

Presale:

Palmer Square European CLO 2023-1 DAC

May 26, 2023

Preliminary ratings

Class	Prelim. rating*	Balance (mil. €)	Subordination (%)	Interest rate§
A	AAA (sf)	165.03	38.50	Three-month EURIBOR plus 1.90% margin
A loan	AAA (sf)	80.97	38.50	Three-month EURIBOR plus 1.90% margin
B-1	AA (sf)	30.75	28.56	Three-month EURIBOR plus 3.25% margin
B-2	AA (sf)	9.00	28.56	7.00%
C	A (sf)	24.00	22.56	Three-month EURIBOR plus 3.65% margin
D	BBB- (sf)	25.50	16.19	Three-month EURIBOR plus 6.20% margin
E	BB- (sf)	17.25	11.88	Three-month EURIBOR plus 7.59% margin
F†	B- (sf)	11.50	9.00	Three-month EURIBOR plus 10.00% margin
Subordinated notes	NR	45.75	N/A	N/A

Note: This presale report is based on the priced structure and portfolio information as of May 26, 2023. The ratings shown are preliminary. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Accordingly, the preliminary ratings should not be construed as evidence of final ratings. This report does not constitute a recommendation to buy, hold, or sell securities. *The preliminary ratings assigned to the class A loan and A, B-1, and B-2 notes address timely interest and ultimate principal payments. The preliminary ratings assigned to the class C, D, E, and F notes address ultimate interest and principal payments. §The payment frequency switches to semiannual and the index switches to six-month EURIBOR when a frequency switch event occurs. †The class F notes is a delayed drawdown tranche, which is not issued at closing. EURIBOR--Euro Interbank Offered Rate. NR--Not rated. N/A--Not applicable.

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Transaction Summary

Palmer Square European CLO 2023-1 DAC is a European cash flow CLO transaction, securitizing a portfolio of primarily senior secured leveraged loans and bonds. Palmer Square Europe Capital Management LLC will manage the transaction.

Key Credit Metrics

Selected credit metrics

Total leverage (x)*	7.96
Weighted-average cost of debt (%)§	3.08
Modeled WAS (%)	4.03
Modeled WAC (%)	4.00
Excess spread (%)†	0.97
SDR ('AAA') (%)	58.36
Modelled weighted-average portfolio recovery ('AAA') (%)	38.26

*Total debt/equity. §Spread over EURIBOR for all classes, excluding the subordinated notes. †WAS (calculated on the assumptions of 90.13% of the portfolio as floating-rate assets with 4.03% spread and 9.88% of the portfolio as fixed-rate assets with a coupon of 4.20%) minus the weighted-average cost of debt. WAS--Weighted-average spread. WAC--Weighted-average coupon. SDR--Scenario default rate. EURIBOR--Euro Interbank Offered Rate.

Portfolio credit benchmarks

SPWARF*	2,606.86
'AAA' default rate dispersion	610.90
Obligor diversity measure§	154.59
Industry diversity measure†	22.03
Regional diversity measure‡	1.41
Weighted-average life	4.57

*The SPWARF is calculated by multiplying the par balance of each collateral obligation (with a rating from S&P Global Ratings of 'CCC-' or higher) by S&P Global Ratings' rating factor, then summing the total for the portfolio, and then dividing this result by the aggregate principal balance of all of the collateral obligations included in the calculation. The S&P Global Ratings' rating factor of an individual asset is the five-year default rate given its S&P Global Ratings' credit rating and the default table in the corporate CDO criteria, multiplied by 10,000. §The effective number of obligors in the underlying collateral, obtained by squaring the exposure for each obligor and taking the reciprocal of the sum of these squares [i.e., $1/\sum()^2$]. †The effective number of industries in the underlying collateral obtained the same way as the obligor diversity measure. ‡The effective number of regions in the underlying collateral obtained the same way as obligor diversity measure. SPWARF--S&P Global Ratings weighted-average rating factor.

Transaction Timeline

Transaction timeline

Expected closing date	June 21, 2023
Non-call period end date	Dec. 21, 2024
Reinvestment period end date	Jan. 15, 2028
Stated maturity date	July 15, 2036
Note payment frequency	Quarterly, beginning Jan. 15, 2024. Semiannually after a frequency switch event.

Participants

Collateral manager	Palmer Square Europe Capital Management LLC
Arranger	BNP Paribas S.A.
Trustee	Citibank N.A., London Branch

Rationale

The preliminary ratings assigned to Palmer Square European CLO 2023-1's notes reflect our assessment of:

- The diversified collateral pool, which primarily comprises syndicated speculative-grade senior secured term loans and bonds that are governed by collateral quality tests.
- The credit enhancement provided through the subordination of cash flows, excess spread, and overcollateralization.

- The collateral manager's experienced team, which can affect the performance of the rated notes through collateral selection, ongoing portfolio management, and trading.
- The transaction's legal structure, which we expect to be bankruptcy remote.
- The transaction's counterparty risks, which we expect to be in line with our counterparty rating framework.

Rating Considerations

In our analysis, we considered the factors in table 1, among others.

Table 1

Rating considerations

Risk	Risk description	Mitigating factors
Reduction in cash flow	Defaults, adverse interest rate movements, and low recoveries can reduce the cash flow generated by the underlying portfolio and affect the issuer's ability to meet its obligations in a timely manner.	Our quantitative analysis simulates various default patterns and interest rate movements, under various stress scenarios considering portfolio characteristics, payment mechanics, covenants, collateral quality tests, and excess spread.
Excess concentration in certain types of collateral obligations	The collateral manager's ability to invest in certain types of collateral is outlined by the indenture. Larger concentrations in certain obligations can introduce additional risks to the rated notes.	Our cash flow analysis takes into consideration the underlying portfolio's maximum allowable amount of certain types of collateral obligations to stress test the transaction for concentration risk. Examples include: 12.5% fixed rate assets. For more details, please see table 8.
Collateral manager trading performance	During the reinvestment period, the collateral manager can change the underlying portfolio's composition, thus exposing the transaction to potential deterioration in credit enhancement.	During the reinvestment period, among other conditions the collateral manager is expected to run our CDO Monitor. Post reinvestment period, when the CDO Monitor is not applicable, the collateral manager is expected to reinvest in assets with the same or better ratings on the underlying assets and assets with the same earlier maturity.
Divergence of effective date portfolio from preliminary assumptions	Most underlying portfolios are not fully purchased by closing. Therefore, there is a risk that the fully ramped-up portfolio at the transaction's effective date will be materially different than the one presented to us for its preliminary analysis. We understand that the expectation is that the portfolio will be 90% ramped at closing.	We offer collateral managers both a model and formula-based version of our CDO Monitor at closing. This tool is intended to assist the collateral manager in maintaining a similar credit risk and cash flow profile to what was initially presented for our preliminary analysis.
Exposure to covenant-lite loans	The collateral manager can purchase covenant-lite loans (those that do not contain incurrence or maintenance covenants for the benefit of the lending party) for up to a certain percentage of the underlying portfolio (see table 8). Exposure to these types of loans may reduce the transaction's recovery prospects.	For covenant-lite loans that do not have an asset-specific recovery rating, we apply reduced recovery rates in our cash flow analysis (41% under an 'AAA' level of stress versus 50% for a senior secured first-lien loan that is not covenant-lite (in both cases assuming a country group of "A"). For further details, please refer to table 4 for the asset recovery rates and appendix B for the recovery groups by country in "Guidance: Global Methodology And Assumptions For CLOs And Corporate CDOs," published on June 21 2019). The transaction documents mandate that any loan that is pari passu with a loan of the same obligor requiring loan covenants, or that contains a cross-default provision with the loan, will also use the reduced recovery rates regardless of whether these pari passu or cross-defaulted loans are counted as covenant-lite for the purposes of portfolio concentration limits.

Collateral Manager

We reviewed Palmer Square Europe Capital Management (the collateral manager) under our operational risk criteria (see "Global Framework For Assessing Operational Risk In Structured Finance Transactions," published on Oct. 9, 2014). In our view, it can manage this CLO, based on the extensive experience of its portfolio managers.

Quantitative Analysis

In analyzing this transaction, we conducted a quantitative review consisting of two analyses: a portfolio analysis and a cash flow analysis.

Portfolio analysis

For the portfolio analysis, we ran the portfolio presented to us through the CDO Evaluator model, which defaults portions of the underlying collateral based on the default probability and correlation assumptions defined in our criteria. This resulted in a set of scenario default rates (SDRs), which represent expected default levels for the portfolio under the different stress scenarios associated with each rating level.

Cash flow analysis

For the cash flow analysis, we input the transaction-specific structural features presented to us into Standard & Poor's Cash Flow Evaluator model to generate a base-case set of cash flows. We then subjected these cash flows to various default timing and interest rate stress scenarios to arrive at a break-even default rate (BDR) for each rated class of notes.

For each class, the BDR represents the maximum amount of defaults that it can withstand while still being able to pay timely interest, or ultimate interest as applicable, and ultimate principal to its noteholders. Classes with higher subordination typically have higher BDRs.

The transaction allows the manager to buy a maximum of 12.5% fixed paying assets, and we considered in our cash flow analysis the BDRs where this fixed bucket is filled. Our base case is 100.0% floating assets. In our analysis, we modeled the actual weighted-average spread and coupon provided by the manager.

Connecting the portfolio and cash flow analyses

For a tranche to achieve a particular rating, it must be able to withstand the level of defaults projected by the CDO Evaluator and still pay timely interest and principal.

The results shown in table 2 indicate that the rated notes have sufficient credit enhancement to withstand our projected default levels. This scenario represents the scenario with the lowest BDR cushion at the 'AAA' level, in which we have modeled 100.0% of floating-rate assets.

Table 2

Cash flow results

Class	BDR (%)	SDR (%)	BDR cushion (%)
A	67.88	58.36	9.52
B-1/B-2	64.47	50.92	13.54
C	58.69	45.08	13.61
D	48.50	36.29	12.21
E	39.42	29.57	9.84
F	29.85	24.07	5.77

BDR--Break-even default rate. SDR--Scenario default rate.

Supplemental tests

We also conduct a largest industry default test, a largest obligor default test, a largest sovereign default test, and a largest transfer and convertibility default test according to "Global Methodology And Assumptions For CLOs And Corporate CDOs," published on June 21, 2019, and "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published on Jan. 30, 2019. Under these assumptions, the notes can withstand the loss amounts indicated in table 3 at the assigned preliminary ratings.

Table 3

Supplemental tests

Class	Preliminary rating	Largest industry default test loss amount (mil. €)	Largest obligor default test loss amount (mil. €)	Largest sovereign test amount (mil. €)	Largest sovereign T&C test amount (mil. €)
A	AAA (sf)	31.52	38.54	20.47	0.00
B-1/B-2	AA (sf)	31.52	30.94	11.79	0.00
C	A (sf)	0.00	23.34	0.00	0.00
D	BBB- (sf)	0.00	15.74	0.00	0.00
E	BB- (sf)	0.00	11.94	0.00	0.00
F	B- (sf)	0.00	8.11	0.00	0.00

T&C--Transfer and convertibility.

Collateral Quality Tests And Credit Metrics

In addition to the quantitative framework, we produce and review other metrics to assess specific risks inherent in a transaction. Results for the collateral quality tests based on the portfolio provided to us are shown in table 4.

Table 4

Collateral quality metrics – performing collateral

Test	Weighted- average	Covenant	Margin
Weighted-average life (years)*	4.57	8.50	3.93
Weighted-average spread including floors (%)	4.04	4.03	0.01
Weighted-average spread excluding floors (%)	4.03	4.03	0.00
Weighted-average fixed coupon (%)	4.20	4.00	0.20

*The modeled weighted-average life is the one used in our cash flow analysis and is quarterly.

Portfolio Characteristics

Metrics based on the portfolio presented to us and the level of ramp-up completion are shown in table 5.

Table 5

Target collateral obligations

Target par balance (mil. €)	400.00
Par balance of identified collateral (mil. €)	381.71
Par balance of collateral not yet identified (mil. €)	18.29

Obligors

Number of unique obligors	183
Number of identified obligors	177
Average obligor holding (%)	0.55
Largest-obligor holding (%)	1.13
Smallest-obligor holding (%)	0.13

In the portfolio data referenced for this analysis, the issuer had identified almost all of the portfolio's collateral. As the portfolio composition changes, the information and results presented in report are also likely to change.

Obligor concentration

The underlying portfolio presented to us for our rating analysis comprises 183 distinct obligors. Table 6 below shows the respective industries of the 10 top obligors.

Table 6

Top obligor holdings

Obligor reference	Industry	S&P Global Ratings' credit rating	Notional amount (mil. €)		Notional amount (%)	
			Obligor	Cumulative	Obligor	Cumulative
1	Real estate management and development	B	4.50	4.50	1.13	1.13
2	Personal products	B-	4.04	8.54	1.01	2.13
3	Health care providers and services	N/A	4.03	12.57	1.01	3.14
4	Capital markets	N/A	4.00	16.57	1.00	4.14
5	Food products	B+	4.00	20.57	1.00	5.14
6	Professional services	B	4.00	24.57	1.00	6.14
7	Software	B	4.00	28.57	1.00	7.14
8	Diversified consumer services	B+	4.00	32.57	1.00	8.14
9	Entertainment	N/A	4.00	36.57	1.00	9.14
10	Software	B	4.00	40.57	1.00	10.14

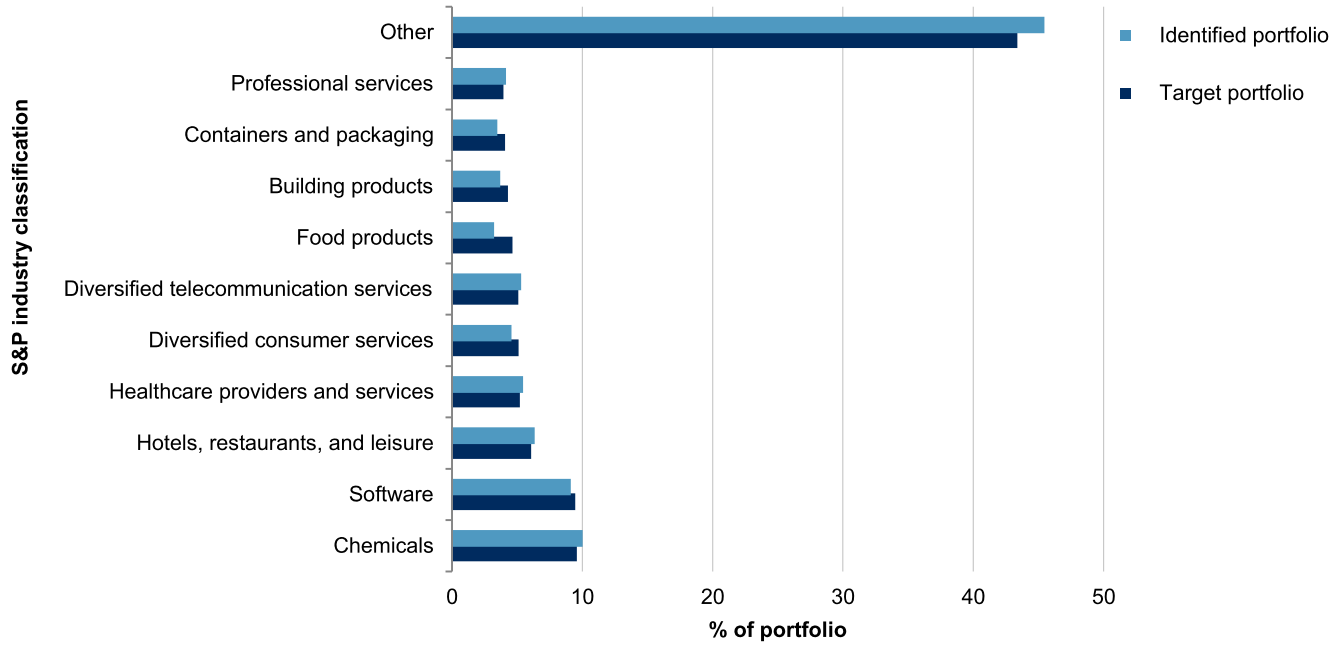
N/A--Not applicable.

Industry distribution

Chart 1 shows the top 10 industry distribution in the portfolio. The portfolio comprises 39 distinct industries as per the Capital IQ industry - level 3 classification.

Chart 1

Top industry distribution



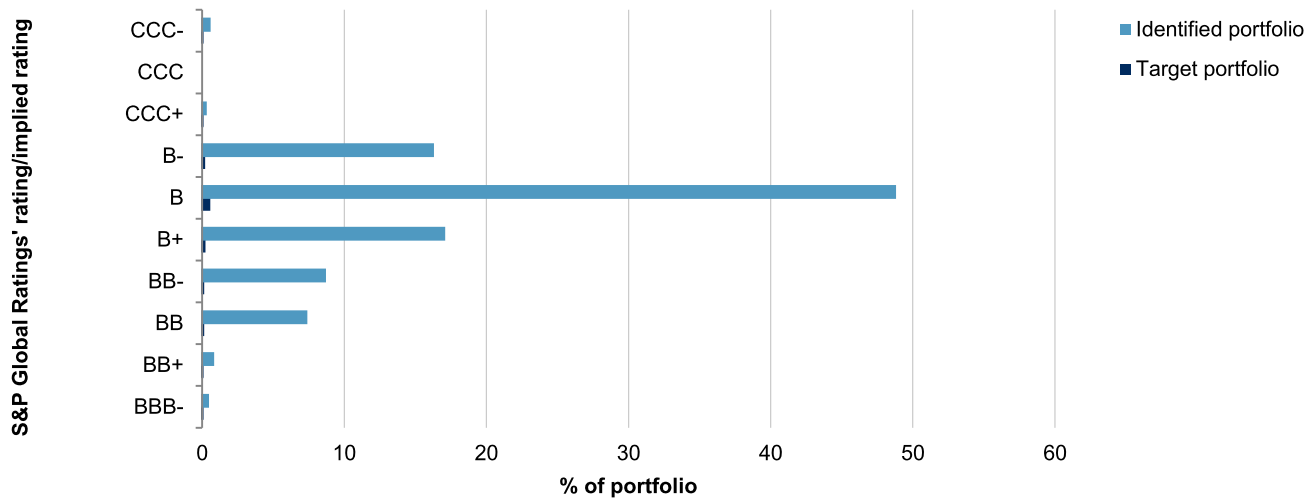
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Ratings distribution

Chart 2 shows the ratings distribution in the portfolio. Of the underlying collateral obligations, 99.21% have ratings assigned by us.

Chart 2

Rating distribution



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Recovery rating distribution

Table 7 presents the recovery rates modeled to calculate BDRs and actual recovery rates of the targeted portfolio. Chart 3 presents our recovery rates distribution of the portfolio. Of the underlying collateral obligations, 97.61% have recovery ratings assigned by us.

Table 7

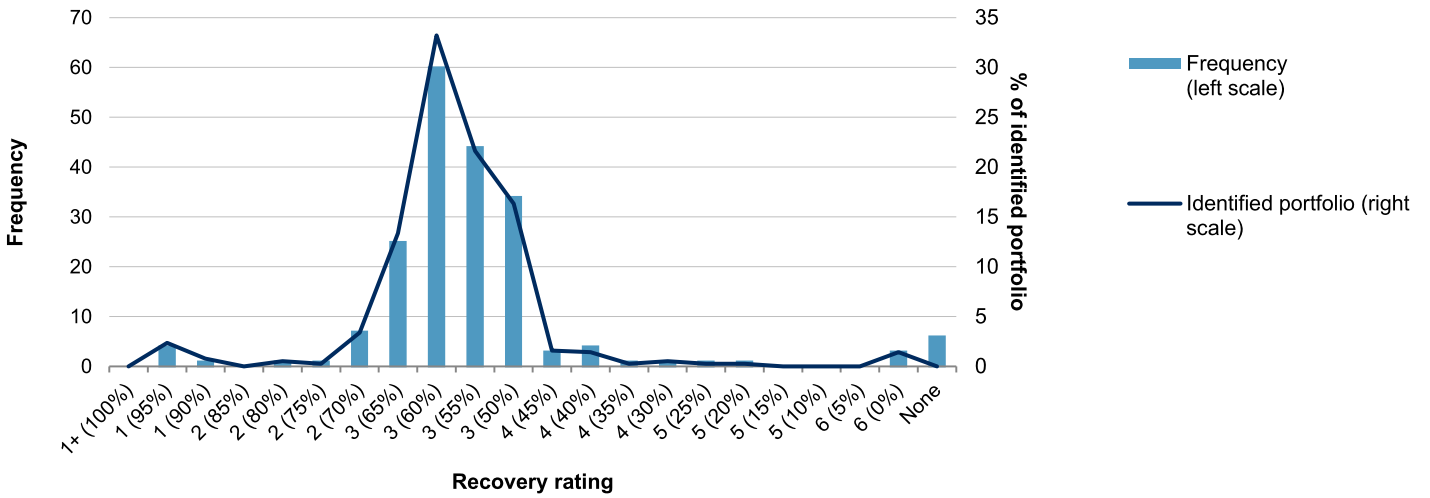
Collateral WARR

Liability rating	Modeled WARR (%)	Target pool WARR (%)	Actual WARR on identified portfolio (%)
AAA	38.26	38.26	38.18
AA	47.94	47.94	47.85
A	53.78	53.78	53.68
BBB-	60.45	60.45	60.33
BB-	65.20	65.20	65.11
B-	66.52	66.52	66.40

WARR--Weighted-average recovery rate. During the ramp-up period (generally six months from closing), the manager will buy assets to reach the modeled WARR considered in our analysis.

Chart 3

Recovery rating distribution



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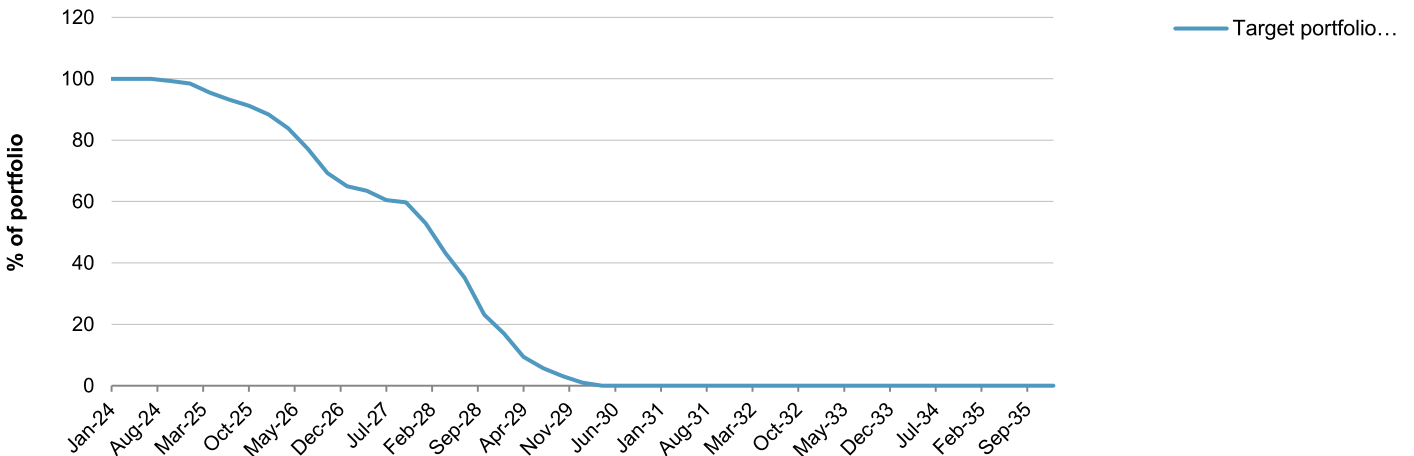
Deleveraging profile

Chart 4 shows the portfolio's deleveraging profile.

Chart 4

Deleveraging profile

Based on the legal final maturity date



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Portfolio Investment Guidelines

The underlying portfolio will primarily comprise euro-denominated senior secured loans and bonds to broadly syndicated corporate borrowers. The collateral portfolio's effective date and reinvestment guidelines are expected to comply with the limitations shown in table 8.

Table 8

Portfolio profile test

Type of obligation	Limit (%)
Minimum senior secured loans or senior secured bonds	90.00
Maximum second lien loans, senior unsecured obligations, high yield bonds, and mezzanine obligations	10.00
Minimum senior secured loans	70.00
Maximum single obligor, provided up to three obligors may each represent up to 3.00% of the aggregate collateral balance	2.50
Maximum single obligor of senior secured loans and senior secured bonds provided up to three obligors may each represent up to 3.00% of the aggregate collateral balance	2.50
Maximum single obligor of unsecured senior loans, second lien loans, and/or mezzanine obligations and high yield bonds	1.00
Maximum single S&P Global Ratings industry	10.00
Maximum obligors domiciled in countries with a credit rating from S&P Global Ratings below 'AA-'	20.00
Maximum obligors domiciled in countries with a credit rating from S&P Global Ratings below 'A-'	15.00
Maximum obligors domiciled in countries with a credit rating from S&P Global Ratings below 'BBB-'	10.00
Maximum obligors domiciled in countries with a credit rating from S&P Global Ratings below 'BB-'	5.00
Maximum non-euro obligations--subject to an asset swap or unhedged	25.00
Maximum covenant-lite loans	30.00
Maximum participations	5.00
Maximum current pay obligations	2.50
Maximum corporate rescue loans and any uptier priming debt that are defaulted	5.00
Maximum uptier priming debt that are current pay	2.50
Maximum PIK and partial PIK obligations	2.50
Maximum S&P Global Ratings' credit rating of 'CCC+', 'CCC', and 'CCC-'	7.50
Maximum unfunded amounts under revolving obligations or delayed drawdown CDOs	5.00
Maximum fixed-rate obligations	12.50
Maximum discount obligations	25.00
Maximum distressed exchange obligations	2.50
Maximum credit estimate obligations	10.00
Indebtedness of obligor between €150 million and €250 million	5.00

Note: Covenant-lite loans are assigned lower recovery ratings than similar obligations that require continued compliance with covenants.
NRSRO--Nationally recognized statistical rating organization. PIK--Payment in kind.

Risk of concentration in certain obligation types

We consider larger concentrations in the types of obligations shown in table 9 to pose additional risk to the transaction. If the transaction can purchase these collateral obligations, our quantitative analysis would consider the risk associated with these types of obligations (see table 8 above for transaction-specific limitations).

Table 9

Risks of obligation types

Obligation type	Risk specific to the obligation
Fixed-rate obligations	Because interest payments for all of the rated notes are tied to EURIBOR, obligations in the underlying portfolio that pay a fixed rate create exposure to interest rate movements. Should market rates change significantly over the transaction's life, this may affect excess spread. To account for this risk, we also consider the mix of fixed- and floating-rate assets at the minimum and maximum levels. The results are captured in the BDRs generated by Cash Flow Evaluator.
Long-dated obligations	Collateral obligations scheduled to mature after the transaction's stated maturity date introduce market value risk, as the collateral manager will typically have to sell the obligations at the prevailing market price to pay the rated noteholders. To account for this risk, our cash flow analysis haircuts the par amount of these obligations, which will lower the BDRs produced by Cash Flow Evaluator. This stress would also be considered for long-dated assets that the transaction can hold after any maturity amendments above the threshold allowed under our criteria.
Obligations that pay interest less frequently than quarterly	Because transactions typically require quarterly interest payments to be made to the noteholders, a portfolio consisting of collateral obligations that pay interest less frequently creates a discrepancy in the timing of cash inflows and outflows. If this mismatch is significant, it may result in a shortfall in cash available to pay the rated noteholders. In order to mitigate the effects of these timing mismatches, the transaction incorporates an interest smoothing account and a frequency switch mechanism, which if triggered, will switch the payment frequency on the rated notes to semiannual.
S&P Global Ratings preliminary credit rating of 'CCC+' or below	Transaction documents typically limit the amount of obligations rated 'CCC+' or below that the collateral manager can purchase. A higher concentration of obligations rated 'CCC+' or lower will typically increase the SDRs produced by CDO Evaluator.

BDR--Break-even default rate. SDR--Scenario default rate. EURIBOR--Euro Interbank Offered Rate.

Under the transaction documents, certain conditions must be satisfied before collateral is bought for or sold from the portfolio (see tables 10 and 11).

Table 10

Summary of trading conditions during reinvestment period

Conditions to reinvest

proceeds from each

type of assets

sold/received

	Coverage tests	New asset minimum par amount	S&P CDO Monitor test†	Concentration limitations	Collateral quality test
Discretionary	Satisfy otherwise maintain or improve§	The aggregate principal balance of all collateral debt obligations is maintained or improved	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve
Credit risk	Satisfy otherwise maintain or improve§	Not less than 100% of the sale proceeds of assets sold*	Not required	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve

Table 10

Summary of trading conditions during reinvestment period (cont.)

Conditions to reinvest proceeds from each type of assets sold/received

Conditions to reinvest proceeds from each type of assets sold/received	Coverage tests	New asset minimum par amount	S&P CDO Monitor test†	Concentration limitations	Collateral quality test
Credit improved	Satisfy otherwise maintain or improve§	The aggregate principal balance of all collateral debt obligations is maintained or improved	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve
Defaulted (including recovery on defaulted assets)	Satisfy§	Not less than 100% of the sale proceeds of assets sold*	Not required	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve
Unscheduled principal (including recoveries)	Satisfy otherwise maintain or improve§	The aggregate principal balance of all collateral debt obligations is maintained or improved	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve
Scheduled principal	Satisfy otherwise maintain or improve§	The aggregate principal balance of all collateral debt obligations is maintained or improved	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve	Satisfy otherwise maintain or improve

*Alternatively a lower amount if the aggregate collateral balance of the portfolio exceeds the reinvestment target par balance. §Interest coverage ratio on or after second interest payment date. †From the effective date.

Table 11

Summary of trading conditions after reinvestment period

Conditions to reinvest proceeds from each type of assets sold/received	Coverage tests	New asset minimum par amount	Concentration limitations	New asset with an equal or a higher rating	New asset with the same or a shorter maturity
Credit risk	Passing after	Not less than 100% of the sale proceeds of assets sold	Satisfy otherwise maintain or improve*	Yes§	Yes
Credit improved	Passing after	Not less than 100% of the principal balance of assets generating proceeds	Satisfy otherwise maintain or improve*	Yes§	Yes
Unscheduled principal	Passing after	Not less than 100% of the principal balance of assets generating proceeds	Satisfy otherwise maintain or improve*	Yes§	Yes

*Except S&P Global Ratings and Fitch Ratings 'CCC' limitations, which must be satisfied. §Alternatively the new asset does not need to have an equal or higher rating so long as the S&P Global Ratings CDO scenario default rate does not increased following the reinvestment. Note: Discretionary trading, scheduled principal received from collateral, and recoveries from defaulted assets cannot be reinvested.

Note Payment Considerations

Overcollateralization, interest coverage, and interest diversion tests

The rated notes benefit from certain structural features that require sequential mandatory redemption upon a breach of any overcollateralization or interest coverage test. Additionally, during the reinvestment period, the rated notes benefit from the reinvestment of up to a certain amount of the excess interest proceeds, captured upon breach of the transaction's interest diversion test (see table 12).

Table 12

Overcollateralization, interest coverage, and interest diversion tests

Class	Actual O/C (%)	Min. O/C required (%)	Min. I/C required (%)
A/B	139.98	129.90	120.00
C	129.14	122.10	110.00
D	119.31	113.30	105.00
E	113.48	108.40	N/A
F	N/A	N/A	N/A
Interest diversion test based on the class F notes (applicable during the reinvestment period)	113.48	108.90	N/A

O/C--Overcollateralization. I/C--Interest coverage. N/A--Not applicable.

Payment priorities

Under the transaction documents, the collateral's interest and principal collections are payable according to separate payment priorities. On each payment date during and after the reinvestment period, unless at the stated maturity or an acceleration following an event of default occurs, proceeds will be distributed in the priority outlined in table 13.

Table 13

Waterfall payment priority

Priority	Interest waterfall	Principal waterfall
A	Taxes and issuer profit amount	Payment of A through I of interest waterfall if previously unpaid
B	Accrued and unpaid trustee fees and expenses, up to the cap	Class C notes interest amount, only if controlling class
C	Administrative expenses, up to the cap	Class C coverage test
D	Transfers to expense reserve account, up to the cap	Class C notes' deferred interest, only if controlling class

Table 13

Waterfall payment priority (cont.)

Priority	Interest waterfall	Principal waterfall
E	(i) Senior collateral management fees, some of which may be deferred to purchase additional collateral or waived (such as deferred senior collateral management amounts)*(ii) Catch up on previously due and unpaid (other than deferred senior collateral management amounts) senior collateral management fees	Class D notes interest amount, only if controlling class
F	(i) Any scheduled periodic hedge issuer payments(ii) Any currency hedge issuer termination payments(iii) Interest rate hedge issuer termination payments(iv) Any hedge replacement payments	Class D coverage test
G	Class A notes' interest	Class D notes' deferred interest, only if controlling class
H	Class B-1 and B-2 notes' interest, pro-rata.	Class E notes interest amount, only if controlling class
I	Cure class A/B notes' coverage tests	Class E coverage test
J	Class C notes' interest	Class E notes' deferred interest, only if controlling class
K	Cure class C notes' coverage tests	Class F notes interest amount, only if controlling class
L	Class C notes' deferred interest	Class F notes' deferred interest, only if controlling class
M	Class D notes' interest	Redemption following an effective date rating event
N	Cure class D notes' coverage tests	Make payments under a special redemption event
O	Class D notes' deferred interest	Purchase collateral in line with collateral management and administration agreement
P	Class E notes' interest	Note redemption in line with priority
Q	Cure class E notes' coverage tests	Payment of W through Z of interest waterfall if previously unpaid post reinvestment period
R	Class E notes' deferred interest	To any reinvesting noteholder of any reinvestment amount accrued and not previously paid
S	Class F notes' interest	Residual payments to equity and, where appropriate, collateral manager
T	Class F notes' deferred interest	
U	Redemption following an effective date rating event	
V	Reinvestment overcollateralization test, minimum of cure amount or 50% of remaining proceeds to either redeem notes or purchase additional collateral	
W	(i) Subordinated management fee unless waived, designated for reinvestment or deferred§(ii) Subordinated management fee previously due and unpaid(iii) Deferred senior and subordinated distribution amounts(iv) Any collateral manager advances and any interest thereon	
X	Any remaining trustee fees and expenses not paid under the cap†	

Table 13

Waterfall payment priority (cont.)

Priority	Interest waterfall	Principal waterfall
Y	Any remaining administrative expenses under the cap	
Z	Any payments relating to a defaulted hedge counterparty	
AA	Transfer to supplemental reserve account at manager's discretion	
BB	(i) Incentive collateral management fee (ii) VAT on the incentive collateral management fee	
CC	Residual payments to equity and, where appropriate, investment manager	

*0.10% per year. †0.30% per year. ‡€275,000 per year plus 0.025% of the ending collateral balance. Note: The note payment sequence is as follows: first the class A notes and class A Loan at the applicable redemption price until fully redeemed, then the class B-1 and B-2 notes in the same manner, pro-rata, then the class C notes including unpaid interest and deferred interest at the applicable redemption price until they fully redeem, then the class D to F notes in the same manner.

Note redemption circumstances

Under the transaction documents, the notes can be redeemed before the stated maturity date of the transaction in the circumstances outlined below (see table 14).

Table 14

Note redemption

Redemption events	Redemption terms
Mandatory redemption	If any applicable coverage test is not satisfied, the notes may be redeemed, in whole or in part, on any payment date before their legal final maturity dates. If a mandatory redemption occurs, the issuer will use the available principal and interest proceeds to redeem the notes according to the priority of payments outlined in table 13.
Refinancing	After the non-call period, at the direction of the subordinated noteholders, subject to consent from the manager or at the direction of the manager, any class of notes may be redeemed, in whole but not in part, from refinancing proceeds.
Tax redemption	If a tax event occurs, at the direction of the controlling class of noteholders or of the subordinated noteholders, but subject to consent of the manager, the rated notes may be redeemed, in whole but not in part, on any payment date before their legal final maturity dates, in accordance with the note payment sequence.*

*Note payment sequence is: first, the A notes at the applicable redemption price until they fully redeem, followed by the class B notes in the same manner. Then, the class C notes including unpaid interest and deferred interest at the applicable redemption price until they fully redeem, followed by the class D to F notes in the same manner.

Application Of Our CDO Monitor/Compliance With Our CDO Monitor Test

Our CDO Monitor is a tool that collateral managers use during the reinvestment period to determine if a particular trade or series of trades increases the risk to the rated liabilities.

The CDO Monitor test will be considered passing if the results indicate that the current portfolio produces an SDR that is equal to or below the transaction's BDR. There is no requirement that the CDO Monitor test be considered after the reinvestment period, or when reinvesting proceeds from the sale of a credit risk or defaulted obligation.

For this transaction, the non-model version of CDO Monitor will be used initially, with the option to switch to the model version.

Events Of Default

Under certain conditions, the following events of default may result in the acceleration of payments to the preliminary rated notes or the collateral's liquidation:

- The issuer fails to pay interest, when due and payable, to the class A loan, A, or B-1 and B-2 notes (within the related five business day grace period).
- A failure to pay principal payment or the redemption price on any rated class of notes when due and payable at the stated maturity date or any redemption date (each within the related five business day grace period).
- The issuer fails to disburse any amounts in accordance with the priority of payments within a 10 business day grace period.
- The class A overcollateralization ratio falls below 102.5%. As defined in the transaction documents, the event of default overcollateralization ratio is calculated without rating-based haircuts, but includes defaulted assets carried at their market value.
- Under the transaction documents, the issuer is required to register as an investment company under the Investment Company Act. This requirement will be in effect for 45 days.
- A material default in the performance or material breach of any covenant, or other issuer agreement that is not cured within the 45-day cure period.
- The issuer's voluntary or involuntary bankruptcy.
- It becomes unlawful for the issuer to perform or comply with one or more of its obligations.

Surveillance

We will maintain active surveillance on the rated notes until the notes mature or are retired, or until our credit ratings on the transaction have been withdrawn. The purpose of surveillance is to assess whether the rated notes are performing within the initial parameters and assumptions applied to each rating category. The issuer is required under the terms of the transaction documents to supply periodic reports and notices to us to maintain continuous surveillance on the rated notes.

Environmental, Social, And Governance (ESG)

We regard exposure to ESG credit factors in the transaction as being broadly in line with our benchmark for the sector (see "ESG Industry Report Card: Collateralized Loan Obligations," March 31, 2021). Primarily due to the diversity of the assets within CLOs, the exposure to environmental credit factors is viewed as below average, social credit factors are below average, and governance credit factors are average. For this transaction, the documents prohibit assets from being related to the following industries: weapons of mass destruction, illegal drugs or narcotics, opioids, pornographic or prostitution, child or forced labor, payday lending, electrical utility limitations, oil and gas limitations, oil life cycle, tobacco, adversely affect animal welfare, genetic engineering or modification, beaching or breaking of ships, illegal logging operations, civilian firearms limitations, hazardous chemicals limitations, oil extraction limitations, private prisons limitations, unbonded

asbestos fibers limitations, soft commodities limitations, and trading coal limitations. Accordingly, since the exclusion of assets from these industries does not result in material differences between the transaction and our ESG benchmark for the sector, no specific adjustments have been made in our rating analysis to account for any ESG-related risks or opportunities.

ESG Corporate Credit Indicators

The influence of ESG factors in our credit rating analysis of European CLOs primarily depends on the influence of ESG factors in our analysis of the underlying corporate obligors. To provide additional disclosure and transparency of the influence of ESG factors for the CLO asset portfolio in aggregate, we've calculated the weighted-average and distributions of our ESG credit indicators for the underlying obligors (see "The Influence Of Corporate ESG Factors In Our Credit Rating Analysis Of European CLOs," published on April 20, 2022). We regard this transaction's exposure as being broadly in line with our benchmark for the sector, with the environmental and social credit indicators concentrated primarily in category 2 (neutral) and the governance credit indicators concentrated in category 3 (moderately negative) (see "ESG Credit Indicator Report Card: Global CLOs," published on Nov. 24, 2022).

Corporate ESG credit indicators

	Environmental	Social	Governance
Weighted-average credit indicator*	2.14	2.16	2.84
E-1/S-1/G-1 distribution (%)	0.00	1.13	0.00
E-2/S-2/G-2 distribution (%)	73.56	73.44	17.88
E-3/S-3/G-3 distribution (%)	12.37	8.24	65.92
E-4/S-4/G-4 distribution (%)	0.00	2.37	0.50
E-5/S-5/G-5 distribution (%)	0.00	0.75	1.62
Unmatched obligor (%)	9.50	9.50	9.50
Unidentified asset (%)	4.57	4.57	4.57

*Only includes matched obligor.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities , Dec. 22, 2020
- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance , Oct. 18, 2019
- Criteria | Structured Finance | CDOs: Global Methodology And Assumptions For CLOs And Corporate CDOs , June 21, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions , March 8, 2019

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- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions , Jan. 30, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology , March 29, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions , Oct. 9, 2014
- General Criteria: Methodology Applied To Bank Branch-Supported Transactions , Oct. 14, 2013
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria , June 24, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings , Oct. 1, 2012
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts , May 31, 2012
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

Related Research

- Weekly European CLO Update, May 22, 2023
- The European CLO Market: Is The Par Back?, May 18, 2023
- Credit Conditions Europe Q2 2023: Costs Rising To Cure Inflation, March 28, 2023
- CLO Pulse Q3 2022: Sector Averages Of Reinvesting European CLO Assets, Jan. 26, 2023
- How Bad Can It Get Before European CLO Performance Suffers?, Nov. 17, 2022
- European CLOs: Is The Loan Maturity Wall CLOsing In?, Sept. 1, 2022
- European Leveraged Finance Q2 2022: It's Not The Fall That Kills You, Aug. 8, 2022
- European Corporate Credit Outlook Midyear 2022: Lights Dimming, July 28, 2022
- ESG Credit Indicator Report Card: Global CLOs, July 12, 2022
- How Is European CLO Documentation Evolving To Address ESG Considerations?, June 9, 2022
- The Influence Of Corporate ESG Factors In Our Credit Rating Analysis Of European CLOs, April 20, 2022
- All You Need To Know About CDO Monitor, March 26, 2020
- The European CLO Market: Where's The Par?, March 14, 2022
- ESG Industry Report Card: Collateralized Loan Obligations, March 31, 2021
- Leveraged Finance: A 10-Year Lookback At Actual Recoveries And Recovery Ratings, Feb. 4, 2019
- 2017 EMEA Structured Credit Scenario And Sensitivity Analysis, July 6, 2017
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016

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