ARC Ratings, S.A. affirms the public, final long-term 'A-(sf)' rating accorded to the Facility provided to Bain Capital Credit Global ICAV by NatWest Markets PLC, and revises the outlook to stable from negative

London, 28 August 2020 - ARC Ratings, S.A. (ARC) has affirmed the public, final long-term 'A-(sf)' rating accorded to the Facility provided to Bain Capital Credit Global ICAV by NatWest Markets PLC, and revises the rating outlook to stable.

Borrower	Lender	Class / Tranche	Tranche Amount	Rating Class	Rating	Outlook	Next Review Date
Bain Capital Credit Global ICAV	NatWest Markets PLC	Facility	EUR 98.76m	NPL (UtP)	A-(sf)	Stable	30 August 2021

This review follows the Covid-19 review conducted in May 2020 and focuses on the performance of the transaction from the initial review in November 2019 to July 2020. ARC placed the transaction on negative outlook in May 2020 in light of the Covid-19 outbreak and its consequential economic impact. In May 2020, ARC took rating action across its portfolio of Non-Performing Loan (NPL) transactions, including Unlikely-to-Pay (UtP) transactions.

The rating addresses the timely payment of interest and ultimate payment of principal.

TRANSACTION OVERVIEW

NatWest Markets PLC provided an initial Facility of EUR 123.1m to the Borrower to purchase a portfolio of UtP loans. UtPs differ from NPLs in that, at the outset they were yet to be classified as non-performing. The Facility has an Original Maturity of 12 July 2022 and two 1-year extension options, subject to certain conditions being met; such as no Cash Sweep Event having occurred.

To date no Cash Sweep or Events of Default have occurred.

Current net collections are ahead of the initial business plan and serves as an indication of the servicer's increased use of extra-judicial procedures, this in order to realise collections more quickly due to the forced closure of the courts in light of Covid-19.

The portfolio is backed by various underlying collateral asset types such as residential, hotels and offices, with residential representing the largest concentration (41%), noting that 97% of the portfolio loans are secured against collateral. From a geographical perspective, the portfolio is regionally concentrated in the North of Italy (90%). ARC notes the significant concentration in the Liguria region (80%), however this is countered by the favourable economic outlook of this region, benefitting from stable economic indicators and a robust real estate market in comparison to other areas of Italy. This is particularly important in the context of the more robust residential sales, with the North seeing an increase of 5.3% between 2018 and 2019 in contrast to the South of 3.1% over the same period.

Further to the above, the transaction continues to benefit from structural enhancements which are designed to protect the repayment of the Facility from a deterioration in the performance of the loan portfolio. Firstly, the transaction benefits from an equity cushion through the Advance Rate mechanism, allowing the transaction to absorb a decline in portfolio performance. Furthermore, the transaction benefits from the existence of a Cash Sweep Event trigger which increases the level of prepayment to 100% (the amount to be repaid towards the Facility provider from collections, post fees and interest).

RATING RATIONALE

Key Rating Drivers Include:

- **Covid-19**: Italy was one of the first countries to be affected by Covid-19 in Europe. The virus spread rapidly in the North of the country during February and March 2020. Consequently, the Italian government instituted nationwide lockdowns to help curb further infections. Resultantly, the economic impact of the lockdown has caused a severe contraction in the Italian economy with the European Commission forecasting that GDP will contract by 11.2% in 2020. The aforementioned forecast was captured in the recent downgrade of Italy's Sovereign rating to 'BBB-' by one of the Top 4 rating agencies. The ultimate recovery of the Italian economy is predicated on the resumption of consumer demand to pre-crisis levels coupled with sustainable local and international consumer confidence. As the effects of the virus continue to be felt in Italy and other areas of Europe, the prospects of a rapid recovery will become increasingly more unlikely.
- **Collection Timing:** The servicer's ability to collect on assets as per the original business plan has not been as severely affected by the outbreak of Covid-19 as seen in other transactions, this evidenced by actual gross collections of EUR 39.3m being in line with business plan expectations of EUR 38.8m. The servicer's preferred, and only course currently, strategy of pursuing extra-judicial collection strategies has allowed them to reduce costs from EUR 23.4m expected in the initial busines plan, to EUR 6.4m as at June 2020. Gross collections that are in line with expectations coupled with cumulative costs below expectations has resulted in net collections of EUR 32.9m, which is EUR 17.5m (113%) ahead of business plan expectations. Whilst the positive level of net collections supports the servicer's strategy of extra-judicial recovery measures, ARC has taken a conservative approach in determining the sustainability of net collections, timings and amounts. Net collection amounts are the core focus of ARC's analytical and modelling process, as they provide insight into the effectiveness and sustainability of the servicer's collection strategy, particularly as the negative effects of Covid-19 continue to hinder economic performance globally and servicers' ability to collect. Going forward, ARC will continue to monitor gross and net collections closely and take necessary rating action should they fall below ARC's internal benchmarks.
- **Security:** The unsold real estate assets that provide security to the loans are in excess of the Outstanding Facility Amount according to latest Quarterly Monthly Report received by ARC. The outstanding portfolio of assets exhibit broad asset type diversification with the largest category being Residential (41%) followed by Hotel (15%) and Office (10%) based on Valuation amounts. For residential real estate, market conditions are expected to deteriorate in the short term with the number of transactions decreasing by 20-25% in 2020 (according to an Italian NPL report by PWC: June 2020). This will likely compound the impact of the market house price decline witnessed (3.6% decline between the end of 2016 and the end of 2019, based on OECD Real House price

indices). In respect of security makeup, the concentration of Hotel assets is concerning, due to the decrease in tourism witnessed in Italy due to travel restrictions placed on countries in light of Covid-19.

- **Structural Enhancement Mechanism:** The initial Advance Rate of the portfolio purchase price provides an equity cushion to the transaction allowing it to absorb a decline in portfolio performance. Should the transaction's performance deteriorate, as evidenced by a breach of the LTC or LTV ratio limit, a Cash Sweep mechanism will provide additional protection to the Facility provider, as discussed above (ARC notes that neither ratio is near its trigger threshold). Furthermore, there is an Equity Leakage Cap in place that limits the amount of cash that can be released to the Borrower.
- **Cash Flow Model:** ARC analysed the current level of gross and net collections in the portfolio in comparison to ARC's cash flow model which incorporates collection stresses in order to determine if the Facility will be repaid before the Final Maturity Date. The current level of collections in the portfolio are sufficiently far enough ahead of ARC's stressed cash flow expected collections for the same time period, to give ARC sufficient comfort to affirm the rating at the current 'A-(sf)' level and change the outlook to stable from negative.
- **Sponsor:** ARC drew a degree of comfort from the sponsor's extensive experience in the distressed and special situations sector and its involvement in the management of the servicer's collections strategy through its majority controlling stake.

SENSITIVITY ANALYSIS

Sensitivities Analysis	
Stressed Scenario Description	Rating Level
5% additional decrease in stressed collections	BBB+ (sf)
10% additional decrease in stressed collections	BBB- (sf)

KEY TIPPING POINTS	
Positive Turning Points - Considerable and sustainable outperformance against business plan.	Negative Turning Points - Deterioration in gross collections below levels needed to sustain sufficient net collections to discharge the Facility before the Final Extended Maturity Date at the current rating level. - Increase in expenses above predicted levels. - Further delays in achieving resolutions. - Protracted economic effect of Covid-19 beyond initial estimates.

RELATED CRITERIA AND RESEARCH

ARC Ratings' Global Structured Finance Rating Criteria (September 2019)

ARC Ratings' Non-Performing Loans (NPLs) Rating Criteria (October 2019)

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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:

Mattia Pauciullo
Senior Structured Finance Analyst
Lead Analyst
mattia.pauciullo@arcratings.com

Garth Campbell
Structured Finance Analyst
Back-up Analyst
garth.campbell@arcratings.com

Mark Vrdoljak
Head of Structured Finance
mark.vrdoljak@arcratings.com

Philip Walsh
Chief Ratings Officer &
Panel Chairperson
philip.walsh@arcratings.com

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