ARC Ratings, S.A. takes various rating actions on GLQC S.À.R.L., GLQL S.À.R.L., ELQ Investors VI Ltd. and Mercer Investments (Singapore) Pte. Ltd.

London, 7 December 2020 - ARC Ratings, S.A. (ARC) has accorded final, long-term public ratings of 'BBB(sf)' to the Guaranteed Floating Rate Notes issued by GLQC S.À.R.L. (Series 2020-AF) and ELQ Investors VI Ltd. (Series 2020-E), both with stable outlooks. Concurrently, ARC has affirmed the final, long-term public ratings of 'BBB(sf)' accorded to the series numbers detailed in the table below of the Guaranteed Floating Rate Notes issued by GLQC S.À.R.L., GLQL S.À.R.L., ELQ Investors VI Ltd. and Mercer Investments (Singapore) Pte. Ltd., all with stable outlooks. The ratings address the timely payment of interest and the ultimate repayment of principal, all in reference to an aggregate funding amount of USD 12.2bn.

As the holders of the Notes/Loans, issued by each Issuer/Guarantor in this transaction, benefit from a mutual exchange of guarantees and security, the assets from the aforementioned Issuers are fully fungible and cross-collateralised. The cross-collateralised framework is further reinforced by the transaction being ring fenced.

Issuer	Issuance Principal Amount	Reference Rate	Issue Date	Rating Class	Rating	Outlook	Next Review Date
GLQC S.À.R.L.	EUR 2,500m	12M EURIBOR	20 May 2019	Guaranteed Floating Rate Notes (Series 2019-AA, Series 2019-AB, Series 2019-AC, Series 2019-AD)	BBB(sf)	Stable	7 Dec 2021
GLQL S.À.R.L.	EUR 493m	12M EURIBOR	20 May 2019	Guaranteed Floating Rate Notes	BBB(sf)	Stable	7 Dec 2021
ELQ Investors VI Ltd.	EUR 953m	12M EURIBOR	20 May 2019	Guaranteed Floating Rate Notes (Series 2019-C, Series 2019-D)	BBB(sf)	Stable	7 Dec 2021
Mercer Investments (Singapore) Pte. Ltd.	USD 800m	12M USD LIBOR	14 June 2019	Guaranteed Floating Rate Notes (Series 2019-EA and Series 2019-EB)	BBB(sf)	Stable	7 Dec 2021
Mercer Investments (Singapore) Pte. Ltd.	EUR 1,800m	12M EURIBOR	12 March 2020	Guaranteed Floating Rate Notes (Series 2020-A)	BBB(sf)	Stable	7 Dec 2021
Mercer Investments (Singapore) Pte. Ltd.	AUD 1,516m	6M BANK BILL RATE	18 March 2020	Guaranteed Floating Rate Notes (Series 2020-B)	BBB(sf)	Stable	7 Dec 2021
GLQC S.À.R.L.	EUR 1,400m	12M EURIBOR	4 May 2020	Guaranteed Floating Rate Notes (Series 2020-AE)	BBB(sf)	Stable	7 Dec 2021
GLQC S.À.R.L.	EUR 906m	12M EURIBOR	18 September 2020	Guaranteed Floating Rate Notes (Series 2020-AF)	BBB(sf)	Stable	7 Dec 2021
ELQ Investors VI Ltd.	EUR 600m	12M EURIBOR	3 December 2020	Guaranteed Floating Rate Notes (Series 2020-E)	BBB(sf)	Stable	7 Dec 2021

TRANSACTION OVERVIEW

The Guaranteed Floating Rate Note issuances, totalling USD 12.2bn, have a maturity date of 9 November 2023 and are backed by a cross-collateralised pool of assets with a fair market value ('FMV') of USD 18.6bn as at 10 November 2020, thereby providing credit enhancement of 34.4%. In addition, it should be noted that whilst the different Notes have different reference rates, as shown in the table above, they all have a margin of 2.25% apart from, the Series 2020-AE Notes and the Series 2020-AF Notes issued by GLQC S.À.R.L., which have margins of 2.60% and 1.81%, respectively.

ISSUER PROFILES

GLQC S.À.R.L. (company number: B226524), GLQL S.À.R.L. (company number: B226520), ELQ Investors VI Ltd. (company number: 08491527) and Mercer Investments (Singapore) Pte. Ltd. (company number: 201530732W) all act as existing Issuers/ Guarantors in this transaction. Further details of the existing Issuers/Guarantors can be found in previous press releases available at www.arcratings.com.

There has been an aggregation of the funding structure since ARC last reviewed this transaction on 17 June 2020. ELQ Investors VIII Ltd. is no longer part of the cross-collateralised framework. Accordingly, ARC is in receipt of a Note Issuance and Purchase Notice, dated 3 December 2020, which states that ELQ Investors VIII Ltd. is an Excluded Issuer and Excluded Borrower under the Note Issuance Agreement, and applicable Loan Agreement, until each other Issuer consents to it no longer being considered as such.

The holders of Notes issued by each Existing Issuer/Guarantor and Acceding Issuer/Guarantor benefit from a mutual exchange of guarantees and security; namely being cross-guarantees and subject to parent pledges. Consequently, assets from GLQC S.À.R.L., GLQL S.À.R.L., ELQ Investors VI Ltd., ELQ Investors II Ltd. and Mercer Investments (Singapore) Pte. Ltd. are fully fungible and cross-collateralised. It should be noted that, whilst ELQ Investors II Ltd. no longer has any rated issuances, the entity is still part of the cross-collateralised framework.

RATING RATIONALE

The ratings reflect the quality of the underlying collateral, the historical performance, and the legal and financial structure of the transaction.

Key Rating Drivers include:

- Cross-collateralisation: Assets from GLQC S.À.R.L., GLQL S.À.R.L., ELQ Investors VI Ltd. and Mercer Investments (Singapore) Pte. Ltd. are fully fungible and cross-collateralised, providing additional support to each other (due to the cross-guarantees and parent pledges provided). This has resulted in further support being available than if structured on a stand-alone basis, as each pool benefits from the total pool of underlying security and the accompanying increased diversification, as well as the transaction being ring fenced, as detailed previously.
- The weighted average credit rating of the portfolio is 'B-/CCC+', implying relatively weak credit quality and thus high risk. Given the current macro-economic environment resulting from COVID-19, ARC will continue to review the ratings of the assets within the portfolio as a significant deterioration in the weighted average rating of the assets is likely to cause rating action.

- The portfolio is diversified geographically across 38 countries, with the United Kingdom accounting for the largest portion of the total FMV (14.16%). However, presently the benefits of this diversification are reduced given the impact of COVD-19 globally. For example, as at September 2020 the United Kingdom's GDP remains 8.2% below the levels seen in February 2020 and this is prior to the implementation of a second national lockdown in November. Whilst governments have introduced significant stimulus measures, such as the c. USD 2.3 trillion 'Coronavirus Aid, Relief and Security' package in the United States, there has been a substantial increase in personal, corporate and national debt which, in ARC's opinion, is likely to lead to an increase in defaults as the full economic impact is realised over the next 12-18 months. Therefore, ARC's analysis of the portfolio has included additional stressed scenarios to reflect the economic position of the respective economies within the portfolio.
- Industry Diversification: The portfolio is concentrated in terms of industry distribution, with the largest corporate sector of real estate representing 34.49% of the total FMV of the portfolio. ARC notes that the real estate sector is considerably exposed to the underlying risks resulting from the global economic effects of COVID-19. This as, the value of the portfolio might be affected negatively by a decrease in real estate prices and a fall in the income of families, businesses, and national economies. However, the specific effects of COVID-19 is likely to vary dependant on the real estate sub-sector as the demand for short-term offices, is expected to be more severe as it will impact the co-working environment. Whereas the logistics market is expected to be more resilient to the effects of COVID-19 due to the surge in online grocery shopping, provided that there are limited disruptions to global supply chains. Moreover, throughout the pandemic there has been disparity between different countries residential real estate markets, as Nationwide has reported that UK house prices reached an all-time high in August and the Bank of England reported that mortgage approvals in July experienced a V-shaped recovery, which is the opposite of other expensive housing markets such as San Francisco and New York.
- Recovery Expectations: ARC has modelled a 18.02% recovery rate assumption in ARC's 'BBB(sf)' rating scenario, an increase from 11.3% in June 2020 due to the removal of weaker assets. Whilst this is a low recovery rate assumption, it reflects the high-risk nature of the assets serving as security and, for a proportion of the portfolio, the poor legal framework available in certain jurisdictions to recover on the assets.
- Credit Enhancement (CE): The structural enhancement mechanisms in place for the Guaranteed Floating Rate Notes/Loans CE, include an Advance Rate of 65.6% which, combined with excess spread, is sufficient to protect the Guaranteed Floating Rate Notes/Loans against losses at an 'BBB(sf)' rating level. The Advance Rate has increased slightly from 63.8% in June 2020, this has primarily been facilitated by the increased recovery assumption due to the removal of weaker assets.
- ARC's cashflow model assessed the timely payment of interest and ultimate repayment of principal of the Notes/Loans by the maturity date of 9 November 2023. ARC's cashflow analysis assumed that the assets with the highest yield defaulted first, up to the level determined in ARCs default model, in order to put the greatest pressure on excess spread and thus available credit enhancement. In addition, ARC applied a market value stress for any assets that had a maturity date past that of the Notes. In doing so ARC calculated that the transaction would be able to withstand an increase in yields commensurate with a 'BBB(sf)' rating scenario. ARC

also ran front and back loaded default vectors to ensure the timely payment of interest and ultimate repayment of principal.

ARC will perform regular surveillance of the transaction, and should another Issuer or Creditor be added to the cross-collateralised pool, ARC will review the ratings accorded to GLQC S.À.R.L., GLQL S.À.R.L., ELQ Investors VI Ltd. and Mercer Investments (Singapore) Pte. Ltd.

RATING SENSITIVITY

ARC has run 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 default probability for the underlying assets that would trigger a rating downgrade.

	Increase in the Weighted Average Default Probability of:
1 Notch Downgrade	4.2%
2 Notch Downgrade	9.6%

KEY TIPPING POINTS	
Positive Turning Points	Negative Turning Points
• Significant reduction of the Advance Rate, as a proportion of the Asset Pool Fair Market Value, coupled with an increase in credit quality of the portfolio;	• Significant increase of the Advance Rate as proportion of the Asset Pool Fair Market Value;
• Further geographical and industry diversification of the portfolio.	• Higher concentration of the portfolio, in respect of industry and geography.

RELATED CRITERIA

Methodologies

ARC Ratings' Global Structured Finance Criteria (September 2020)

ARC Ratings' Collateralised Loan Obligation (CLO) Rating Criteria (February 2020)

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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:

Sophie Crofts	Ashley Thomas	Mark Vrdoljak	Philip Walsh
Senior Structured Finance Analyst	Senior Structured Finance Analyst	Head of Structured Finance	Chief Ratings Officer &
Lead Analyst	Back-up Analyst		Panel Chairperson
sophie.crofts@arcratings.com	ashley.thomas@arcratings.com	mark.vrdoljak@arcratings.com	philip.walsh@arcratings.com

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

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

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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 conflict of interests. Any exceptions to these principles are disclosed by ARC Ratings together with the rating of the financial commitment in question.