ARC Ratings, S.A. affirms the public, final long-term 'AAA(sf)' rating accorded to the Variable Senior Notes issued by SJP Partners Loans No.1 Limited, with stable outlook

London, 25 September 2020 - ARC Ratings, S.A. (ARC) has affirmed the final, long-term 'AAA(sf)' rating accorded to the Variable Senior Notes issued by SJP Partners Loans No.1 Limited, with stable outlook.

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

ISSUER	ORIGINATOR	CLASS / TRANCHE	TRANCHE AMOUNT	RATING CLASS	RATING	OUTLOOK	NEXT REVIEW DATE
SJP Partner Loans No.1 Limited	St James Place Partnership Services Limited	Variable Senior Notes	GBP 300m	Consumer ABS	'AAA(sf)'	Stable	27 September 2021

TRANSACTION OVERVIEW & CAPITAL STRUCTURE

This review follows on from the performance review conducted in May 2020, available here and focuses on the amendments to the transaction which were executed on 17 September 2020.

St James Place (SJP) is a Wealth Management Company, with its advisors operating as 'Partners' who are responsible for their own businesses and portfolio of clients. The Variable Senior Notes (the "Notes") were originally issued in 2018 as part of a Variable Facility and have a post amendment Final Maturity date of September 2033. The Notes are backed by a portfolio of Partner Loans that are used by Partners to purchase or develop their business. These loans are classified as either Business Sale & Purchase (BSP) or Business Development (BD), and are serviced through a set-off right against the Partners remuneration. The amendments executed add an additional product, Management Buy-In (MBI) Loans to the securitisation, which will be discussed below. As at August 2020 the current balance on the Aggregate Loan Portfolio is GBP 173.6m, with the balance on the Notes currently standing at GBP 128.3m. SJP's continued support of the Partner Loans and the resilience of the portfolio has resulted in both the cumulative Technical and Leaver Default rates being at 0%.

SJP have taken the decision to introduce some amendments to the structure as they seek to develop the transaction going forward.

KEY AMENDMENTS MADE WHICH ARC FACTORED INTO ITS ANALYSIS:

- Extension of the Revolving Period end date by 24 months to September 2022 from September 2020.
- Extension of the Scheduled Maturity Date by 24 months to 3 years after the Revolving Period End Date (September 2025), from 5 years after the closing date (September 2023).
- Reduction of the seasoning requirements to 1-month from 3-month for BSP and BD loans.

- Introduction of a new product, MBI Loans – This product is new to the securitisation, although it has been in existence since March 2017 and has, historically, been funded by SJP's balance sheet along with external bank funding. These loans are used by Advisers to acquire shares in a Partner's business in which they operate as a result of the Partner moving to larger multi-adviser business from small businesses. These loans must comply with existing eligibility criteria and credit & collection polices limitations. Furthermore, MBI Loans are still subject to the 3-month seasoning requirement.
- Additional Warranties, eligibility criteria and early amortisation events in order to facilitate the transaction obtaining STS (simple, transparent & standardised) designation.
- Switch to SONIA (Sterling Overnight Interbank Average Rate) from LIBOR (London Interbank Offered Rate).

RATING RATIONALE

- **Credit Quality**: The reduction in seasoning to 1-month from 3-months is slightly credit negative as it reduces the observable time frame to demonstrate the assets are performing. However, this is mitigated by the historically low percentage of loans that miss the second and third payment having made the first payment. In addition, ARC's base case looks at the worst recorded performance and builds in a multiplier in order to stress the arrears situation. Therefore, the reduction in seasoning is not seen as a diminishing factor to the overall credit quality of the transaction as its supported by established loan eligibility criteria. The aforementioned MBI loans and their adherence to the existing eligibility criteria (including the same credit & collection policy requirements) and a 10% concentration limit means that their addition is credit neutral to the overall credit quality of the transaction. Additional amendments in order to obtain the STS designation have minimal impact on the credit quality of the transaction but serve as a positive factor in terms of transparency going forward.
- **Interest Rate Basis Risk**: This risk has always existed in the transaction, as the transaction does not have an interest rate swap in place to mitigate the exposure to interest rate basis risk between the Bank of England base rate (currently at 0.1%) and LIBOR. Therefore, the switch to SONIA from LIBOR means that the transaction is still exposed to interest rate risk, albeit from a different source. Therefore, in ARC's opinion, the change does not impact the rating of the transaction given there is sufficient excess spread to mitigate any negative movements. Furthermore, the potential negative impact is limited given both are floating rates.
- **Credit Enhancement:** The amount of available fixed credit enhancement has remained unchanged at 25%, given the 75% Advance Rate. As aforementioned, the available excess spread is sufficient to mitigate the movement in reference rates under ARC's stressed modelling scenarios. Therefore, the level of credit enhancement available from both maximum advance rate and the excess spread are sufficient in order to protect the notes at the current rating level.
- **Cashflow Model:** ARC's cashflow model was re-run incorporating the extension to the re-investment period and the maturity which extends the risk horizon. However, given the weighted average remaining tenor 90-month limit, this extension is credit neutral. In addition, ARC's updated cashflow model and updated base cases reflected the aforementioned factors pertaining to credit quality, interest rate basis risk and the level of credit enhancement available. The transaction continues to able to withstand asset stress commensurate with the 'AAA'(sf) level under all default vectors.

SENSITIVITY ANALYSIS

	Increase in the Default Base Case	Decrease in the Recovery Base Case
1 Notch Downgrade	8.75%	5.80%
2 Notch Downgrade	24.29%	10.96%

KEY TIPPING POINTS	
Positive Turning Points – Given, the AAA(sf) rating, no further upward migration is achievable.	Negative Turning Points – Increase in the loan-book wide cumulative write-off rate caused by a decrease in the recoveries. – Increase in the Technical or Leaver default ratio.

RELATED CRITERIA AND RESEARCH

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

ARC Ratings` Global Consumer ABS Rating Criteria (September 2019)

St. James Place Wealth Management Investor Report (monthly from October 2018 to July 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:

Ashley Thomas	Garth Campbell		Philip Walsh
Senior Structured Finance Analyst	Structured Finance Analyst	Mark Vrdoljak	Chief Rating Officer &
Lead Analyst	Back-up Analyst	Head of Structured Finance	Panel Chairperson
ashley.thomas@arcratings.com	garth.campbell@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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