S&P Global Ratings

Research

Presale:

Sound Point Euro CLO IV Funding DAC

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Preliminary Ratings Assigned

Class	Preliminary rating*	Balance (mil. €)	Subordination (%)	Interest rate§
X	AAA (sf)	1.625	N/A	Three/six-month EURIBOR plus 0.50%
A	AAA (sf)	201.50	38.00	Three/six-month EURIBOR plus 1.10%
B-1	AA (sf)	18.75	29.00	Three/six-month EURIBOR plus 1.90%
B-2	AA (sf)	10.50	29.00	2.00%
C	A (sf)	26.00	21.00	Three/six-month EURIBOR plus 2.80%
D	BBB- (sf)	19.925	14.87	Three/six-month EURIBOR plus 4.40%
E	BB- (sf)	15.85	9.99	Three/six-month EURIBOR plus 7.50%
F	B- (sf)	8.95	7.24	Three/six-month EURIBOR plus 8.64%
Sub notes	NR	27.05	N/A	N/A

Note: This presale report is based on information as of Oct. 22, 2020. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. *The preliminary ratings assigned to the class X, 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. NR--Not rated. N/A--Not applicable. EURIBOR--Euro Interbank Offered Rate.

Executive Summary

Sound Point Euro CLO IV Funding DAC is a European cash flow CLO transaction, securitizing a portfolio of primarily senior secured leveraged loans and bonds. The transaction will be managed by Sound Point CLO C-MOA, LLC.

Notable transaction features:

- The transaction will be collateralized by at least 90.0% senior secured obligations.
- A maximum of 7.5% of the loans in the collateral pool can be fixed rate.

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- A maximum of 35.0% of the loans in the collateral pool can be covenant-lite.
- The transaction incorporates an interest smoothing account and a frequency switch mechanism, which if triggered, permanently switch the payment frequency on the rated notes to semiannual.

Key Credit Metrics

Selected Credit Metrics

	Sound Point IV
Total leverage (x)*	11.15
Weighted-average cost of debt (%)§	2.11
Subordination ('AAA') (%)	38.00
Modeled WAS (%)	3.80
Modeled WAC (%)	5.00
Excess spread (%)†	1.81
SDR ('AAA') (%)	64.69
Covenanted weighted-average portfolio recovery ('AAA') (%)	37.50

*Total debt/equity. §Spread over EURIBOR for all classes, excluding the subordinated notes. †WAS (calculated on the assumptions of 92.5% of the portfolio as floating-rate assets with 3.8% spread and 7.5% of the portfolio as fixed-rate assets with a coupon of 5.0%) minus the weighted-average cost of debt. WAS--Weighted-average spread. WAC--Weighted-average coupon. SDR--Scenario default rate.

Portfolio Credit Benchmarks

	Sound Point IV
SPWARF*	2,670.40
'AAA' default rate dispersion	600.48
Obligor diversity measure§	96.84
Industry diversity measure†	17.88
Regional diversity measure‡	1.33
Weighted-average life	5.48

*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 industry 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	Dec. 1, 2020.

Transaction Timeline (cont.)

Effective date	Approximately six months from closing.
Non-call period end date	Dec. 1, 2021.
Reinvestment period end date	July 15, 2024.
Stated maturity date	Jan. 15, 2035.
Note payment frequency	Quarterly, beginning July 15, 2021. Semiannually after a frequency switch event.
Participants	
Collateral manager	Sound Point CLO C-MOA, LLC
Arranger	Citigroup Global Markets Limited
Trustee	U.S. Bank Trustees Ltd.

Rationale

The preliminary ratings assigned to Sound Point IV's notes reflect our assessment of:

- The diversified collateral pool, which consists primarily of broadly 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.
- Under the transaction documents, the rated notes will pay quarterly interest unless there is a frequency switch event. Following this, the notes will permanently switch to semiannual payment.
- The portfolio's reinvestment period will end approximately three and a half years after closing, and the portfolio's maximum average maturity date will be 7.62 years after closing.

We understand that at closing, the portfolio will be well-diversified, primarily comprising broadly syndicated speculative-grade senior secured term loans and senior secured bonds. Therefore, we have conducted our credit and cash flow analysis by applying our criteria for corporate cash flow collateralized debt obligations (CDOs; see "Global Methodology And Assumptions For CLOs And Corporate CDOs," published on June 21, 2019). As such, we have not applied any additional scenario and sensitivity analysis when assigning preliminary ratings to any classes of notes in this transaction.

In our cash flow analysis, we used the €325 million target par amount, the covenanted weighted-average spread (3.80%), the reference weighted-average coupon (5.00%), and the covenanted weighted-average recovery rates as indicated by the collateral manager. We applied various cash flow stress scenarios, using four different default patterns, in conjunction with different interest rate stress scenarios for each liability rating category. Our credit and cash flow analysis indicates that the available credit enhancement for the class B-1 to E notes could withstand stresses commensurate with higher rating levels than those we have assigned. However, as the CLO will be in its reinvestment phase starting from closing, during which the transaction's credit risk profile could deteriorate, we have capped our preliminary ratings assigned to the notes.

Workout obligations

The issuer may purchase workout obligations using:

- Interest proceeds;
- Principal proceeds; and/or
- Amounts standing to the credit of the supplemental reserve account.

The issuer may only purchase workout obligations if the following conditions are satisfied:

- The transaction documents limit the CLO's exposure to workout obligations quarterly, and on a cumulative basis may not exceed 10% of target par if purchased with principal proceeds, and otherwise 10% of target par if purchased with principal and/or interest proceeds.
- Except for calculation of the par value test numerator, the principal balance of any workout obligation in all other tests must be zero.
- Workout obligations may only be purchased in connection with an existing collateral obligation held by the issuer.
- Where principal proceeds are used, the obligation ranks pari passu or senior to the collateral obligation held by the issuer.

At any time a workout obligation satisfies the CLO's eligibility criteria, it will be considered as a collateral obligation.

Use of interest proceeds

At any time, the issuer may purchase workout obligations using interest proceeds. As a result, the issuer must ensure that after taking into account the purchase of any workout obligation the coverage tests are satisfied, and that it has determined there are sufficient interest proceeds to pay interest on all notes on the upcoming payment date.

At the point of purchase, the issuer may determine whether or not each workout obligation is a principal proceeds (PP) workout obligation. If it is, then all distributions received from workout obligations up to carry value in the coverage tests will irrevocably form part of the issuer's principal account proceeds.

In all other cases, zero credit will be attributed to any workout obligation. That is, any distributions received from workout obligations in this instance will flow directly back to the interest proceeds account.

Solely with respect to PP workout obligations that satisfy most of the eligibility criteria will a defaulted treatment be afforded in the CLO's par value tests. Where the issuer makes no determination in the second scenario above, then it will consider the workout obligation to be a PP workout obligation.

Use of supplemental reserve amounts

At any time, the issuer may purchase workout obligations using amounts standing to the credit of the supplemental reserve account.

Similar to using interest proceeds above, at the point of purchase, the issuer may determine whether or not each workout obligation is a PP workout obligation. If it is a PP workout obligation, then all distributions received from workout obligations will irrevocably form part of the issuer's principal account proceeds. In all other cases, zero credit will be attributed to any workout obligation. That is, any distributions received from workout obligations in this instance will flow directly back to the supplemental reserve account.

Only with respect to PP workout obligations that are debt obligations that are current on interest and principal payments at point of purchase and going forward, will a defaulted treatment be afforded in the CLO's par value tests.

Where the issuer makes no determination in the second scenario above, then it will consider the workout obligation to be a PP workout obligation.

Use of principal proceeds

At any time, the issuer may use principal proceeds to purchase workout obligations, subject to the following conditions being satisfied:

- Any obligation purchased is a debt obligation;
- The obligation ranks pari passu or senior to the collateral obligation held by the issuer;
- Each par value test is satisfied; and
- The par value of each workout obligation exceeds or equates to the purchase price of the applicable obligation.

Any distributions received from workout obligations in these instances--including interest proceeds--will form and always remain as part of the issuer's principal account proceeds. As with the scenarios highlighted above, where the workout obligation satisfies most of the eligibility criteria, a defaulted treatment will be afforded to these obligations in the CLO's par value tests. In all other cases, zero credit will be afforded at all times.

Under our structured finance ratings above the sovereign criteria, we consider that the transaction's exposure to country risk is sufficiently mitigated at the assigned preliminary rating levels (see "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published on Jan. 30, 2019).

Until the end of the reinvestment period on July 15, 2024, the collateral manager is allowed to substitute assets in the portfolio for so long as our CDO Monitor test is maintained or improved in relation to the initial ratings on the notes. This test looks at the total amount of losses that the transaction can sustain as established by the initial cash flows for each rating, and compares that with the default potential of the current portfolio plus par losses to date. As a result, until the end of the reinvestment period, the collateral manager can, through trading, deteriorate the transaction's current risk profile, as long as the initial ratings are maintained.

At closing, we expect that the transaction's documented counterparty replacement and remedy mechanisms will adequately mitigate its exposure to counterparty risk under our current counterparty criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019).

We expect the transaction's legal structure to be bankruptcy remote, in line with our legal criteria (see "Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017).

Following our analysis of the credit, cash flow, counterparty, operational, and legal risks, we believe our preliminary ratings are commensurate with the available credit enhancement for each class of notes.

In addition to our standard analysis, to provide an indication of how rising pressures among speculative-grade corporates could affect our ratings on European CLO transactions, we have also included the sensitivity of the ratings on the class X to E notes to five of the 10 hypothetical scenarios we looked at in our recent publication (see "How Credit Distress Due To COVID-19 Could Affect European CLO Ratings," published on April 2, 2020). The results shown in the chart below are based on actual weighted-average spread, coupon, and recoveries.

Hypothetical Effect Of Downturn Scenarios On CLO Tranche Ratings

<table>
<tr><th rowspan="4">Class</th><th rowspan="4">Initial rating</th><th colspan="5">Scenario</th></tr>
<tr><th>1</th><th>2</th><th>3</th><th>4</th><th>5</th></tr>
<tr><th colspan="2">Proportion of 'CCC' category assets in the portfolio increases to:</th><th rowspan="2">Portfolio default rate increase to 10%</th><th rowspan="2">One-notch downgrade to whole portfolio</th><th rowspan="2">10% lower recovery rate assumptions</th></tr>
<tr><th>15%</th><th>25%</th></tr>
<tr><td>X</td><td>AAA</td><td colspan="5">AAA</td></tr>
<tr><td>A</td><td>AAA</td><td colspan="2">AAA</td><td colspan="2">AA+</td><td>AAA</td></tr>
<tr><td>B-1 & B-2</td><td>AA</td><td colspan="5">AA</td></tr>
<tr><td>C</td><td>A</td><td colspan="2">A</td><td colspan="2">A-</td><td>A</td></tr>
<tr><td>D</td><td>BBB-</td><td colspan="2">BBB-</td><td>BB+</td><td colspan="2">BBB-</td></tr>
<tr><td>E</td><td>BB-</td><td colspan="2">BB-</td><td>B-</td><td>B+</td><td>BB-</td></tr>
</table>

No change
One-notch downgrade
Two-notch downgrade
Three-notch downgrade
Four-notch downgrade

Source:S&P Global Ratings.

As our ratings analysis makes additional considerations before assigning ratings in the 'CCC' category, and we would assign a 'B-' rating if the criteria for assigning a 'CCC' category rating are not met, we have not included the above scenario analysis results for the class F notes.

S&P Global Ratings acknowledges a high degree of uncertainty about the evolution of the coronavirus pandemic. The current consensus among health experts is that COVID-19 will remain a threat until a vaccine or effective treatment becomes widely available, which could be around mid-2021. We are using this assumption in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

The transaction securitizes a portfolio of primarily senior secured leveraged loans and bonds, and will be managed by Sound Point CLO C-MOA, LLC.

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 taking into account 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 assumes the underlying portfolio contains the maximum allowable amount of certain types of collateral obligations to stress test the transaction for concentration risk. Examples include: 7.5% fixed rate assets. For more detail, please see table 11.
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.	The transaction documents require that any collateral obligation sold is replaced with another of equal or higher par value (unless the collateral principal amount is greater than that of the target amount), or that the trade maintains or increases the level of the transaction's overcollateralization. Credit risk, defaulted, and equity securities are exempt from these restrictions. In addition, the indenture requires that each additional purchase satisfy, maintain, or improve certain additional collateral quality tests.
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 offer collateral managers both a model and formula-based version of its 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 11). 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 a group "A" country).
Long-dated collateral obligation can introduce market value risk	A portfolio containing long-dated collateral obligations exposes a transaction to market value risk. To repay the noteholders at the transaction's maturity, the collateral manager will be forced to sell such obligations at the prevailing market price, which may be below par.	According to the transaction documents, the collateral manager cannot purchase any long-dated collateral obligations, nor vote in favor of any waiver, modification, or amendment that would extend a collateral obligation's maturity beyond the notes' stated maturity. The weighted-average life test must be satisfied following any maturity amendment.

Collateral Manager

Sound Point CLO C-MOA, LLC is a Delaware series limited liability company. Sound Point is an experienced collateralized debt obligation manager with approximately U.S.$21 billion in assets under management as of Aug. 31, 2019.

We reviewed Sound Point CLO C-MOA, LLC 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 is capable of managing 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.

For unidentified assets in the collateral portfolio, we have relied on the information provided by the portfolio manager for the asset characteristics (like ratings, industry, country, and notional of the asset).

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 and ultimate principal to its noteholders. Classes with higher subordination typically have higher BDRs.

Because the transaction allows the manager to buy a maximum of 7.5% fixed paying assets, we looked at the BDRs considering this fixed bucket to be filled. Our base case is 7.5% fixed paying assets and 92.5% floating assets because it leads to the lowest BDRs on the 'AAA' rated notes. In our analysis, we also modeled the 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 92.5% of floating-rate assets and 7.5% of fixed-rate assets.

Table 2

Credit Enhancement

Class	Subordination (%)	BDR (%)	SDR (%)	BDR cushion (%)
X	**N/A**	**98.42**	**64.69**	**33.73**
A	38.00	68.53	64.69	3.84
B-1	29.00	67.03	56.79	10.24
B-2	29.00	67.03	56.79	10.24
C	21.00	57.60	50.80	6.80
D	14.87	49.55	40.92	8.63
E	9.99	38.38	33.40	4.98
F	7.24	28.76	27.24	1.52

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 their preliminary rating levels.

Table 3

Supplemental Tests

Class	Preliminary rating	Preliminary amount (mil. €)	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. €)
X	AAA (sf)	1.625	32.12	55.29	15.38	0.00
A	AAA (sf)	201.50	32.12	55.29	15.38	0.00
B-1	AA (sf)	18.75	32.12	45.79	15.38	0.00
B-2	AA (sf)	10.50	32.12	45.79	15.38	0.00
C	A (sf)	26.00	0.00	36.10	0.00	0.00
D	BBB- (sf)	19.925	0.00	25.18	0.00	0.00
E	BB- (sf)	15.85	0.00	19.48	0.00	0.00
F	B- (sf)	8.95	0.00	13.30	0.00	0.00

N/A--Not applicable. 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
Modeled weighted-average life (years)*	5.48	7.62	2.14
Weighted-average spread including floors (%)	3.90	3.80	0.10
Weighted-average spread excluding floors (%)	3.87	N/A	N/A
Weighted-average fixed coupon (%)	6.25	N/A	N/A

*The modeled weighted-average life is the one used in our cash flow analysis and is quarterly. N/A--Not applicable.

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. €)	325.00
Par balance of identified collateral (mil. €)	314.20
Par balance of collateral not yet identified (mil. €)	10.80
S&P Global Ratings' credit rating (% of identified collateral)	100.00
S&P Global Ratings' implied rating (% of identified collateral)	0.00
Obligors	
No. of unique obligors	127
No. of identified obligors	122
Avg. obligor holding (%)	0.82
Largest-obligor holding (%)	2.15
Smallest-obligor holding (%)	0.23

In the portfolio data referenced for this analysis, the issuer had identified approximately 96.68% of the portfolio's collateral. As the portfolio composition changes, the information and results presented in table 6 and charts 1-4 are also likely to change.

Obligor concentration

The underlying portfolio presented to us for our rating analysis consists of 122 distinct obligors. Table 6 below shows the respective industries of the 10 top obligors.

Table 6

Top Obligor Holdings

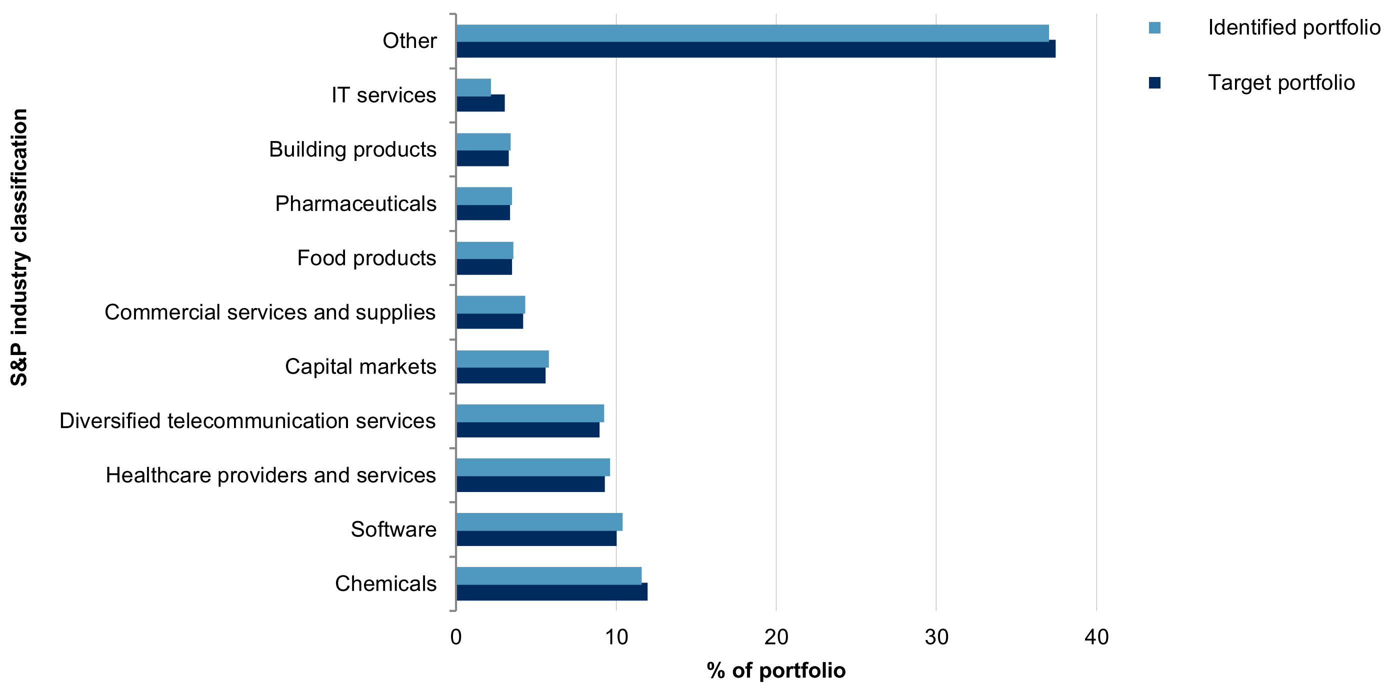
			Notional amount (mil. €)		Notional amount (%)	
Obligor reference	Industry	S&P Global Ratings' credit rating	Obligor	Cumulative	Obligor	Cumulative
1	Chemicals	B	7.00	7.00	2.15	2.15
2	Capital markets	B	7.00	14.00	2.15	4.31
3	Chemicals	B	6.50	20.50	2.00	6.31
4	Health care technology	B	6.00	26.50	1.85	8.15
5	Food and staples retailing	B-	6.00	32.50	1.85	10.00
6	Healthcare providers and services	B	5.50	38.00	1.69	11.69
7	Building products	B	5.00	43.00	1.54	13.23
8	Capital markets	B+	5.00	48.00	1.54	14.77
9	Professional services	B-	4.99	52.99	1.53	16.30
10	Marine	BB-	4.43	57.41	1.36	17.67

Industry distribution

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

Chart 1

Top Industry Distribution

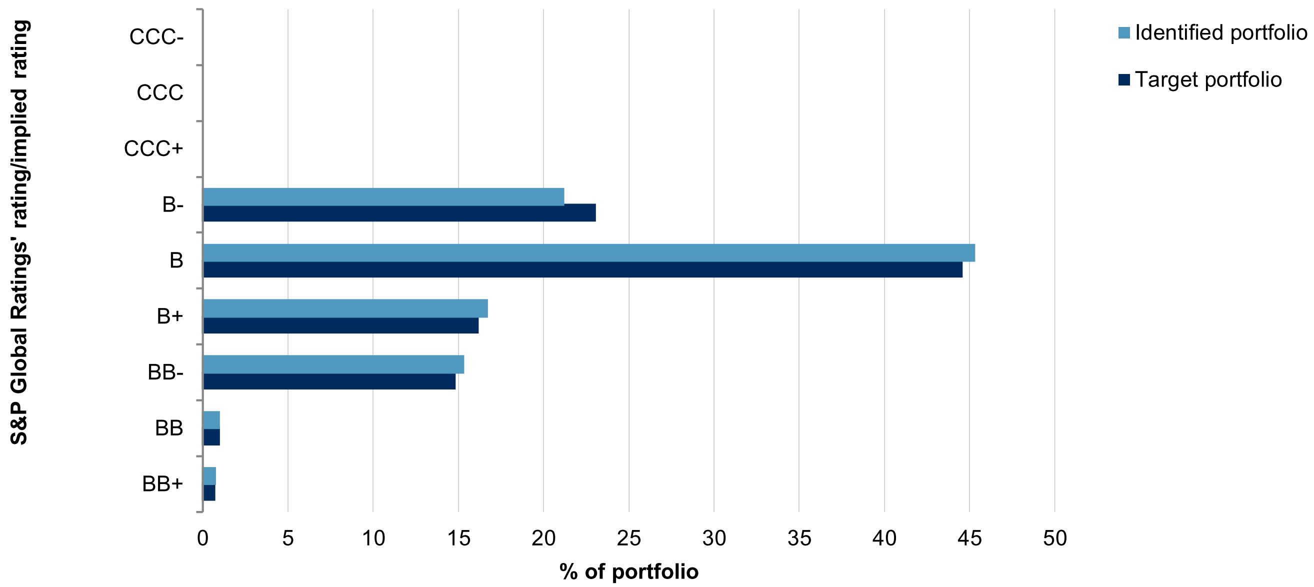


Ratings distribution

Chart 2 shows the ratings distribution in the portfolio. All of the identified underlying collateral obligations have credit ratings assigned by us.

Chart 2

Rating Distribution



Recovery rating distribution

Table 7 presents the recovery rates modeled to calculate BDRs and actual recovery rates of the targeted portfolio. Chart 3 below presents our recovery rates distribution of the identified portfolio. Of the identified underlying collateral obligations, 98% have recovery ratings issued by us.

Table 7

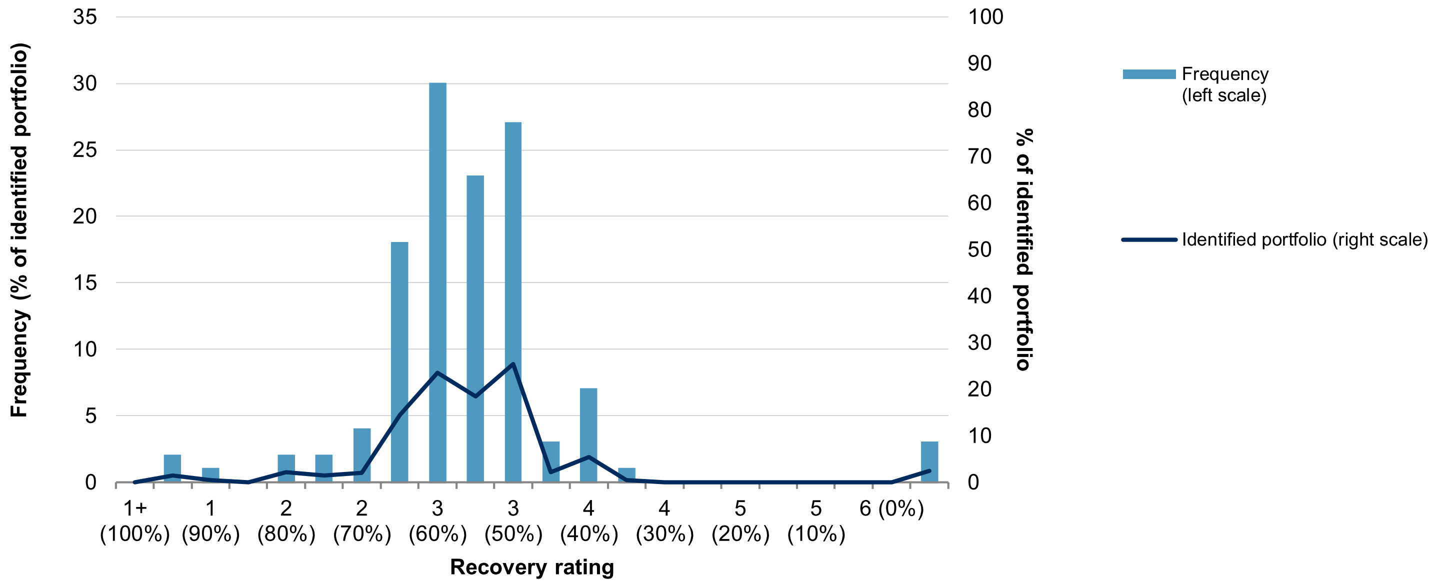
Collateral WARR

Liability rating	Modeled WARR (%)	Target pool WARR (%)	Actual WARR on identified portfolio (%)
AAA (sf)	37.50	37.61	37.50
AA (sf)	47.21	47.17	47.21
A (sf)	53.17	53.04	53.17
BBB- (sf)	59.79	59.57	59.79
BB- (sf)	64.68	64.62	64.68
B- (sf)	65.81	65.85	65.81

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

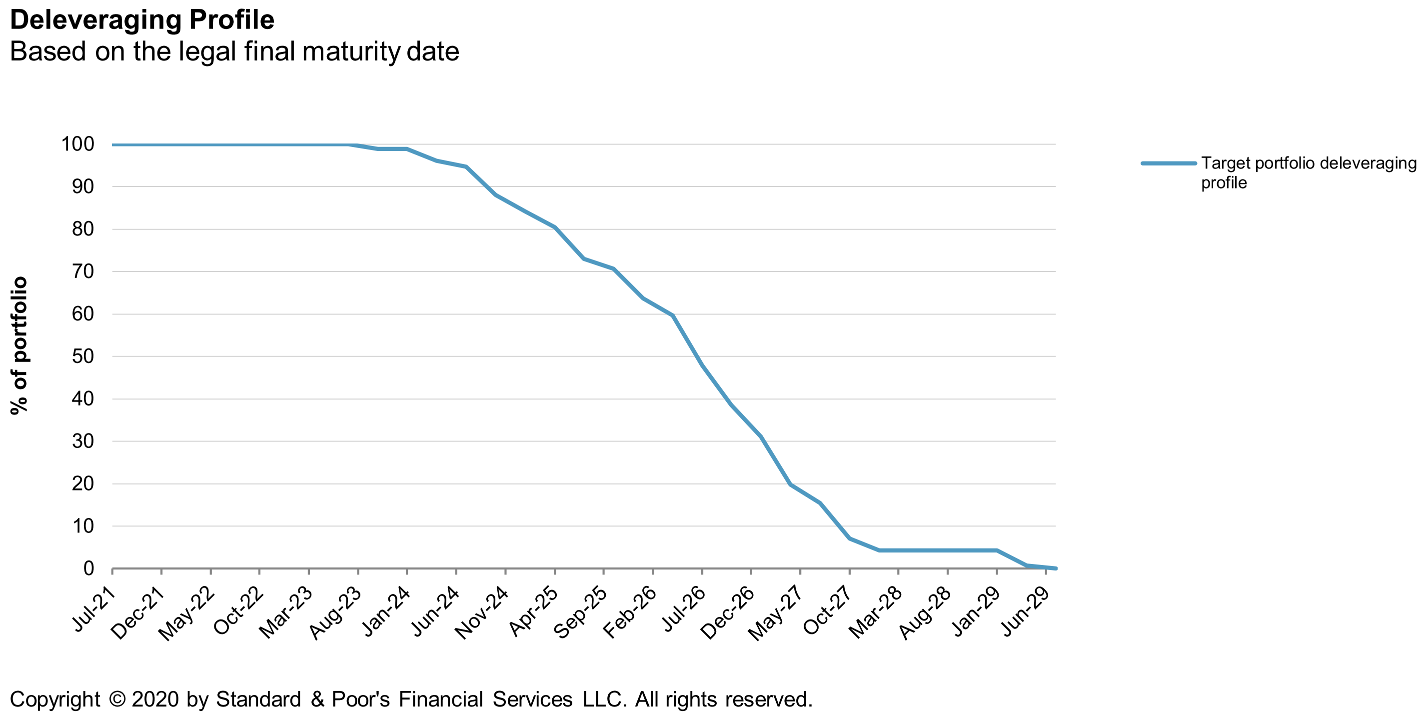
Recovery Rating Distribution



Deleveraging profile

Chart 4 shows the portfolio's deleveraging profile.

Chart 4



Portfolio Investment Guidelines

The underlying portfolio will consist primarily of 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 (%)
Secured senior loans or bonds	90.00
Minimum senior secured loans	70.00
Maximum fixed-rate obligations	7.50
Maximum unsecured senior loans, second lien loans, mezzanine obligations, and high yield bonds in aggregate	10.00
Maximum any single obligor with respect to unsecured senior loans, second lien loans, mezzanine obligations, and high yield bonds provided that up to five obligors may each represent up to 2.0% of the aggregate collateral balance	1.50
Maximum any single obligor (excluding the ones that satisfy the portfolio profile test above) provided up to five obligors may each represent up to 3.0% of the aggregate collateral balance	2.50
Participations	7.50
Current pay	5.00
Annual obligations	5.00

Table 8

Portfolio Profile Test (cont.)

Type of obligation	Limit (%)
Revolving or delayed-drawdown obligations	7.50
S&P Global Ratings' credit rating of 'CCC+' or below	7.50
Bridge loans	5.00
Corporate rescue loans	5.00
PIK obligations	5.00
Maximum non-euro obligation (subject to asset swaps)	25.00
Covenant-lite loans	35.00
Obligors who are domiciled in countries or jurisdictions with a credit rating from S&P Global Ratings below 'A-' unless rating agency confirmation from S&P Global Ratings is obtained	10.00
Collateral debt obligations issued by obligors each of which has total current indebtedness (comprising all financial debt owing by the obligor including the maximum available amount or total commitment under any revolving or delayed draw loans) under its respective loan agreements and other debt instruments (including the underlying instruments) of equal to or greater than €100 million but less than €200 million in aggregate principal amount	5.00
Credit estimate obligations	10.0
Unhedged obligations	2.50
Any single S&P Industry Classification Group	17.50
Distressed exchange obligations	2.50

Note: Covenant-lite loans are assigned lower recovery ratings than similar obligations that require continued compliance with covenants. 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 such collateral obligations, our quantitative analysis would consider the risk associated with such 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 reduce excess spread. To account for such risk, we 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 must 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 (excess over 5% of the portfolio at 10% discount rate per year beyond legal final maturity date), 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.

Table 9

Risks Of Obligation Types (cont.)

Obligation type	Risk specific to the obligation
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 semi-annual.
S&P Global Ratings' 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 increase the SDRs produced by CDO Evaluator.

BDR—Break-even default rate. SDR--Scenario default rate. EURIBOR--Euro Interbank Offered Rate. PIK--Payment in kind.

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	Condition for new asset with an equal or a higher rating?	Condition for new asset with the same or a shorter maturity?
Discretionary	Satisfy or maintain or improve	Not less than 100% of the principal balance of assets sold*	Satisfy or maintain or improve	Satisfy or maintain or improve	Satisfy or maintain or improve	No	No
Credit risk	Satisfy or maintain or improve	Not less than 100% of the sale proceeds of assets sold*	Not required	Satisfy or maintain or improve	Satisfy or maintain or improve	No	No
Credit improved	Satisfy or maintain or improve	Not less than 100% of the principal balance of assets sold*	Satisfy or maintain or improve	Satisfy or maintain or improve	Satisfy or maintain or improve	No	No
Defaulted (including recovery on defaulted assets)	Satisfy or maintain or improve	Not less than 100% of the sale proceeds of assets sold*	Not required	Satisfy or maintain or improve	Satisfy or maintain or improve	No	No
Unscheduled principal (including recoveries)	Satisfy or maintain or improve	Not less than 100% of the principal balance of assets sold*	Satisfy or maintain or improve	Satisfy or maintain or improve	Satisfy or maintain or improve	No	No

Table 10

Summary Of Trading Conditions During Reinvestment Period (cont.)

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	Condition for new asset with an equal or a higher rating?	Condition for new asset with the same or a shorter maturity?
Scheduled principal	Satisfy or maintain or improve	Not less than 100% of the principal balance of assets sold*	Satisfy or maintain or improve	Satisfy or maintain or improve	Satisfy or maintain or improve	No	No

*Alternatively, if the aggregate collateral balance of the portfolio is greater than the reinvestment target par balance. CDO--Collateral debt obligation.

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	S&P CDO Monitor test	Concentration limitations	Collateral quality test	New asset with an equal or a higher rating	New asset with the same or a shorter maturity
Discretionary	Reinvestment not allowed	Reinvestment not allowed	Reinvestment not allowed	Reinvestment not allowed	Reinvestment not allowed	Reinvestment not allowed	Reinvestment not allowed
Credit risk	Passing after	Not less than 100% of the sale proceeds of assets sold	N/A	Satisfy or maintain or improve	Satisfy or maintain or improve	Yes^	Yes
Credit improved	Passing after	Not less than 100% of the principal balance of assets generating proceeds	N/A	Satisfy or maintain or improve	Satisfy or maintain or improve	Yes^	Yes
Defaulted (including recovery on defaulted assets)	Reinvestment not allowed	Reinvestment not allowed	Reinvestment not allowed	Reinvestment not allowed	Reinvestment not allowed	Reinvestment not allowed	Reinvestment not allowed
Scheduled principal	Reinvestment not allowed	Reinvestment not allowed	Reinvestment not allowed	Reinvestment not allowed	Reinvestment not allowed	Reinvestment not allowed	Reinvestment not allowed
Unscheduled principal	Passing after	Not less than 100% of the principal balance of assets generating proceeds	N/A	Satisfy or maintain or improve	Satisfy or maintain or improve	Yes^	Yes

N/A--Not applicable. ^-or the S&P CDO SDR is no greater immediately after giving effect to such reinvestment.

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	140.85	131.85	120.00
C	126.58	119.08	110.00
D	117.47	111.47	105.00
E	111.10	106.60	N/A
F	107.80	103.80	N/A
Interest diversion test	107.80	103.80	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 H of interest waterfall if previously unpaid
B	Trustee fees and administrative expenses, up to the cap	If class C is controlling class, any unpaid interest
C	Transfers to expense reserve account	If class C is controlling class, unpaid deferred interest
D	(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 (not deferred senior collateral management amounts) senior collateral management fees	Cure class C coverage test(s)
E	(i)Scheduled periodic hedge issuer payments, and any hedge termination payments; (ii)Hedge replacement payments	If class D is controlling class, any unpaid interest

Table 13

Waterfall Payment Priority (cont.)

Priority	Interest waterfall	Principal waterfall
F	Class X and A notes' interest, class X principal amortization amount and any unpaid class X principal amortization amount pro rata pari passu. Class X principal amortization amount will start from the second payment date.	If class D is controlling class, unpaid deferred interest
G	Class B-1 and B-2 notes' interest pro rata pari passu	Cure class D coverage test(s)
H	Cure class A/B notes' coverage tests	If class E is controlling class, any unpaid interest
I	Class C notes' interest, current period	If class E is controlling class, unpaid deferred interest
J	Class C notes' deferred interest	Cure class E par value test
K	Cure Class C notes' coverage tests	If class F is controlling class, any unpaid interest
L	Class D notes' interest, current period	If class F is controlling class, unpaid deferred interest
M	Class D notes' deferred interest	Cure class F par value test(following the expiry of the reinvestment period)
N	Cure class D notes' coverage tests	Redemption following effective date rating event
O	Class E notes' interest, current period	Make payments under a special redemption event
P	Class E notes' deferred interest	Purchase collateral in line with reinvestment criteria
Q	Cure the class E notes' par value test	Note redemption in line with priority
R	Class F notes' interest, current period	Payment of W and X of interest waterfall if previously unpaid
S	Class F notes' deferred interest	Residual payments to equity and, where appropriate, collateral manager
T	Cure the class F notes' par value test (following the expiry of the reinvestment period)	
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)Class Z noteholder amount, which may be deferred or waived as with senior fee§; (ii)Catch up on previously unpaid class Z noteholder amount; (iii)Catch up on previously deferred Class Z noteholder amount; and (iv) collateral manager advances	
X	(i)Any remaining trustee fees and expenses, (ii)Any remaining administrative expenses; and (iii)Any payments in relation to a defaulted hedge counterparty	
Y	Any discretionary transfers to the collateral enhancement account	
Z	Residual payments to equity and, where appropriate, collateral manager	

*0.20% per year. §0.30% per year. †Note payment sequence is: First, the class X and A notes pro rata pari passu at the applicable redemption price until they fully redeem, followed by the class B-1 and B-2 notes pro rata pari passu 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.

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
Optional redemption through liquidation	After a one-year noncall period, all classes of notes may be redeemed, in whole but not in part, on any payment date at the direction of 50% of the subordinated noteholders' or at the direction of the manager. The rated notes may also be redeemed in whole, but not in part, at the direction of 50% of the subordinated noteholders or at the direction of the manager, if the aggregate collateral balance is less than 20% of the target par amount.
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 15.
Refinancing	After a one-year noncall period, at the direction of 50% 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 class X and A notes pro rata pari passu at the applicable redemption price until they fully redeem, followed by the class B-1 and B-2 notes pro rata pari passu 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 X, A or B notes.
- 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-day grace period).

- The issuer fails to disburse amounts above €1,000 in accordance with the priority of payments within a five-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.

Structural Overview

Sound Point IV, the issuer, is a special-purpose entity (SPE) that was incorporated as an exempted company with limited liability under the laws of Ireland. The issuer's only purposes are to acquire the collateral portfolio, issue the notes, enter into transaction documents, and engage in certain related transactions. We expect the issuer's SPE provisions to be consistent with our bankruptcy remoteness criteria outlined in our latest legal criteria. In rating this transaction, we will review the legal matters that we consider to be relevant to our analysis, as outlined in our criteria.

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.

Related Criteria

- 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
- 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: 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

- Economic Research: The Global Economy Begins A Slow Mend As COVID-19 Eases Unevenly, July 1, 2020
- Credit Conditions Europe: Curve Flattens, Recovery Unlocks, June 30, 2020
- European CLO Performance Index Report Q1 2020, June 30, 2020
- How Credit Distress Due To COVID-19 Could Affect European CLO Ratings, April 2, 2020
- Economic Research: Eurozone Economy: The Balancing Act To Recovery, June 25,2020
- 2017 EMEA Structured Credit Scenario And Sensitivity Analysis, July 6, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016