ARC Ratings, S.A. affirms the public, final long-term ratings of the Class A to D Notes issued by Anchorage Europe Credit Funding 1 DAC, all with stable outlook

London, 10 September 2020 - ARC Ratings, S.A. (ARC) has affirmed the final, long-term public ratings of 'AA-(sf)' accorded to the Class A Notes, 'A-(sf)' accorded to the Class B Notes, 'BBB-(sf)' accorded to the Class C Notes and 'BB-(sf)' accorded to the Class D Notes issued by Anchorage Europe Credit Funding 1 DAC, all with stable outlook. The ratings address the timely payment of interest and the ultimate repayment of principal of the Class A Notes, and the ultimate repayment of interest and principal of the Class B to D notes.

Issuer	Class	Attachment Point (10 August 2020)	Rating Class	Rating	Outlook	Next Review Date
Anchorage Europe Credit Funding 1 DAC	Class A	43.49%	CLO	AA-(sf)	Stable	10 September 2021
Anchorage Europe Credit Funding 1 DAC	Class B	38.78%	CLO	A-(sf)	Stable	10 September 2021
Anchorage Europe Credit Funding 1 DAC	Class C	34.69%	CLO	BBB-(sf)	Stable	10 September 2021
Anchorage Europe Credit Funding 1 DAC	Class D	25.90%	CLO	BB-(sf)	Stable	10 September 2021

COMPANY PROFILE

Anchorage Europe Credit Funding 1 DAC (the 'Issuer') is a designated activity company incorporated under the laws of Ireland (company number: 630190), with its registered office in Dublin. The company was formed for the purpose of issuing debt securities to repay existing credit facilities, and for acquisition purposes. The only source of funds of the Issuer to fund the payments relating to the Notes will be the cash flows obtained from the collateral securing the Notes. The Issuer appointed Anchorage Capital Group, L.L.C. as a Collateral Manager for this transaction.

The ratings reflect the legal and financial structure of the transaction, the quality of the underlying collateral and the management capability of Anchorage Capital Group, L.L.C.

TRANSACTION OVERVIEW & CAPITAL STRUCTURE

Anchorage Europe Credit Funding 1 DAC acquired a portfolio of collateral obligations, funded by a combination of Class A, Class B, Class C and Class D Senior Secured Fixed Rate Notes, and Subordinated Notes issued on 12 September 2018, with a Maturity Date of 25 October 2036. The Notes have a combined balance of EUR 318,500,000. The portfolio of Collateral Obligations totals EUR 311,329,568, as per the August 2020 investor report. Interest is payable semi-annually in arrears on 25 April and 25 October, failure to pay the Interest Amounts due and payable on the Class A Notes will constitute an Event of Default if such failure continues for at least five business days.

The transaction is managed by Anchorage Capital Group, L.L.C. and is currently in the reinvestment period (the period from and including the Issue Date up to and including the earlier of 25 October 2024 and the date of the acceleration of the Notes, the latter being the case where all the Notes shall automatically become immediately due and repayable at their applicable Redemption Prices should an Event of Default occur and is continuing). Any reinvestments made during this period must meet the reinvestment criteria.

The capital structure consists of Class A, B, C and D tranches and Subordinated Notes; further details of which can be found in the initial rating report "Anchorage Europe Credit Funding 1 DAC" dated 12 September 2018 available at www.arcratings.com.

RATING RATIONALE

- **Portfolio Performance:** As of August 2020, the portfolio is performing in line with expectations despite the difficult times brought about by the Covid-19 virus outbreak earlier this year which affected the worldwide economy. Transaction Coverage Tests, Portfolio Profile Tests and Collateral Quality Tests, which ensure the continuing quality of the portfolio and its ability to repay the Notes at pre-agreed standards, all passed except for the Moody's Weighted Average Rating Factor (WARF) test. For example, the Class A and Class B Interest Coverage Tests, measured by the ratio obtained by dividing the Interest Coverage Amount and the scheduled interest payments due on any Class Note on the following payment date, are nearly double the required percentage. Additionally, 88.16% of the portfolio is comprised of Senior Secured Obligations (a combination of bonds and loans) and all obligations are denominated in Euros, eliminating FX risk. The WARF test, which is currently in breach, indicates that there has been a modest decrease in the portfolio credit quality but this is currently not of material concern to ARC given the scenario analysis it conducted, described below.
- **'B/B-' Weighted Average Asset Quality:** The weighted average asset credit rating of the portfolio is 'B/B-' (previously also 'B/B-' as per the September 2019 ARC review). Whilst Issuers rated in the 'B/B-' rating category imply relatively weak credit quality, ARC considers the Notes are unlikely to be affected by the projected level of defaults (the weighted average 1-year probability of default rate in our base scenario is 7.72%) – primarily given the available Credit Enhancement (CE), provided through subordination, in the 'AA-(sf)', 'A-(sf)', 'BBB-(sf)' and 'BB-(sf)' rating scenarios respectively.
- **Industry and Regional Diversification:** The portfolio of assets exhibits broad industry distribution with the largest sector being Healthcare (13.24%), which is predominately non-discretionary healthcare, Business Services (10.29%) and Telecommunications (10.01%) according to ARC's industry classifications. ARC notes there are no concerning sectors accounting for a significant proportion of the portfolio. Regional distribution is primarily concentrated in France 22.0%, United Kingdom 18.0% and Netherlands 16.0%. Although regional distribution is moderately more concentrated, the economic strength of the respective nations and the otherwise diversified nature of the portfolio assists in balancing this exposure.
- **Cashflow Model:** ARC's cashflow analysis determined that the rated classes of notes are able to withstand their respective level of losses for each rating level. ARC ran a number of scenarios in order to test how much pressure on excess spread and in turn available credit enhancement the transaction could withstand. ARC's cashflow

analysis assumed that the assets paying the highest rate of interest, as of the August 2020 datatape, defaulted first, up to the level determined in the default model, with front loaded, stable, and back loaded default vectors to determine the timings. Furthermore, ARC applied additional stresses within its models to consider the impact of Covid-19, the maximum concentration of Moody's rated 'Caa' obligations, and the maximum weighted average life of the portfolio. In doing so ARC calculated that the transaction would be able to withstand stresses commensurate with the rating levels accorded.

- **Collateral Manager Expertise:** Anchorage Capital L.L.C. is a registered investment adviser, established in 2003 and based in New York. ARC conducted a due-diligence update call with Anchorage Capital Group L.L.C. on 28 August 2020 to discuss the transaction performance reported so far, investment decisions rationale as well as US/Europe market overviews. ARC is of the opinion that the Anchorage Capital Group L.L.C. has sufficient experience to effectively manage this transaction.

SENSITIVITY ANALYSIS

ARC has run a sensitivity analysis to determine to what extent the portfolio would need to deteriorate for the ratings to be downgraded. ARC tested multiple scenarios to account for the uncertainty prevalent in the market owing to Covid-19, assessing potential rating changes should there be a sustained period of higher than expected defaults and lower than expected recoveries (owing to a sudden deterioration in the credit quality of the portfolio). The table below shows how increasing the Weighted Average Default Probability (WADP) in conjunction with decreasing the Weighted Average Recovery Rate (WARR) of the underlying portfolio impacts the current rating levels.

Change in Respective Rating	Increase in WADP and Decrease in WARR
Class A – 1 notch decrease Class B – No change Class C – No change Class D – 1 notch decrease	10%
Class A – 3 notch decrease Class B – 2 notch decrease Class C – No change Class D – 3 notch decrease	15%
Class A – 3 notch decrease Class B – 2 notch decrease Class C – 1 notch decrease Class D – 4 notch decrease	20%

KEY TIPPING POINTS	
Positive Turning Points • A positive migration in weighted average credit quality over time (for example, caused by acquisition of higher rated credits, maturity of lower rated credits, or upward revisions of the ratings assigned to the underlying collateral). • Lower than expected defaults, consequently translating into lower than expected loss rates. • Sustained period of higher than required credit enhancement, in collaboration with managing the portfolio dynamics accordingly over the same period.	Negative Turning Points • A negative migration in weighted average credit quality over time (for example, caused by acquisition of lower rated credits, maturity of higher rated credits, or downward revisions of the ratings assigned to the underlying collateral). • Evidence that indicates a weakening in the ability of the collateral manager to adequately service the transaction. • Higher than expected defaults, consequently higher than expected loss rates.

RELATED CRITERIA

Methodology

ARC Ratings' Global Structured Finance Methodology (September 2019)

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

THIS DISCLOSURE IS FOR INFORMATION PURPOSES ONLY

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

Jake Shoer
Structured Finance Analyst
Back-up Analyst
jake.shoer@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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This Review Report should be read together with initial Rating Report and with the subsequent Review reports.

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Ratings do not constitute a recommendation to buy or sell, but only one of the factors to be weighted by investors.

Throughout the entire period during which ratings are valid, ARC Ratings monitors the issuer's performance on a constant basis, and may even 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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