0.27%) exposure in the Automobiles industry.

The current portfolio is exposed to a 'CCC-' rated exposure (0.94% of the Total Portfolio Amount), which is discussed in more detail below, but this is not the lowest rated exposure the portfolio has had over the review period. In December 2019, there was a 'CC' rated asset comprising 0.36% of the portfolio; this asset was the defaulted asset 'Lecta' discussed previously.

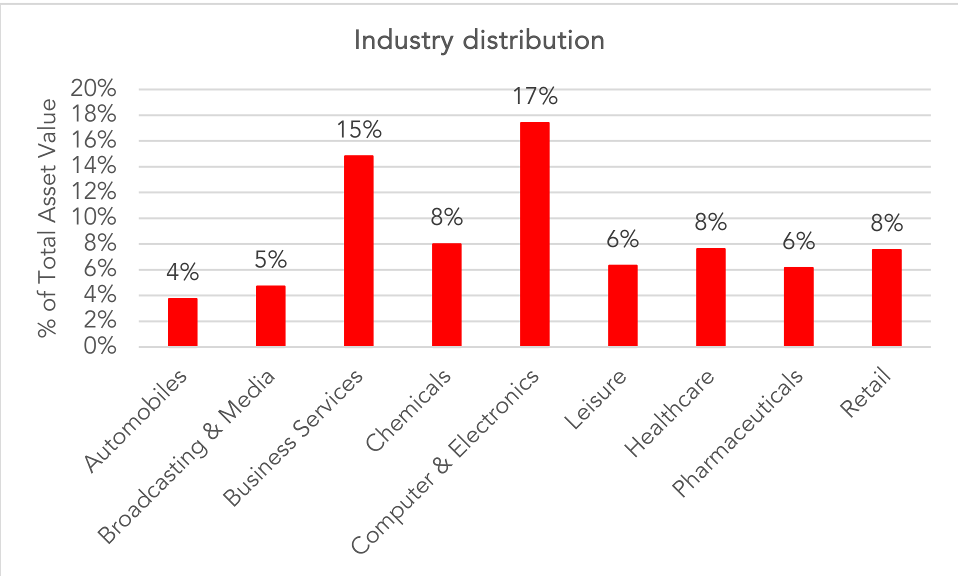
INDUSTRY AND REGIONAL DISTRIBUTION

As mentioned in ARC's previous rating report, the determination of regional distribution based on where obligors are can be misleading as a number of the positions are held by private equity funds which have their registered offices in the United Kingdom. ARC has therefore considered the currency exposure below. These have not changed substantially since September 2019.

Currency	% of Total Asset Value (not including hedging mechanisms or cash) -September 2020	% of Total Asset Value (not including hedging mechanisms or cash)- September 2019
EUR	89.08%	88.97%
GBP	7.86%	10.50%
USD	1.62%	0.53%

Although a small change, ARC views the 2.64% percentage point decrease in the GBP exposure as a positive to the transaction as UK's GDP fell by 20.4% in the second quarter of 2020; surpassing declines in France, Germany and Italy as a result of the economic shock triggered by Covid-19. While the large concentration in EUR holding makes the portfolio susceptible to market forces in the EU market, as evidenced by the European economies contracting during 2020 due to Covid-19, the European Parliament has put in place widespread support mechanisms (discussed above) to mitigate the economic effect of the virus and generate kickstart growth in the union; all of which will serve as support for the fund holdings.

The portfolio contains obligors operating across a broad spectrum of industry classifications. Industry distribution is primarily concentrated in Computer & Electronics and Business Services, with 17% and 15% respectively of the Total Asset Value. The graph below highlights the industry distribution in the portfolio as at 30 June 2020.



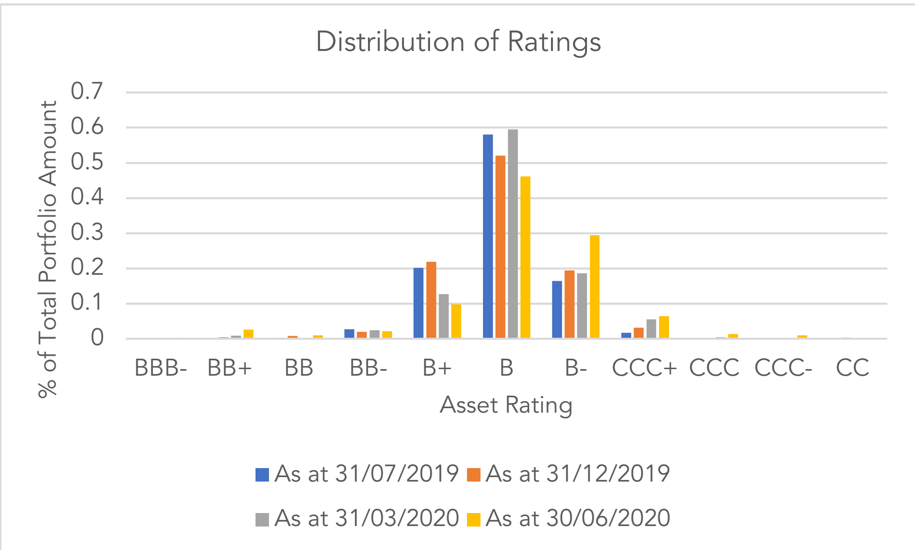
ASSET QUALITY

The Issuers of all assets comprising the portfolio have issuer ratings from either Moody's Investor Service, S&P Global or Fitch Ratings. ARC mapped these ratings to establish the equivalent ARC rating. By ARC's rating scale, all assets in the portfolio are rated between 'CCC-' and 'BBB-', with the resultant weighted average rating of 'B/B-' being slightly lower than the weighted average rating last year of 'B'. Therefore, the portfolio's assets remained reasonably resilient despite there being a global pandemic and the subsequent economic downturn resulting in widespread downgrades witnessed in the loan market. Whilst issuers rated in the 'B' rating category denote relatively week credit quality, ARC considers the Notes are unlikely to be affected by the projected level of defaults – primarily given the equity buffer provided by the structure, and the otherwise diversified nature of the portfolio.

From July 2019 to June 2020, there has been an increase in 'CCC+' rated assets (4.76% increase), these all as a result of assets in the portfolio being downgraded, whilst there has also been a decrease in 'B+' (10.36% decrease) and 'B' (11.87% decrease) rated assets, also due to the wave of downgrades prevalent in the leverage finance sector. Despite these trends in rating distributions, ARC notes that the majority of the current portfolio c.70% has remained in the portfolio from last July 2019 yet the weighted average rating of the portfolio has only slightly reduced. In ARC's opinion, this evidences the resilience of the assets in the portfolio.

Also aiding in keeping the weighted average rating relatively similar over the past 12 months has been the purchase of higher rated assets. The current portfolio depicts the first time there is a 'BBB-' rated asset (representing 0.22% of the Total Portfolio Amount) in the portfolio due to the acquisition of the higher rated 'Fiat Chrysler Automobiles' asset. Another acquisition over the review period was 'Europcar Mobility Group', which does represent the first time a 'CCC-' rated asset has been acquired for the portfolio however, it only comprises 0.94% of the Total Portfolio Amount. In addition, on the update call ARC conducted with WFAM, WFAM stated that this asset has greater cash flow flexibility in comparison to its competitors and is in a well-established segment of the high-yield market therefore, as it has been re-priced, WFAM have decided to not sell the asset to prevent losses being realised. This shows the active management approach of WFAM by monitoring and analysing each asset on a case-by-case basis to prevent a deterioration in the credit quality of the portfolio.

The distribution of the ratings over the review period from July 2019 to June 2020 is shown in the graph below.



Cognisant of the Covid-19 impact, ARC ran additional scenarios through ARC's default model to determine the credit quality of the portfolio on a worst-case basis, this done primarily by introducing equity investments up to the maximum permissible limit of 5% of the NAV however, there was no rating impact even when utilising the most conservative front-loaded vector which speeds defaults up in the first year by 4x. This shows that the transaction's cash flows (performing asset balance) is enough to meet the Notes timely payment of interest and ultimate repayment of principal of the Notes issued by the Maturity Date.

Sensitivity Analysis

ARC has run sensitivity analysis to determine to what extent the portfolio would need to deteriorate in order for the rating to be downgraded.

The table below shows the increase in the weighted average default probability for the underlying assets that would trigger a rating downgrade. It should be noted that this has been modelled and the rating action premised on the assumption that the portfolio's equity exposure reaches the maximum limit (5% of NAV) thus, should this limit be breached ARC expects to be informed and ARC will then determine the extent, if any, to which a future downgrade necessary upon the provision of additional information.

	Increase in the Weighted Average Default Probability of:
1 Notch Downgrade	9.6%
2 Notch Downgrade	20.8%

RATING CONSIDERATIONS

Rating Meaning

The public rating accorded to the 'BBB(sf)' rated Notes relates to the timely payment of interest and ultimate repayment of principal. The rating excludes an assessment of the ability of the Issuer to pay either any (early repayment) penalties or any default interest rate penalties.

The suffix code 'sf' means that the rating is of a structured finance nature. A rating outlook indicates the potential direction of a rating over the medium to long term, typically an 18 month to 2-year period.

ARC will perform regular surveillance on the transaction, and surveillance reports will be made available to subscribers to ARC's information services.

DATA RECEIVED FROM WELLS FARGO ASSET MANAGEMENT

- Monthly Investor Report: July 2019-July 2020
- WFAM Credit Europe – Market Communication (August 2020)
- WFAM European Loans Strategy Performance (June 2020)
- Updated Pool Tape (June 2020)

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Note that ARC Ratings is not a legal, tax or financial adviser, and only provides a credit opinion of the rated securities. For example, a rating does not cover a potential change in laws nor can it be regarded as an audit. Moreover, ARC Ratings is not a party to the transaction documents. Users of our credit ratings should familiarise themselves with the transaction documents / mechanics and should form their own views in this respect. They should not rely on ARC Ratings for legal, tax or financial advice, and are encouraged to contact the relevant advisers.

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ARC Ratings, S.A. is registered as a Credit Rating Agency (CRA) with the European Securities and Markets Authority (ESMA) , within the scope of the Regulation (EC) No. 1060/2009 of the European Parliament and of the Council, of 16 September, and recognised as External Credit Assessment Institution (ECAI).

This Review Report should be read together with initial Rating Report and with the subsequent Review reports.

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

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