

ARC Ratings, S.A. affirms and withdraws the public, final 'A(sf)' and 'BBB(sf)' ratings accorded to the Senior and Mezzanine Funding Facilities of Ellington European CLO I DAC, both with stable outlooks

London, 1 May 2020 - ARC Ratings, S.A. (ARC) has affirmed and withdrawn the final, long-term public 'A(sf)' and 'BBB(sf)' ratings accorded to the Senior and Mezzanine Funding Facilities of Ellington European CLO I DAC, both with stable outlooks. The rating of the Senior Funding Facility addresses the timely payment of interest and ultimate payment of principal on or before the Maturity Date. The Mezzanine Funding Facility rating addresses the ultimate payment of interest and principal payable on or before the Maturity Date. The ratings have been withdrawn upon request, following the liquidation of the portfolio.

<u>ORIGINATOR</u>	<u>CLASS / TRANCHE</u>	<u>RATING CLASS</u>	<u>RATING</u>	<u>OUTLOOK</u>	<u>NEXT REVIEW DATE</u>
Ellington European CLO I DAC	Senior Funding Facility	CLO	'A(sf)'	Stable	N/A
Ellington European CLO I DAC	Mezzanine Funding Facility	CLO	'BBB(sf)'	Stable	N/A

TRANSACTION OVERVIEW & CAPITAL STRUCTURE

Ellington European CLO I DAC is a warehouse of leveraged loans and high-yield bonds which has a Warehouse Maturity Date of 31 December 2030.

ARC notes that as of the date of this press release, the Senior and Mezzanine Funding Facilities are not fully repaid and all of the Collateral Quality Tests and Portfolio Profile Tests are in compliance, apart from the Minimum Diversity Score Test, which is failing as at 28 April 2020, as a result of the portfolio unwinding.

RATING RATIONALE

The ratings affirmation reflects the quality of the underlying collateral, the potential impact of COVID-19, the legal and financial structure of the transaction, and recent structural events.

Key Rating Drivers include:

- Asset Quality: the weighted average credit rating of the portfolio is 'B-', incorporating ARC's COVID-19 review. Whilst issuers rated in the 'B-' rating category imply relatively weak credit quality, ARC considers the Senior and Mezzanine Funding Facilities are unlikely to be affected by the projected level of defaults particularly given the level of credit enhancement (CE) present.
- COVID-19: in the face of current developments in the global market, ARC has examined each industry and country the portfolio is exposed to and applied relevant stresses to account for the likely negative impact of COVID-19. ARC's stresses have been determined by the severity of the virus in all locations and industries

which are being broadly impacted by social distancing and consequent fall in revenue. Higher stresses have been applied to industries and countries with higher risk exposure to COVID-19, whereas lower stresses have been allocated where considerably lower exposure has been detected. Although this has resulted in a decrease in the quality of the underlying pool, ARC draws comfort from the structural enhancement in place, which is sufficient to protect the transaction against expected losses at 'A(sf)' and 'BBB(sf)' rating levels.

- Industry and Geographical distribution: the portfolio demonstrates higher industry concentration, with the largest corporate sector representing 22.56% (industrial and manufacturing), up from 13.84% (computer and electronics industry) from the previous review on January 2020. The assets composing the portfolio are primarily concentrated in Germany (25.00%), Spain (19.12%) and Luxembourg (16.46%). Despite the higher concentration, ARC draws comfort from the economic strength of the respective nations and the CE available to the transaction, even after COVID-19 stresses.
- Strong Recovery Expectations: The portfolio consists of Senior Secured obligations, providing a weighted average recovery rate of 70.26%. ARC has stressed the recoveries of the portfolio, assuming a higher concentration of assets with weaker quality and recovery prospects to account for potential impacts of COVID-19. ARC is, therefore, comfortable with affirming and withdrawing the ratings, given the recovery expectations and the level of CE available which is sufficient to accommodate potential losses caused by COVID-19.
- ARC's cashflow analysis of the liquidation of the portfolio determined that the CE is sufficient to support the 'A(sf)' and 'BBB(sf)' ratings for the Senior and Mezzanine Funding Facilities respectively. ARC takes comfort from the level of CE available, resulting from a lower Advance Rate at the present stage of the transaction, which is capable of absorbing expected losses imposed by a more concentrated portfolio.

RELATED CRITERIA AND RESEARCH

Methodology

ARC Ratings' Global Structured Finance Criteria (September 2019)

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

THIS DISCLOSURE IS FOR INFORMATION PURPOSES ONLY

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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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