S&P Global Ratings

How We Rate Alternative Investment Funds

Feb. 23, 2024

This report does not constitute a rating action.

Contents

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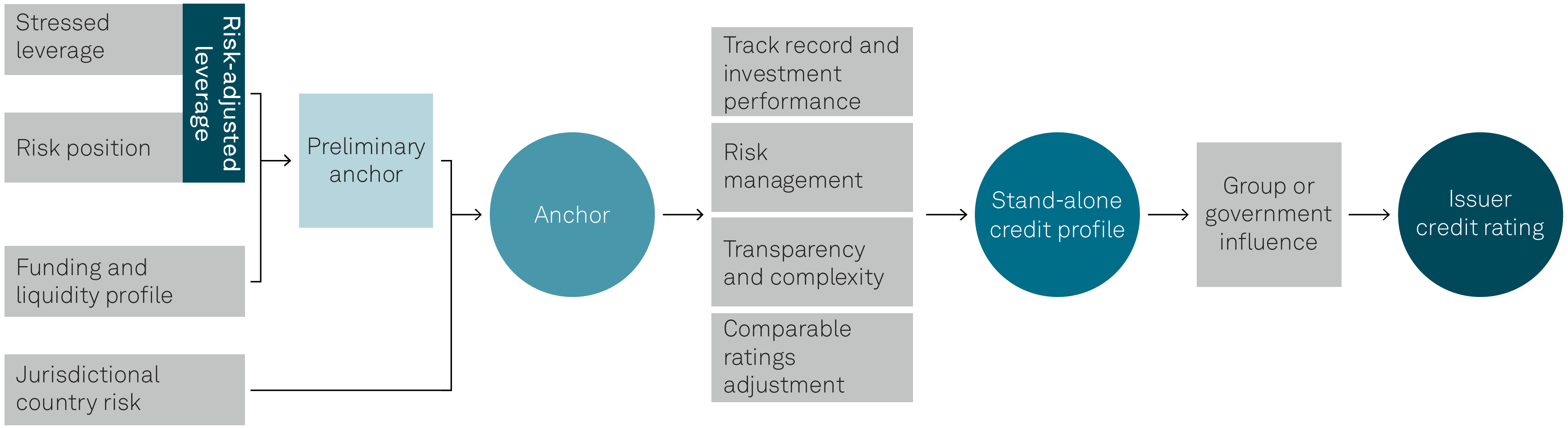
Overview

- Over the past 18 months, we have seen a growing number of alternative investment funds (AIFs) tapping the debt markets with bonds, private loans, net asset value (NAV) facilities, and capital call facilities, also known as subscription lines. This private market activity reflects a slowdown in traditional fundraising and weaker deal activity, among other dynamics.
- In this primer, we explain how we apply our AIF methodology to various fund structures—notably private equity, public equity, venture capital, and private debt funds— alongside hedge funds and some investment companies that share key characteristics of AIFs.
- Our analysis reflects a fund's ability to repay its recourse liabilities on time in a theoretical liquidation scenario following a 'BBB' or moderate stress. We detail how we calculate stressed leverage for different types of funds, how we capture the risks relating to the funding and liquidity of different fund structures, and how we rate instruments issued by AIFs.
- Some examples reflect public ratings, and some are hypothetical examples that draw on private or confidential ratings.

Ratings Framework

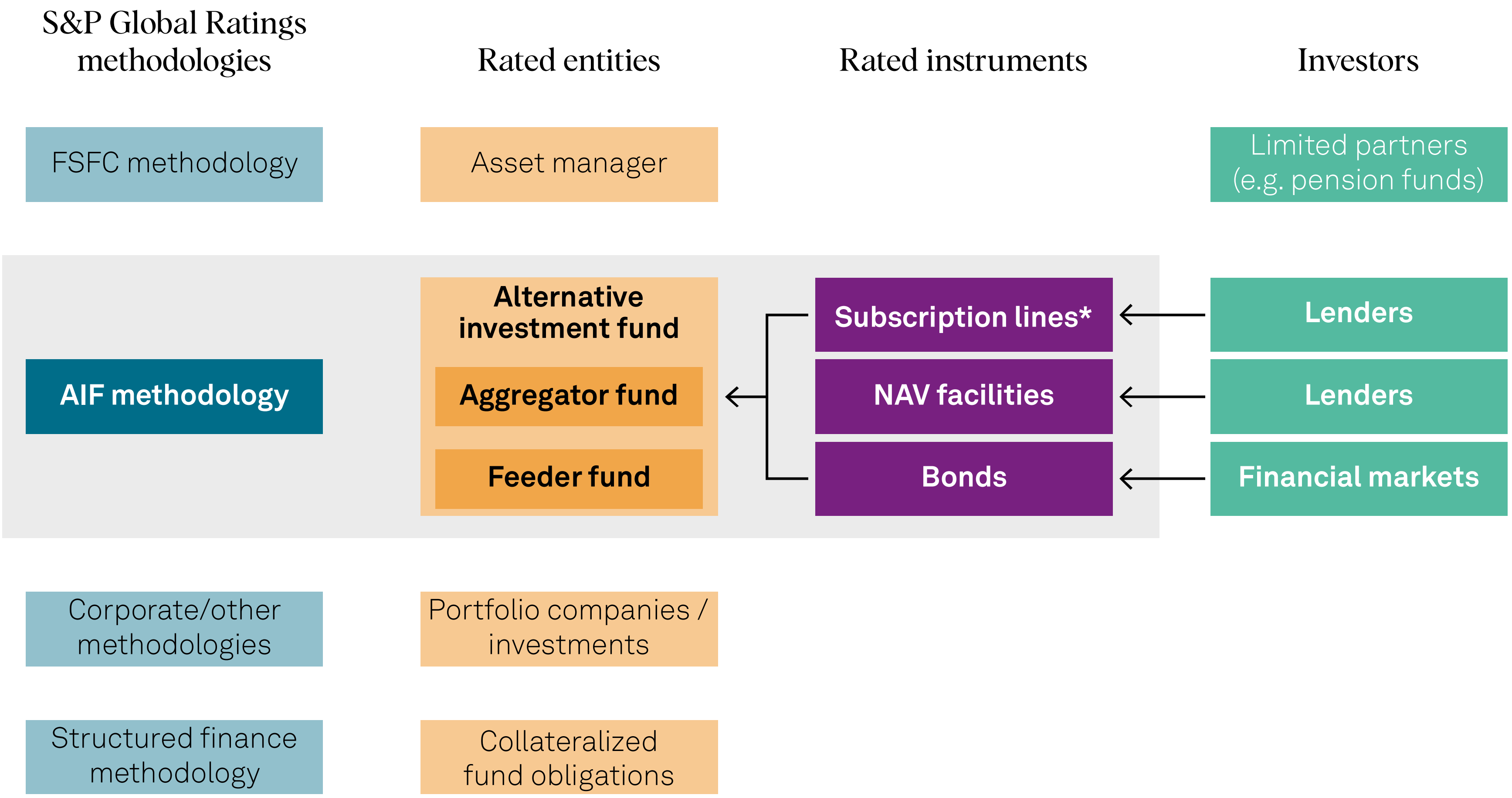
Our analysis reflects a fund's ability to repay its recourse liabilities on time in a theoretical liquidation scenario following a 'BBB' or moderate stress.



Underlying sources of data that we use to determine ratings in the AIF space:

- Historical S&P Global Ratings default rates and historical peak-to-trough drawdowns for credit funds.
- Historical drawdowns in prices for equity/private equity and real estate funds.

When We Apply Our AIF Methodology



*We plan to publish a request for comment on our proposed new methodology for analyzing subscription lines or facilities secured by an AIF's limited partner capital commitments (see "Advance Notice Of Proposed Criteria Change: Subscription Lines Secured By Capital Commitments," published on Sept. 15, 2023).
FSFC--Financial services finance company. Source: S&P Global Ratings.

Types Of Funds We Could Rate Under Our AIF Methodology

S&P Global Ratings has provided transparency on AIFs and this expanding market since 2006—and our coverage and criteria have evolved. We apply our global framework for rating AIFs (updated most recently in 2021) to various funds and other investment companies that share key characteristics of AIFs:

- Private equity fund
- Venture capital fund
- Investment company
- Listed equity fund
- Private debt fund
- Real estate debt fund
- Hedge fund

Private Equity Fund

Read on ↓

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Private Equity Fund With A NAV Facility

Overview | Structure chart | Rating and key credit factors

Fund X
A private equity fund with a NAV facility

Investment focus

- Fund X is a private equity fund investing in companies in the technology, health care, and business services industries in the U.S. and Europe.

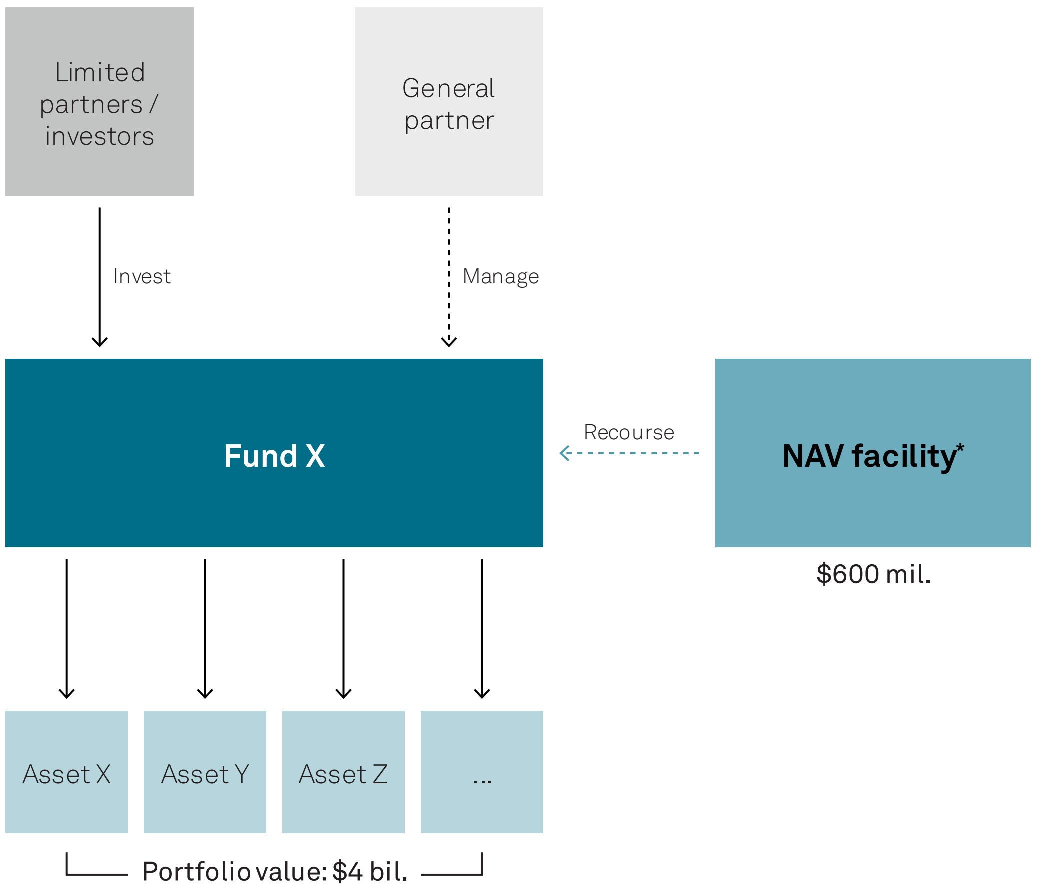
Vintage

- The fund is the sixth vintage of the private equity strategy of a leading U.S. asset manager.

Status

- Fund X is a closed-ended fund with a remaining life of five years (extendable by an additional two years) and is fully invested.

Private Equity Fund With A NAV Facility



*Recourse over the assets of Fund X (the fund's only debt instrument). Source: S&P Global Ratings.

Private Equity Fund With A NAV Facility

Overview | Structure chart | **Rating and key credit factors**

Risk-adjusted leverage: Strong

Stressed leverage | Strong

- Standard 60% haircut for private equity.
- 2.7x stressed assets to total recourse liabilities ratio [$4 bil. * (100%-60%) / $0.6 bil.].

Risk Position | Adequate

- Portfolio reasonably diversified by industry and geography, with the largest investment ~10% of NAV.
- 4.5x average leverage of portfolio companies.
- Limited foreign-exchange risk.

Funding and liquidity: Moderate

Funding | Strong

- Closed-end nature of the fund.
- Strong limited partners base.
- Long-term nature (seven years) of the NAV facility.

Liquidity | Weak

- Illiquidity of investments.
- Lack of cash flow from portfolio.
- Sources of liquidity adequately cover uses over the next 12 months in a 'BBB' stress scenario.
- Sources: $100 mil. in cash + $50 mil. from the NAV facility.

→ **Anchor* bbb**
Based on weaker funding and liquidity versus peers

→ Modifiers

Track record and investment performance
Neutral

Risk management
Neutral

Transparency and complexity
Neutral

Comparable ratings adjustment
Neutral

→ **Issuer Credit Rating§ BBB**

→ **NAV facility issue rating | BBB**
Based on the senior secured status and no other debt in the capital structure

*Jurisdictional risk is neutral and therefore the preliminary anchor equals the final anchor. §The fund doesn't have government or government-related entity support.

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Venture Capital Fund

Read on ↓

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Venture Capital Fund With A NAV Facility

Fund Y
A venture capital fund with a NAV facility

Investment focus

- Fund Y is a venture capital fund investing in companies in the technology, health care, and business services industries in the U.S., Europe, and Asia-Pacific.

Vintage

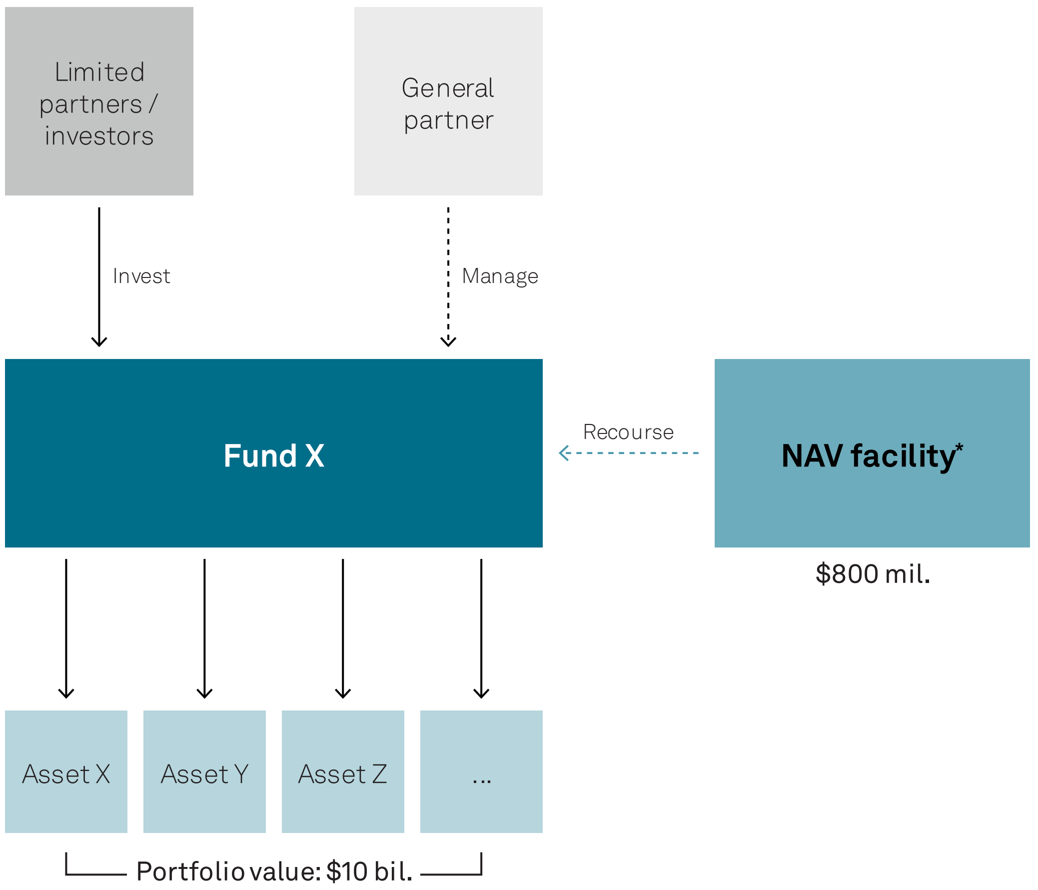
- The fund is the 11th vintage of the private equity strategy of a leading U.S. asset manager.

Status

- Fund Y is a closed-ended fund with a remaining life of five years (extendable by an additional two years) and is fully invested.

Venture Capital Fund With A NAV Facility

Overview | **Structure chart** | Rating and key credit factors



*Recourse over the assets of Fund X (the fund's only debt instrument). Source: S&P Global Ratings.

Venture Capital Fund With A NAV Facility

Stressed leverage | Very strong
- Standard 60% haircut for private equity.
- 5.6x stressed assets to total recourse liabilities ratio [$10 bil. * (100%-60%) + $0.5 (cash)] / $0.8 bil.
- Maximum LTV ratio of 25%.

Risk Position | Moderate
- Foreign-exchange risk and 25% exposure in emerging markets.
- Portfolio of 400+ companies, concentration in tech. Single position no higher than 3% of NAV.
- Early-stage investing typically has a binary outcome and tends to have more failures.

Risk-adjusted leverage: Strong

Funding | Strong
- Closed-end nature of the fund.
- Strong limited partners base.
- Long-term nature (five years) of the NAV facility.

Liquidity | Weak
- Illiquidity of investments.
- Lack of cash flow from portfolio.
- Sources of liquidity adequately cover uses over the next 12 months in a 'BBB' stress scenario.
- Sources: $500 mil. cash + $50 mil. estimated sale of liquid investments.

Funding and liquidity: Moderate

→ **Anchor* bbb** Based on weaker funding and liquidity versus peers

→ Modifiers

Track record and investment performance: Neutral

Risk management: Neutral

Transparency and complexity: Neutral

Comparable ratings adjustment: Neutral

→ **Issuer Credit Rating§ BBB**

→ **NAV facility issue rating | BBB+**
Based on 20% overcollateralization (after haircuts) as well as a credit-friendly waterfall that mandatorily allocates asset proceeds to pay back NAV facility.

*Jurisdictional risk is neutral and therefore the preliminary anchor equals the final anchor. §The fund doesn't have government or government-related entity support.

Investment Company

Read on ↓

3i Group PLC

An Investment Company Rated Under Our AIF Criteria

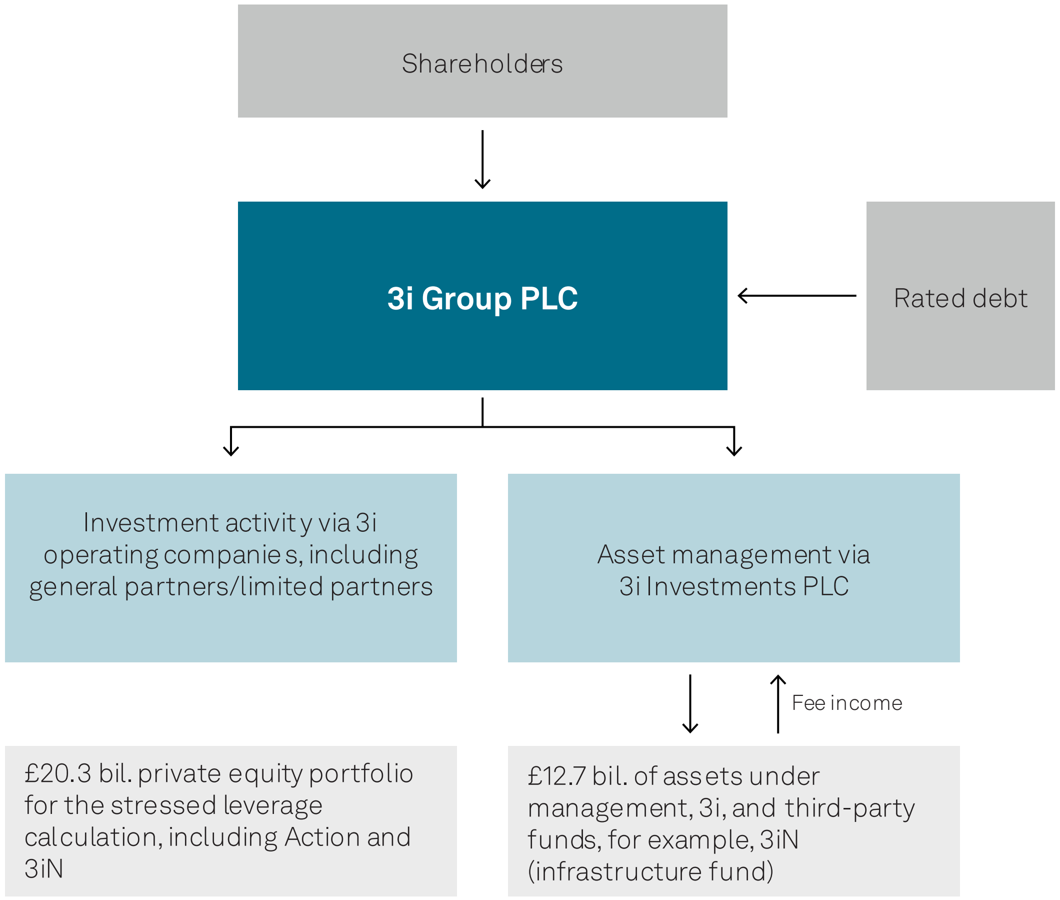
Investment strategy

- 3i Group is a FTSE100-listed investment company specializing in private equity and infrastructure and investing in mid-market companies in Europe and North America.
- It realizes assets through business cycles and does not rely on fee income or EBITDA generation to repay its debt obligations (therefore it is closer to a buy-and-hold fund).
- It is also an investment manager of several infrastructure funds, many of which it holds a stake in (for example, 3i Infrastructure or 3iN).

Funding policy

- A mixture of shareholder funds and borrowings from banks and capital markets. Limited structural gearing.

3i Group PLC



Source: S&P Global Ratings.

3i Group PLC

Risk-adjusted leverage | Adequate

Stressed leverage | Very strong
- 60% haircut on private equity investments.
- NAV post haircut of £7.4 bil. Stressed assets to total recourse liabilities (£7.4 bil. / £1.2 bil.) > 6.0x.

Risk Position | Weak
- Mostly illiquid, private equity assets.
- Concentrated position in Action (£11.2 bil.)
- Excluding Action, the portfolio is well diversified by sector and vintage.
- Limited interest rate risk but some foreign-exchange risk.

Funding and liquidity | Adequate

Funding | Strong
- As a listed company, it has permanent capital and is not subject to redemptions.
- Good funding flexibility via the equity and debt markets and no near-term debt maturities.

Liquidity | Adequate
- Weak asset liquidity but a good track record and investment oversight.
- Liquidity sources* do not include private equity assets or 3iN (core listed investment) but still adequately cover uses of liquidity§ over the next 12 months in a 'BBB' stress scenario.

→ **Anchor† bbb+** Based on low leverage and strong funding

→ Modifiers

- **Track record and investment performance**: Neutral
- **Risk management‡**: Neutral
- **Transparency and complexity**: Neutral
- **Comparable ratings adjustment****: Neutral

→ **Issuer Credit Rating§§ BBB+**

→ **Debt issue rating | BBB+**
The rating is at the level of the ICR based on no priority debt in the structure

*Cash and interest, dividends, and fee income after haircuts. §Interest, fees, and other expenses, distributions, carried interest payable, and acquisitions. †Jurisdictional risk is neutral and therefore the preliminary anchor equals the final anchor. ‡Board oversight, comprehensive investment procedures, and conservative capital management. **Compares well with peers on leverage, liquidity coverage, and funding. §§The fund doesn't have government or government-related entity support.

Listed Equity Fund

Read on ↓

Overview | Structure chart | Rating and key credit factors

Mercantile Investment Trust PLC (Mercantile)
A Fund Investing In Listed Equity

Investment focus

- Mercantile is a U.K.-listed investment trust investing mainly in U.K.-listed, public, midsize companies, but also in small and large companies in all sectors in the U.S. and Europe.
- J.P. Morgan Funds Ltd manages the £2.2 billion portfolio.
- Net asset valuation is subject to market volatility.

Status

- Mercantile is a buy-and-hold closed-ended fund with a 150-year track record.
- The trust benefits from permanent capital and no redemption risk.

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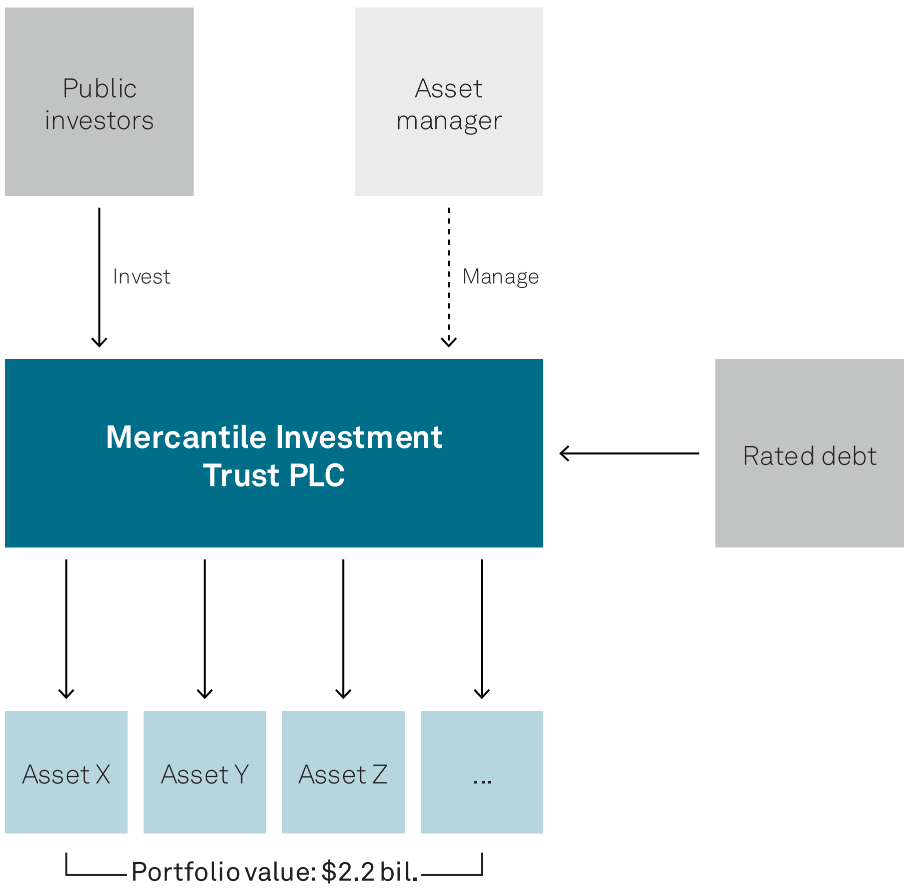
Mercantile Investment Trust PLC

Overview | **Structure chart** | Rating and key credit factors



Source: S&P Global Ratings.

Mercantile Investment Trust PLC

Risk-adjusted leverage Strong

Stressed leverage | Strong

- Standard 50% haircut for public equities.
- Stressed assets to total recourse liabilities ratio between 2.5x and 3.5x.

Risk Position | Adequate

- Portfolio of £2.2 bil. concentrated in U.K. stocks (100%) but diversified by sector, with low issuer concentration (largest investment ~3.8% of NAV).
- Sensitive to equity market volatility.
- Limited foreign-exchange or interest rate risk.

Funding and liquidity Strong

Funding | Strong

- Listed, closed-end fund with a permanent capital base.
- Committed lines and a long maturity of notes and debentures, consistent with strategy.

Liquidity | Strong

- Low fixed expenses and distributions compared to liquid asset portfolio.
- Sources of liquidity (cash, dividend income, and investments with a 50% haircut) adequately cover uses over the next 12 months in a 'BBB' stress scenario.

→ **Anchor* aa-** Based on low leverage, strong funding and liquidity

→ Modifiers

Track record and investment performance Neutral

Risk management Neutral

Transparency and complexity Neutral

Comparable ratings adjustment Neutral

→ **Issuer Credit Rating§ AA-**

→ **Debt issue rating | AA-**

The rating is at the level of the ICR based on no priority debt in the structure

*Jurisdictional risk is neutral and therefore the preliminary anchor equals the final anchor. §The fund doesn't have government or government-related entity support.

Private Debt Fund

Read on ↓

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Overview | Structure chart | Rating and key credit factors

MCP DASLF
A private debt fund

Investment strategy

- The fund is an open-ended unit trust domiciled in Australia.
- The fund invests in a diversified portfolio of corporate loans, including syndicated loans to public and private companies (45% relates to real estate).
- The fund follows a "buy and hold" philosophy, keeping its loan assets to maturity in nearly all instances.

Funding policy

- Permanent capital was about 23% as of Dec. 31, 2022, and comes from listed retail-based Metrics Master Income Trust (the permanent capital provider).
- Other sources of capital are retail investors, overseas feeder funds, and direct wholesale investors (unit holders).
- As of March 31, 2023, the fund had access to a A$1.25 billion syndicated revolving credit facility and a A$300 million term loan facility.

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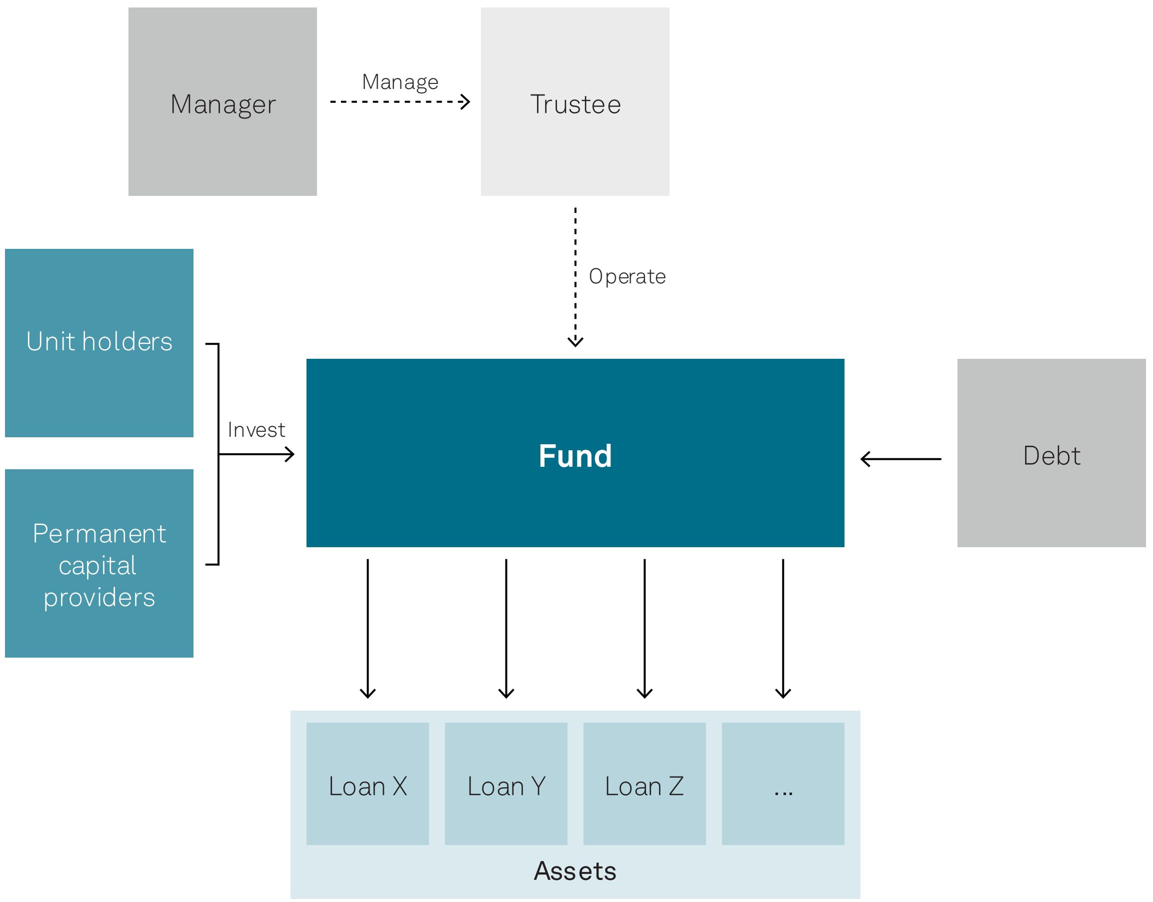
Metrics Credit Partners Diversified Australian Senior Loan Fund

Overview | **Structure chart** | Rating and key credit factors



Source: S&P Global Ratings.

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S&P Global Ratings

Metrics Credit Partners Diversified Australian Senior Loan Fund

Risk-adjusted leverage | Very strong

Stressed leverage | Very strong
- Average asset haircut: 42%.
- 4.5x stressed assets to total recourse liabilities ratio (A$4.41 bil. / A$0.98 bil.).

Risk Position | Adequate
- Portfolio is well diversified (196† individual investments), with the largest investment ~2.7% of NAV.
- Low foreign-exchange and interest rate risk.
- No hybrids or subordinated structures.

Funding and liquidity | Moderate

Funding | Adequate
- Open-ended fund with 23% permanent capital and mechanisms to control withdrawals under stress.
- Committed lines and syndicated loan.

Liquidity | Moderate
- Illiquidity of investments.
- Sources of liquidity cover uses over the next 12 months in a 'BBB' stress scenario.
- Sources: cash, interest income, and principal repayments from its assets.

→ **Anchor*** **a-**
Based on weaker funding and liquidity than risk-adjusted leverage

→ Modifiers

Track record and investment performance — Neutral

Risk management — Neutral

Transparency and complexity — Neutral

Comparable ratings adjustment — Neutral

→ **Issuer Credit Rating§ A-**

*Jurisdictional risk is neutral and therefore the preliminary anchor equals the final anchor. §The fund doesn't have government or government-related entity support.
†As of Dec. 31, 2022.

Real Estate Debt Fund

Read on ↓

Overview | Structure chart | Rating and key credit factors

MCP Real Estate Debt Fund

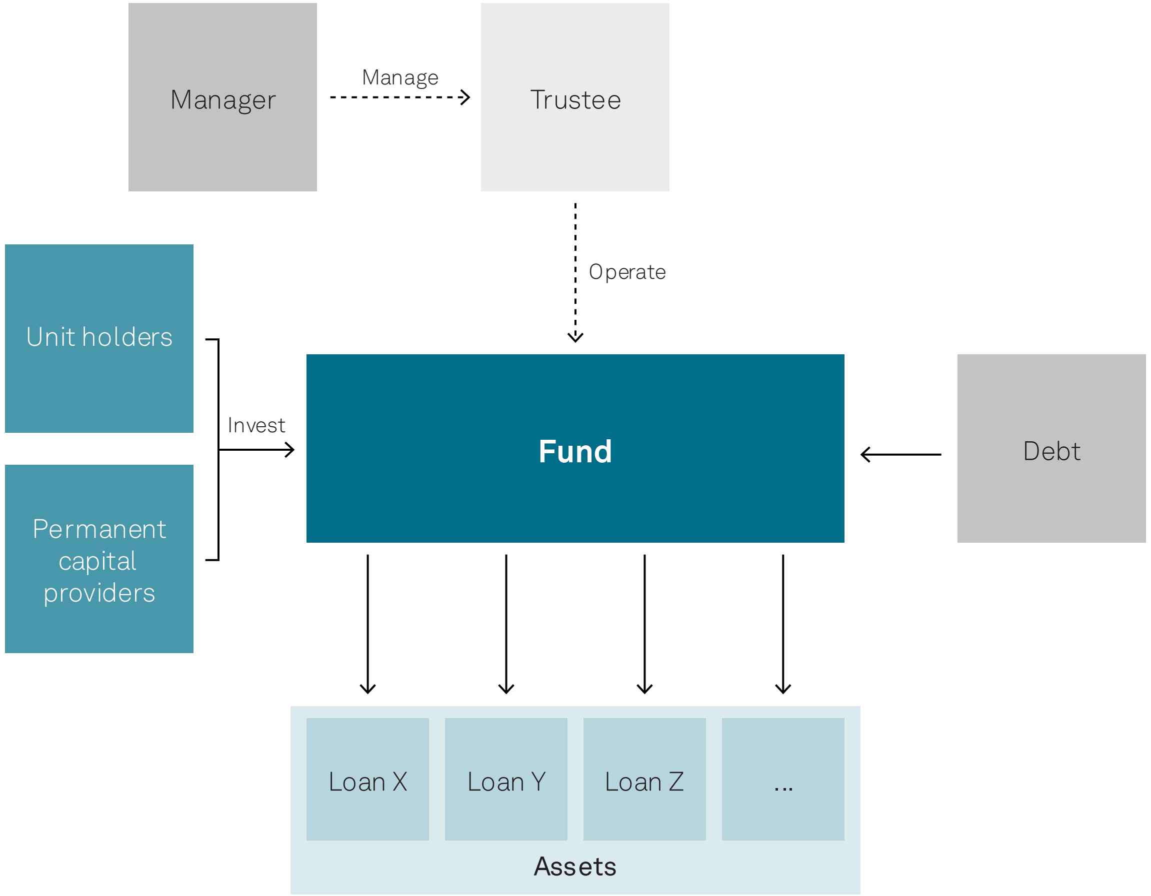
Investment strategy

- The fund is an open-ended unit trust domiciled in Australia.
- The fund provides debt financing to the Australian real estate sector through a mix of direct and indirect lending.
- The fund follows a "buy and hold" philosophy, keeping its loan assets to maturity in nearly all instances.

Funding policy

- Permanent capital represented about 30% of total equity funding as of Dec. 31, 2022. The fund receives permanent capital from the group's two Australian Securities Exchange-listed vehicles: Metrics Master Income Trust and Metrics Income Opportunities Trust (the permanent capital providers).
- Other sources of capital are retail investors, overseas feeder funds, and direct wholesale investors (the unit holders).
- The fund has access to an A$300 million syndicated bank debt facility.

MCP Real Estate Debt Fund



Source: S&P Global Ratings.

MCP Real Estate Debt Fund

Overview | Structure chart | **Rating and key credit factors**

Stressed leverage | Very strong
- Average asset haircut for Australian real estate development: 34%. Average asset haircut for producing real estate: 27%. Weighted-average haircut = 30%.
- 9.1x stressed assets to total recourse liabilities ratio.

Risk Position | Moderate
- Concentration on Australian property development.

Risk-adjusted leverage
Strong

Funding | Strong
- Open-ended fund with redemption terms that protect the fund from having to sell assets under stress—full run-off model.
- 30% permanent capital as of Dec. 31, 2022.

Liquidity | Moderate
- Illiquidity of investments.
- Sources of liquidity cover uses over the next 12 months in a 'BBB' stress scenario.
- Sources: cash, interest income, and principal repayments from its assets.

Funding and liquidity
Adequate

Anchor*
a-
Based on weaker funding and liquidity than risk-adjusted leverage

Modifiers

Track record and investment performance
Neutral

Risk management
Neutral

Transparency and complexity
Neutral

Comparable ratings adjustment
Neutral

Issuer Credit Rating§
A-

*Jurisdictional risk is neutral and therefore the preliminary anchor equals the final anchor. §The fund doesn't have government or government-related entity support.

Hedge Fund

Read on ↓

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Overview | Structure chart | Rating and key credit factors

Citadel K/KII/W
An open-ended hedge fund

Investment focus

- The three funds actively trade equities, fixed income and macro credit (including convertibles), commodities, and quantitative strategies. The allocation of capital to the various asset classes and strategies varies depending on trading opportunities.

Limited partners' commitments

- The funds are open-ended, with the potential for the general partners to limit or halt redemptions. About 70% of the capital base is redeemable quarterly over 16 quarters (one-sixteenth every quarter). The remaining 30% of the capital is subject to a rolling two-year committed lock without penalty.

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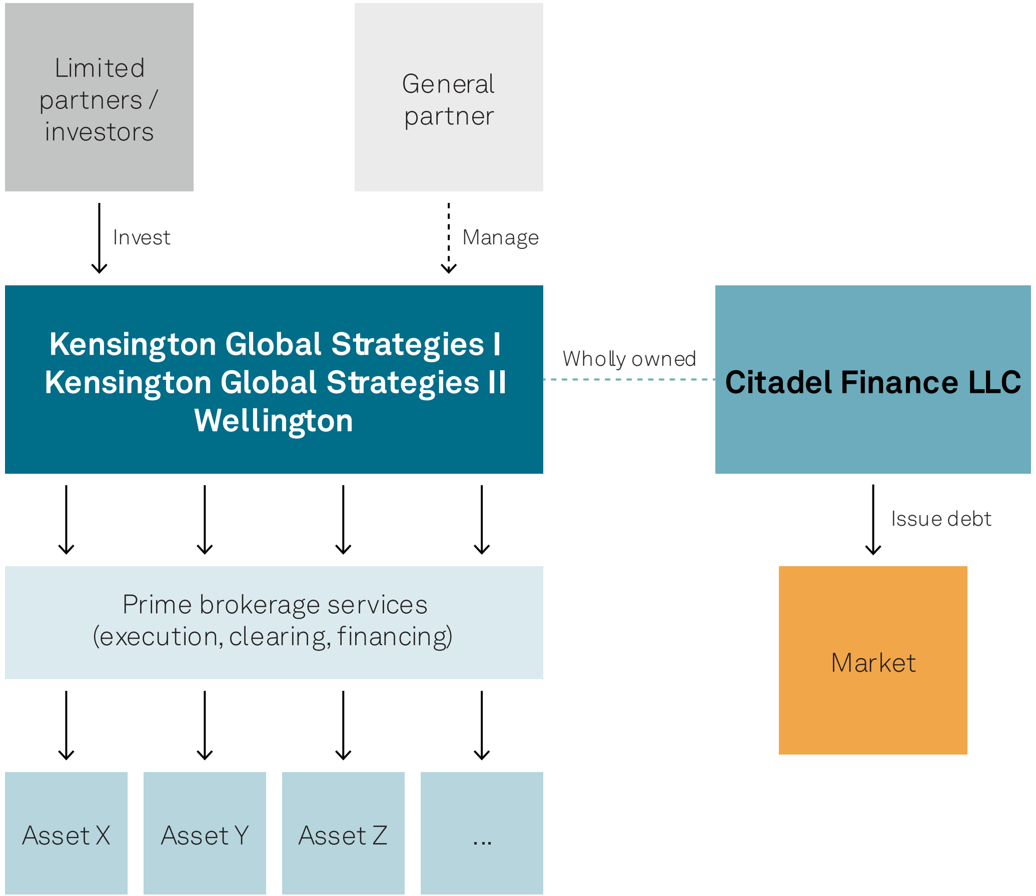
S&P Global Ratings

Citadel K/KII/W



Source: S&P Global Ratings.

Citadel K/KII/W

Overview | Structure chart | **Rating and key credit factors**

Risk-adjusted leverage: Adequate

Stressed leverage | Strong

- For complex, high-turnover portfolios, stressed leverage is computed using value at risk (VaR) at a 99.7% confidence level over a one-year horizon divided by NAV.
- VaR/NAV is roughly 26%.

Risk Position | Moderate

- Good diversification across asset classes and strategies, but a relatively high risk appetite.
- Positions in the commodities segment have substantially increased on average over the past two years. Prone to large price swings for which liquidity could be scarce at times.

Funding and liquidity: Adequate

Funding | Adequate

- Open-ended nature with the possibility to limit or stop redemptions.
- Reliance on prime brokerage funding.

Liquidity | Adequate

- Well-managed liquidity with a liquidity reserve to NAV just north of 50%.
- Highly liquid underlying assets as 70% of the fund's balance sheet (excluding the reverse repurchase agreements) are held in level 1 assets.

→

Anchor* bbb

Based on adequate risk-adjusted leverage and adequate funding and liquidity

→

Modifiers

Track record and investment performance

Remarkable return profile over time, five-year Sharpe ratio of >2.40x

Positive (+1)

Risk management

Good risk-management capabilities but relatively high risk appetite.

Neutral

Transparency and complexity

Citadel maintains a highly complex business organization.

Negative (-1)

Comparable ratings adjustment

Based on peer comparison.

Negative (-1)

→

Issuer Credit Rating§ BBB-

→

Senior unsecured debt rating | BBB-

Notes are issued from a wholly owned core subsidiary, Citadel Finance LLC.

*Jurisdictional risk is neutral and therefore the preliminary anchor equals the final anchor. §The fund doesn't have government or government-related entity support.

Related Criteria And Research

Related Criteria

- Alternative Investment Funds Methodology, Dec. 9, 2021

Related Research

- ABS Frontiers: The Blurring Of Private Credit Funds And CLOs, Jan. 30, 2024
- Difficult Markets Will Test Europe's Rated Alternative Investment Funds, Dec. 5, 2023
- Credit FAQ: Defining And Rating An Alternative Investment Fund, March 31, 2023

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Appendix

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Stressed Leverage—Buy And Hold Funds

Stressed leverage measures a fund's ability to cover outstanding financial obligations in adverse economic conditions or changing circumstances.

- **For funds that use more transparent, traditional strategies** and have asset profiles that do not change significantly over a short time horizon, we typically apply a **haircut to the assets** to reflect typical market movements in a 'BBB', or moderate, stress scenario and compare the ability of the stressed assets to cover total recourse liabilities (stressed assets to total recourse liabilities).
- **We devised a set of haircuts for the most common asset classes. For example:**
  - 36% for U.S. 'BB' coupon-bearing corporate bonds with a residual maturity of five-to-seven years;
  - 85% for 'AAA' rated commercial mortgage-backed securities;
  - 50% for listed stocks;
  - 60% for private equity; and
  - 0% for cash and cash equivalents.

Stressed assets to total recourse liabilities

Assessment	Range
Very strong	>3.5x
Strong	2.5x-3.5x
Adequate	1.75x-2.5x
Moderate	1.0x-1.75x
Weak	0.5x-1.0x
Very weak	<0.5x

- For asset classes for which we do not already have a haircut, we typically take one of two approaches:
  - We find the closest asset class that we have a stated haircut for and adjust using the risk position; or
  - We apply a haircut to the asset of 25%, 50%, 75%, or 100%, based on our view of the asset as low risk, medium risk, high risk, or very high risk.
- **Total recourse liabilities include all debt obligations issued by a fund, repurchase agreements, and prime brokerage financing.** They exclude nonrecourse liabilities (such as collateralized loan obligation debt) and the portion of hybrids to which we assign equity content.

Stressed Leverage For Funds With More Complex Strategies

Stressed leverage measures a fund's ability to cover outstanding financial obligations in adverse economic conditions or changing circumstances.

- **For funds that use more complex strategies or have a large turnover position,** we typically consider portfolio-based risk measures to assess the sufficiency of a fund's equity under stress **(VaR/NAV)**.
- We typically assess stressed leverage based on a measure of VaR using a one-year horizon and a 99.7% confidence level. We typically adjust with an additional stress to compensate for the fact that regulators typically do not validate VaR calculations for AIFs.
- We typically compute a one-year VaR at a 99.7% confidence level by scaling up (or down) the risk metrics a fund reports. Importantly, the starting point of our analysis is a risk metric that a fund uses in daily risk management and that is regularly back tested. Weak back-testing results result in a higher multiplier.

Portfolio-based risk measures

Assessment	VaR/NAV range (%)
Very strong	<20
Strong	20-40
Adequate	40-55
Moderate	55-75
Weak	75-100
Very weak	>100

VaR--Value at risk. NAV--Net asset value.

Adjustment for risk position

We refine our view of leverage and asset risk beyond the standard assumptions by looking at six factors:

- Risks not captured in stressed leverage (for example, interest-rate risk, spread risk, or currency risk);
- Concentration (for example, single-name, geographical, or sector concentration);
- Risk of the strategy;
- Volatility of past investment returns;
- Appropriateness of stresses (that is, the risks captured in stressed leverage, but for which the haircut might not be totally appropriate given the specific nature of the risks); and
- Quality of capital.

Determining the risk-adjusted leverage

Stressed leverage assessment	
Very strong to very weak	
Risk position assessment	
Strong	+1 category
Adequate	Neutral
Moderate	-1 category
Weak	-2 categories

Funding And Liquidity

Funding

We consider the **relative stability of an AIF's sources of funding** and the extent to which stable funding is important given the investment strategy:

- Stability and diversity of the investor capital base;
- Stability and diversity of the funding sources (nonequity funding);
- Prime brokerage relationships; and
- Funding flexibility.

Liquidity

The quantitative test

- For funds that use a more transparent, traditional strategy—we assess **sources divided by uses under a stress scenario** over a one-year horizon. We typically apply a haircut to assets to reflect their potential loss in liquidation value in a 'BBB' stress scenario.
- For funds that use more complex strategies or have a large turnover position, we typically evaluate liquidity through the key quantitative indicator of **liquidity reserves to trading capital**.

Qualitative factors

- **Asset liquidity:** Level I assets are a positive. Level III assets are a negative.
- **Cash flow from the portfolio:** Predictable cash flow coming from the portfolio is a positive. No recurring cash flow from the portfolio is a negative.
- Covenant analysis: No covenants affecting liquidity (debt, derivative, or performance covenants) is a positive. If there are covenants, the assessment is more negative as the covenants are more likely to be breached, triggering liquidity outflows that the quantitative liquidity test does not already reflect.

The Preliminary Anchor

		Funding and liquidity					
		Very strong	**Strong**	**Adequate**	**Moderate**	**Weak**	**Very weak**
Risk-adjusted leverage	**Very strong**	aaa	aa+/aa	aa-/a+	a/a-	bbb+/bbb	bbb-/bb+
	Strong	aa	aa-/a+	a/a-	bbb+/bbb	bbb-/bb+	bb/bb-
	Adequate	a	a/a-	bbb+/bbb	bbb-/bb+	Bb	bb-
	Moderate	bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb/bb-	b+/b
	Weak	bbb-	bb+/bb	bb/bb-	bb-/b+	b+/b	b
	Very weak	bb	bb-	bb-/b+	b+	b	b-

We combine the risk-adjusted leverage and funding and liquidity assessments to derive the preliminary anchor.

Other Modifiers

Track record and investment performance

Addresses potential investment return volatility and profitability (both absolute and relative).

Risk management

Addresses certain risks that are not otherwise captured. These relate to a fund's trading and credit risk management, operational risk management, and management and governance risk.

We may consider risk management practices to be a substantial risk to a fund. Examples include but are not limited to:

- When formal systems to encourage the representation of creditor rights are insufficient;
- When the fund is unable to generate periodic risk reports consistent with past behavior; and
- When we believe that substantial operational deficiencies exist, given the complexities of the investment profile.

Transparency and complexity

Addresses risks relating to a fund's complexity or the transparency of its disclosures.

Comparable ratings adjustment

We may apply an adjustment based on our comparable ratings analysis to capture a more holistic view of creditworthiness. This allows for the consideration of additional credit factors that the criteria do not identify separately, as well as existing credit factors that are not fully captured, but that may be informed by our peer analysis.

Determining the SACP

Anchor	'aaa' to 'b-'*
Track record and investment performance	
Positive	+1 notch
Neutral	0 notches
Negative	-1 notch
Risk management	
Neutral	0 notches
Moderately negative	-1 notch
Negative	-2 notch
Substantial risk to the fund	> -2 notches
Transparency and complexity	
Neutral	0 notches
Negative	-1 notch
Comparable ratings analysis	+1, 0, -1 notch

*The modifiers do not cumulatively lower the SACP below 'b-'

Issue Ratings

Senior secured

- We often rate all secured debt and senior unsecured debt at the same level as the ICR.
- However, we may rate first-lien senior secured debt higher than the ICR by one notch if we believe that the collateral backing the debt is sufficient to repay secured creditors after applying our stressed leverage haircuts with 20% over-collateralization.

Junior secured and senior unsecured debt

- Often at the same level as the ICR.
- One notch below the ICR when either of the following conditions apply:
  - Priority debt is greater than 15% of adjusted assets, and we expect unencumbered assets to be less than the rated unsecured or junior secured debt; or
  - Priority debt is greater than 30% of adjusted assets, and we expect unencumbered assets to be greater than the rated unsecured or junior secured debt.
- Two notches below the ICR when both of the following conditions apply:
  - Priority debt is greater than 30% of adjusted assets; and
  - We expect unencumbered assets to be less than the rated unsecured or junior secured debt.

When considering the conditions above, we deduct nonrecourse secured debt from priority debt, and we deduct the assets pledged to that debt from adjusted assets.

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