

**Rating Action: Moody's upgrades rating on Class D Notes issued by Bayfront Infrastructure Capital II Pte. Ltd. and updates the approach for determining the inputs to WARF calculation**

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18 Mar 2022

Hong Kong, March 18, 2022 -- Moody's Investors Service has upgraded the rating on the Class D Notes and affirmed the ratings on the Class A1, A1-SU, B and C Notes issued by Bayfront Infrastructure Capital II Pte. Ltd.

The affected ratings are as follows:

Issuer: Bayfront Infrastructure Capital II Pte. Ltd.

US\$176,900,000 Class A1 Senior Secured Floating Rate Notes due 2044 (the "Class A1 Notes"), Affirmed Aaa (sf); Previously on June 18, 2021 Assigned Aaa (sf)

US\$120,000,000 Class A1-SU Senior Secured Floating Rate Notes due 2044 (the "Class A1-SU Notes"), Affirmed Aaa (sf); Previously on June 18, 2021 Assigned Aaa (sf)

US\$33,300,000 Class B Senior Secured Floating Rate Notes due 2044 (the "Class B Notes"), Affirmed Aa1 (sf); Previously on June 18, 2021 Assigned Aa1 (sf)

US\$22,100,000 Class C Senior Secured Floating Rate Notes due 2044 (the "Class C Notes"), Affirmed A3 (sf); Previously on June 18, 2021 Assigned A3 (sf)

US\$8,800,000 Class D Senior Secured Floating Rate Notes due 2044 (the "Class D Notes"), Upgraded to Baa2 (sf); Previously on June 18, 2021 Assigned Baa3 (sf)

Bayfront Infrastructure Capital II Pte. Ltd. is a project finance collateralized loan obligation (CLO) cash flow securitization. As of the end of January 2022, the CLO was backed by a USD377 million portfolio, encompassing 27 bank-syndicated senior project finance and infrastructure loans to 25 projects across Asia Pacific, the Middle East, and South America. The initial portfolio size was USD401 million encompassing the same portfolio of loans at closing. The issuer acquired USD7.1 million more of the same project loan to an Indian renewable power plant operator that is already a borrower in the portfolio in January 2022, and is not expected to actively trade the portfolio during the transaction period.

#### RATINGS RATIONALE

The rating upgrade on the Class D Notes reflects an increase in the credit enhancement available to the notes, and a small improvement in the credit quality of the underlying portfolio since deal close in June 2021.

The rating affirmations on the Class A1, A1-SU, B, and C Notes reflect Moody's view that the expected losses of the notes are consistent with their current ratings.

After the payment date in January 2022, the credit enhancement available to the Class A (comprising A1, and A1-SU together), B, C, and D Notes has increased to 27.5%, 18.7%, 12.9% and 10.6% respectively, from 26.0%, 17.7%, 12.2%, and 10.0% at closing in June 2021.

The current weighted average rating factor (WARF) of the portfolio after applying the credit estimate notching adjustments is 1164, and without adjustments is 982. At closing, the WARF with notching adjustments was 1206, and without adjustments was 1017.

These closing WARF figures represent an increase from the closing WARF previously reported for this transaction. This increase does not reflect a deterioration in the credit quality of the portfolio, but instead results from an update to Moody's approach for determining certain inputs to the WARF calculation – namely, the credit estimates assigned to loans with covered exposure.

The portfolio consists of project finance loans with 19.0% covered exposure in January 2022.

These loans benefit from external credit support post loan default. Previously, Moody's credit estimates for these loans incorporated the full loss-given-default benefit from the external credit support. Under the updated approach, the benefit of external credit support is recognized solely in the recovery assumptions made outside of the credit estimates.

This update does not change the risk profile of the underlying loan portfolio (i.e., each loan's default probability and ultimate loss-given-default) and does not change the rating analysis. It increases the reported portfolio WARF, which is now calculated based on the pool credit estimates without consideration of the higher recovery rate assumed for loans with covered exposure. To allow for better comparability, the closing WARFs disclosed in June 2021 have been recalculated using the updated approach.

Based on the updated credit estimate process for loans with covered exposure, i.e. credit estimates without considering the higher recovery rate assumptions for loans with covered exposure, the closing WARFs of the uncovered/covered/aggregate portfolio sub-sets have been updated as follows:

Before applying the credit estimate notching adjustment:

- the WARF of the uncovered exposure at closing (18 June 2021) remains unchanged at 894
- the WARF of the covered exposure at closing (18 June 2021) has been revised from 149 to 1526
- the WARF of the entire loan portfolio at closing (18 June 2021) has been revised from 748 to 1017

After applying the credit estimate notching adjustment:

- the WARF of the uncovered exposure at closing (18 June 2021) remains unchanged at 1128
- the WARF of the covered exposure at closing (18 June 2021) has been revised from 149 to 1526
- the WARF of the entire loan portfolio at closing (18 June 2021) has been revised from 937 to 1206

Moody's uses a loan-by-loan Monte Carlo simulation framework in Moody's CDOROM<sup>Â</sup>™ to model the portfolio loss distribution for this CLO.

The key model inputs Moody's uses in its analysis, such as par, rating factor, and the recovery rate assumptions, are based on its published methodology and could differ from the trustee's reported numbers. In its base case, Moody's analyzed the underlying loan portfolio as having a performing par of USD377 million, a WARF of 1164 after applying the credit estimate notching adjustments over a weighted average life of 5.5 years and a weighted average recovery rate upon default of 74% (inclusive of external credit support for covered loans).

Methodology Underlying the Rating Action:

The principal methodology used in these ratings was "Project Finance and Infrastructure Asset CLOs Methodology" published in November 2021 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBS\\_1291135](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBS_1291135) . Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

Factors that would lead to an upgrade or downgrade of the ratings:

This transaction is subject to the performance of the underlying loan portfolio and the credit quality of the cover providers and counterparties of the participation agreements, which in turn is subject to a high level of macroeconomic uncertainty. The collateral manager's investment decisions and management of the transaction will also affect the performance of the rated notes.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

Moody's either did not receive or take into account one or more third-party due diligence assessment(s) regarding the underlying assets or financial instruments (the "Due Diligence Assessment(s)") in this credit rating action.

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The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, the function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows. Moody's weights the impact on the rated instruments based on its assumptions of the likelihood of the events in such scenarios occurring.

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