15 August 2023

Structured Finance

Muzinich Luxembourg Funding Sarl - Compartment Pan III 1K

Securitisation of European Direct Lending Fund

Ratings

Instrument	Rating[1]	Total Notional (EUR m)	Notional (% assets)	Rated coupon	Legal final maturity
Compartment Pan III 1K Notes	(P) BBB	Up to 30m	100%	1.5% fixed[2]	30 Jun 2041[3]

[1] Scope's Structured Finance Ratings constitute an opinion about the relative credit risks and reflect the expected loss associated with the ultimate payment of principal and interest contractually promised by an instrument by its legal maturity. Preliminary ratings rely on the information made available to Scope up to 31 July 2023. Scope will assign final ratings conditional to the review of the final version of all transaction documents and legal opinions. Final ratings may deviate from preliminary ratings. See Scope's website for the SF Rating Definitions.

[2] The notes may pay an additional variable interest depending on the availability of proceeds on each interest payment date.

[3] The maturity date can be extended in accordance with the term of the underlying fund MPEPD III. Legal final maturity of the notes is the 18th anniversary of the first MPEPD III closing date.

Transaction details

Issuer	Muzinich Luxembourg Funding Sarl - Compartment Pan III 1K
Alternative investment fund (AIF)	Muzinich Pan-European Private Debt III, SCSp (MPEPD III)
Fund managers	Muzinich & Co. (Ireland) Limited together with Muzinich & Co. Limited (Muzinich)
Closing date	[tbd]
Payment frequency	Quarterly (each March 31, June 30, September 30 and December 31)

Muzinich Luxembourg Funding Sarl acts in respect of its Compartment Pan III 1K as the issuer and is a public limited liability company incorporated in Luxembourg as a securitisation company under the Luxembourg securitisation law of 22 March 2004.

The notes' performance will be linked to the investments of MPEPD III through the acquisition of limited partner interests by the issuer. MPEPD III targets European lower mid-market corporate borrowers with, among others, an EBITDA up to EUR 25m and at least 5 years of operating history. Investments will mainly consists of senior secured and unitranche debt, but can also include subordinated loans for up to 20% of the aggregated portfolio value. MPEPD III will be actively managed by Muzinich and its affiliates.

Rating rationale (summary)

The rating reflects the legal and financial structure of the transaction as well as the investment strategy, which follows the investment objectives of MPEPD III. The rating also accounts for the capabilities and experience of Muzinich in selecting corporate debt obligations that fulfil the issuer's investment strategy and in building a diversified exposure in terms of both industries and geographies.

Our analysis considered an expected portfolio, taking into account the ramp-up timeline, the target debt obligations of MPEPD III, and the transaction's investment objectives. The rating reflects the default risk and recoveries upon default of the underlying portfolio, the notes' available excess spread and the transaction's structural features.

The rating also addresses exposures to the key transaction counterparties: i) Muzinich, as fund manager; ii) JP Morgan Bank Luxembourg SA (JP Morgan) as account bank of the issuer; iii) State Street Bank International GmbH, Luxembourg Branch (State Street Bank) as MPEPD III's account bank; and iv) Alter Domus and affiliates as corporate services provider, calculation agent and registrar of the issuer. Our analysis of counterparty risk accounts for the high credit quality of both account banks, which we assessed using public information, including external ratings.

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Related Research

General Structured Finance Rating Methodology

CLO Rating Methodology

Counterparty Risk Methodology

Direct lending funds risk assessment, February 2020

Credit-enhanced repackaged debt structures: the differences are in the detail, September 2020

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Bloomberg: RESP SCOP

Rating drivers and mitigants

Positive rating drivers

Funds and assets selection and related monitoring. The issuer has mandated Muzinich to implement the investment strategy. Muzinich's longstanding experience in managing private debt funds as well as its track record and market access in European direct lending benefit the transaction.

Investment strategy focused on smaller mid-market borrowers and senior secured loans. MPEPD III will invest predominantly in senior secured loans with strong capital preservation mechanisms. These loans have better recovery prospects than unsecured or subordinated loans.

Excess spread capturing. The issuer has sound means to capture most of the expected high excess spread and to create substantial overcollateralisation. After the payment of taxes, senior costs, and the fixed-rate notes' coupon, excess funds will be used to amortise a certain amount of the notes and to fund a cash reserve with a target 5% of notes principal balance outstanding.

Negative rating drivers and mitigants

Limited protection against portfolio losses. On the first issue date, the notes will not benefit from first-loss protection in the form of overcollateralisation. The related risks will be partly mitigated by the sound mechanisms that are designed to capture the expected high excess spread.

Ramp-up period. From the first closing date, MPEPD III will gradually invest committed capital over an expected five-year investment period. The notes will therefore be backed by a highly concentrated portfolio in the early stages of the transaction.

Reinvestment option. During the ramp-up phase, MPEPD III can also reinvest proceeds from the realisation of early investments, preventing early amortisation, effectively extending the risk horizon and potentially exposing the notes to economic downturns.

Payment of variable coupon. Variable coupons can be paid throughout the transaction's life upon the availability of interest proceeds and irrespective of the portfolio's net asset value. However, variable coupons are only paid after payments relating to i) the fixed-rate interest, ii) the notes' target amortisation and iii) the funding of the cash reserve up to its target level.

Upside rating-change drivers

Better-than-expected asset performance. The use of capital gains and excess spread to build up overcollateralisation may result in an upgrade of the rating.

Downside rating-change drivers

Worse-than-expected default and recovery performance. A deterioration of the underlying portfolio may result in a downgrade of the rated notes.

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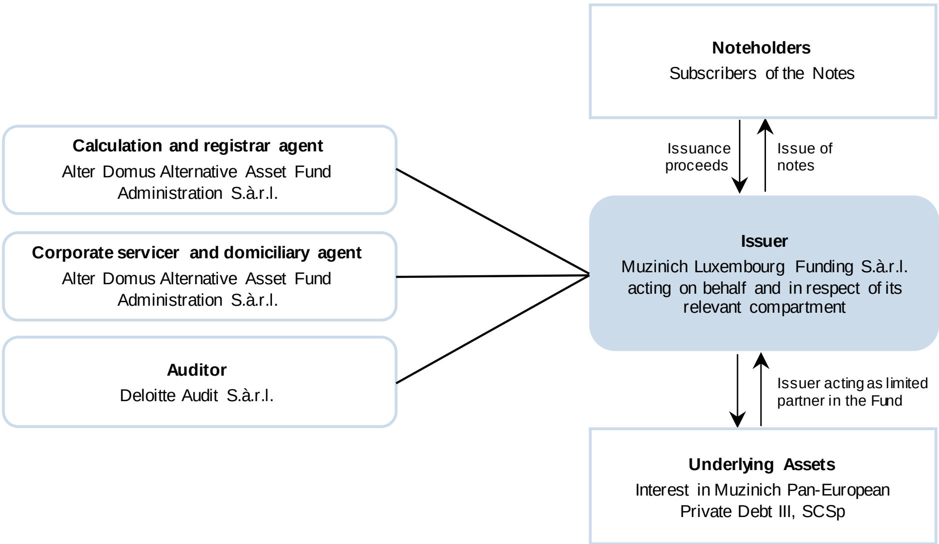
1. Transaction summary

Muzinich Luxembourg Funding is a public limited liability company, incorporated in Luxembourg as a securitisation company, under the Luxembourg securitisation law of 22 March 2004. The securitisation company acts in respect of its Compartment Pan III 1K, the notes' issuer. The notes' performance will be linked to the investments made by MPEPD III through the acquisition of limited partner interests by the issuer compartment.

MPEPD III targets European lower mid-market corporate borrowers with, among others, an EBITDA up to EUR 25m and at least 5 years of operating history. The fund will invest mainly into senior secured and unitranche debt but can also invest up to 20% into subordinated loans. MPEPD III will be actively managed by Muzinich and its affiliates.

Figure 1: Transaction diagram



Sources: Transaction documents and Scope Ratings

2. Asset manager

Muzinich & Co., Inc, founded in 1988, is a privately-held investment manager with USD 36bn of assets that it manages or advises in Europe, North America, Asia and other emerging markets. Muzinich has about 250 employees (including 110 investment professionals) across 15 offices worldwide. The main strategies of the company relate to syndicated loans, private debt and other corporate debt financing, covering the entire spectrum from investment grade to high yield. Muzinich Pan-European Private Debt (MPEPD) is the group's direct lending strategy targeting European mid-market borrowers. The strategy has raised two private debt funds since 2017 with, as of 31 December 2022, 51 investments accounting for more than EUR 2.0bn.

Muzinich is a corporate debt-focused asset manager with a global footprint

We expect MPEPD III to be similar to the two existing Muzinich-managed pan-European private debt funds and to predominantly invest in senior secured loans with a portfolio gross yield of 9%-10% and with an investment size of EUR 15-50m. MPEPD transactions usually generate 2%-3% in upfront fees. Target companies have an EBITDA of EUR 5m-25m and a maximum debt-to-EBITDA ratio of 5.5x. The target loan maturity will be 5-8 years, with an expected average life of 3-4 years. Almost all MPEPD investments were sponsor-led deals and benefit from sizeable equity cushions. The originated loans also have downside protection and always include a maximum leverage covenant. MPEPD mainly acts as a sole arranger of its investments. MPEPD III, can also invest in subordinated debt, but we expect it to occur on a selective basis, as part of a senior loan package. MPEPD benefits from: i) a niche position by targeting the lower end of the mid-market, where credit performance is often more volatile and lending competition muted; and ii) a diversified access to the European direct lending market, through partnerships with regional banks, private equity investors and other intermediaries.

We consider Muzinich's positioning in the European private debt market, its size and operations as positive for the transaction. As of 31 December 2022, MPEPD I and MPEPD II, both launched pre-pandemic, had two defaults. Our views on the asset portfolio's credit quality and recovery prospects account for MPEPD's performance track record.

3. Asset analysis

Our analysis considered an expected portfolio, taking into account the asset investment ramp-up timeline, target debt obligations of MPEPD III, and the transaction's investment objectives. The purpose of the issuer compartment is to invest in limited partner interests of MPEPD III, thus indirectly in a portfolio of corporate loans and unitranche debt. The majority of investments will be senior secured obligations of European corporate borrowers. Reinvestments are also possible within up to four years after the final closing of MPEPD III. Figure 2 describes the main elements of the MPEPD III investment strategy, which represents investment objectives that were generally met in previous MPEPD funds, but should not be considered as contractual portfolio profile tests.

Figure 2: Investment strategy guidelines of MPEPD III

Investment strategy of MPEPD III	
1)	Debt investments in European lower middle-market companies;
2)	To invest mainly into first-lien senior secured loans including unitranche debt (minimum of 80%) and occasionally on a selective basis in subordinated debt[1];
3)	To invest primarily in assets located in Europe including the UK;
4)	To invest in companies with a target commitment size of EUR 15m - 50m;
5)	To invest in companies with a target EBITDA of EUR 5m-25m and with a target operating history of at least 5 years;
6)	To invest in companies with a target maximum net leverage of 5.5x EBITDA (target portfolio weighted-average maximum 4.0x);
7)	To target a portfolio with single obligor, industry and geographical concentration limits: - maximum single investment 10%; - maximum single country exposure of 35%; - maximum 35% in Italy and Spain combined; - maximum 15% in Eastern Europe[2]; and - maximum single industry of 35%.
8)	To target a portfolio with a net internal rate of return of 9-10%.

Source: MPEPD III – Offering Memorandum

Muzinich anticipates 20-35 transactions in MPEPD III with a target fund size of EUR 1.0bn (including separately managed accounts). As of the final closing, the fund partnership will target not investing more than 10% of its commitments in a single investment.

3.1. Model portfolio

The model portfolio forms the basis of our asset analysis and is our representation of the transaction's expected underlying pool of assets, given the investment objectives and Muzinich's role as asset manager. We also considered Muzinich's longstanding

[1] First-lien debt is first-ranking secured debt usually with bullet maturity, while subordinated debt represents loans subordinated to first-ranking debt with equity priority.
[2] Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

experience and expertise in European private debt markets. The model portfolio's main characteristics are outlined in the next paragraphs.

3.1.1. General assumptions

The model portfolio is composed of 25 obligors

The model portfolio has a ramp-up period of five years (since first closing date) and during that period principal proceeds can be reinvested into assets with a similar credit risk profile, such that the pool would fully mature at around year 10. The model portfolio has a similar overall strategy as the one outlined for MPEPD III, reflected in our credit quality, seniority and diversification assumptions. The model portfolio invests in debt instruments whose maturities range from 3.5 years to 6.5 years, resulting in an aggregated weighted average life of 5.1 years for the fully ramped-up portfolio.

We assume that the underlying pool of assets in its fully ramped stage will consist of 25 obligors and would have a net margin over the reference rate of 4.8%, accounting for 1.25% management fees under no defaults; the considered original issue discount is 2.5%, in line with the asset manager's track record. We also factor in rising and falling interest rate scenarios, as well as a 10 basis points penalty to account for interest rate basis risk.

A reduction in the portfolio's interest proceeds would weaken the structural protection against portfolio losses. We see limited risk of margin compression for European private debt. The fund manager's expertise at sourcing opportunities with attractive risk-reward profiles and the presence of base-rate floors for most of the underlying loans also help to mitigate this risk.

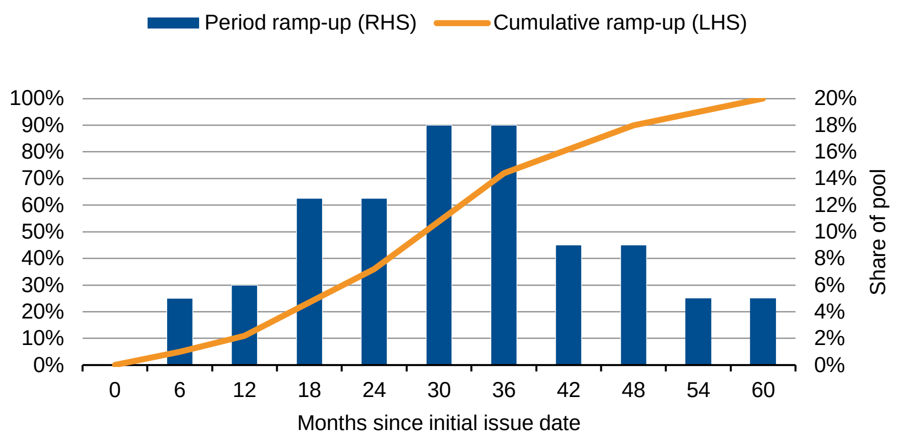
We presume that any non-euro exposure (predominately in British pounds) will be appropriately hedged, and we have considered a 50 basis points reduction of the net margin as the hedging cost for such exposures.

3.1.2. Ramp-up timeline

Capital will be committed progressively during the first five years

Our model portfolio assumes that the issuer will commit the entire capital to the portfolio during the first five years of the transaction. We added one year to the actual up-to four years investment period of the fund to account for the period before the final closing of the fund and the probable follow-on investments after the investment period. About 50% of the capital will be invested in the first 2.5 years and the remainder over the following 36 months, replicating the patterns found in predecessor Muzinich funds. Figure 3 shows the assumed ramp-up timeline.

Figure 3: Model portfolio's ramp-up timeline



Source: Scope Ratings

The portfolio is diversified from a vintage standpoint

The model portfolio will initially consist of underlying loans originated between 2023 and

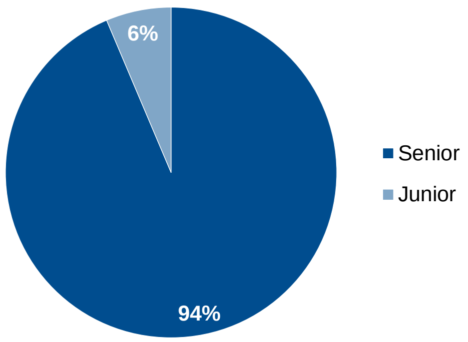
2028, taking possible reinvestments into account. This is because the commitments to the underlying strategies are spread over time and the subsequent deployment of capital made by the underlying fund is also progressive.

3.1.3. Seniority profile

The model portfolio is predominantly senior secured

94% of the model portfolio consists of senior secured loans, which is in line MPEPD I and MPEPD II; the maximum of non-senior debt is 20%. Figure 4 summarises the portfolio's breakdown by asset seniority.

Figure 4: Model portfolio's seniority profile

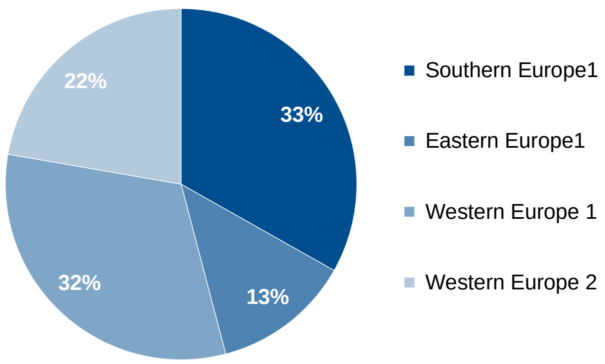


Source: Scope Ratings

3.1.4. Geographic profile

The underlying pool of assets is diversified geographically with the main concentrations in western and southern Europe, where the majority of the target borrowers operate. Figure 5 summarises the portfolio's breakdown by geography.

Figure 5: Model portfolio's geographical distribution



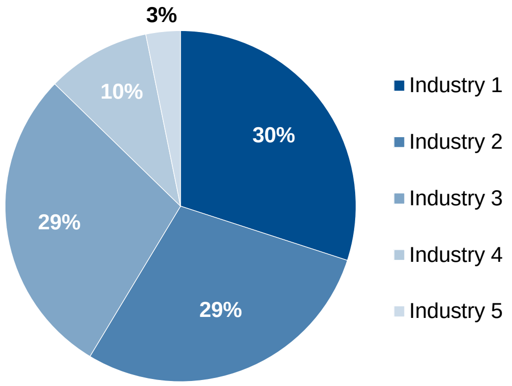
Source: Scope Ratings

3.1.5. Industry profile

The model portfolio benefits from industry diversification

All the underlying assets are well diversified by industry. We assumed that the model portfolio comprises five different industries, with the top industry representing 30% of the total exposure, in line with the investment guideline of MPEPD III, which intend to have maximum 35% invested in one industry. Figure 6 summarises the portfolio's breakdown by industry.

Figure 6: Model portfolio's industry distribution



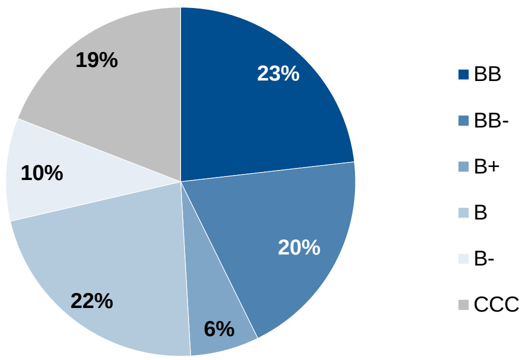
Source: Scope Ratings

3.1.6. Credit quality profile

The model portfolio credit quality is commensurate with a B rating

We assumed the average credit quality of the underlying borrowers is commensurate with a rating of B. This reflects the targeted borrowers' characteristics, i.e. small-to-medium size, high leverage, with limited access to financial resources and generally risky credit profile. The fund managers may target borrowers with a different risk profile; therefore, the model portfolio also contains credit profiles ranging from CCC to BB. Figure 7 summarises the portfolio's breakdown by the assumed obligor credit profile expressed as rating equivalents.

Figure 7: Model portfolio breakdown by obligor credit quality



Source: Scope Ratings

3.2. Asset assumptions

3.2.1. Individual asset default rate

The default risk of a portfolio asset is driven by the credit profile assigned to its obligor (equivalent to a range from CCC to BB as illustrated in section 3.1.6). The obligor credit profile combined with the asset maturity date enables us to derive each asset's default rate and timing.

3.2.2. Recovery rate

We used the asset seniority profile classification introduced in section 3.1.3 and assigned the following base case recovery rates:

Figure 8: Base case recovery rate by recovery category

Recovery category	Base case recovery rate (B target rating)
Senior	70.0%
Junior	30.0%

Recovery rate assumptions are rating-conditional

We apply rating-specific recovery rate assumptions that are tiered to represent haircuts that increase as the target rating becomes higher. The table below shows the recovery rate haircuts used for this transaction, which are applicable to the respective recovery and rating categories, as well as the resulting recovery rate assumptions by rating category.

Figure 9: Rating-conditional recovery rate assumptions

Recovery category / rating stress	AAA	AA	A	BBB	BB	B
Haircut	**48.0%**	**36.0%**	**21.0%**	**14.0%**	**4.0%**	**0.0%**
Senior	36.4%	44.8%	55.3%	60.2%	67.2%	70.0%
Junior	15.6%	19.2%	23.7%	25.8%	28.8%	30.0%

3.2.3. Correlation framework

For this transaction, we assumed pairwise asset correlations ranging from 2% to 27%, composed of additive factors including a general factor of 2%, a location factor of 5% and an industry factor of 20%. The asset correlation reflects the assets' exposure to common factors such as the general economic environment, their jurisdiction and the respective industry sector. We also applied an additional 25% stress to the pairwise asset correlation factors to account for the gradual ramp-up of the portfolio and potentially increased concentration.

3.3. Other assumptions

No large obligor stress

We assumed that recovery proceeds would be fully realised 12 months after a default. Longer recovery delays showed marginally worse results, however in line with the assigned rating. Additionally, we did not apply any obligor stress to correlation factors or recovery rates, given the portfolio's expected diversification, the early stage of the transaction's life and the asset manager's expertise.

4. Financial structure

4.1. Capital structure

Muzinich Luxembourg Funding Sarl acting in respect of its Compartment Pan III 1K will issue untranched notes with a total notional of up to EUR 30m. The notes will be issued over time to ensure that capital calls from MPEPD III can be met. The notes will latest mature on 30 June 2041, 18 years after the first closing date of MPEPD III and carry a deferrable promised coupon of 1.50% p.a. to be paid quarterly. The notes also pay a variable return coupon to noteholders.

4.2. Priority of payments

Payments will be made quarterly according to a split interest and a principal priority of payments. All interest proceeds that the issuer has received from MPEPD III will be applied according to the interest priority of payments, while repayments of capital contributions will be used to repay the notes under the principal priority of payments.

Figure 10 below details the simplified transaction waterfall.

Figure 10: Simplified priority of payments

Simplified interest priority of payments	Simplified principal priority of payments
Available funds: All income funds concerning the issuer underlying assets (interest, dividends other than capital gains, fees, etc.) received from MPEPD III.	**Available funds:** All capital proceeds concerning the issuer underlying assets received from MPEPD III.
1) Senior liabilities (taxes, fees and expenses for operating the issuer compartment and its shareholder) 2) Payment of fixed-rate interest 3) Payment of deferred fixed-rate interest 4) Notes partial early repayment (up to 5% p.a. of the notes outstanding principal balance; until EUR 1 is left) 5) Top-up issuer cash reserve to the target 5% of the notes principal balance outstanding 6) Subordinated items	1) Notes repayment until EUR 1 is left 2) Interest available funds

Source: Transaction documents and Scope Ratings

4.3. Reinvestment mechanism

Reinvestments are possible throughout the investment period

MPEPD III can reinvest by recalling capital distributions made to the limited partners during the investment period, which can last up to a maximum of four years from the final closing date, including extension options. MPEPD III treats all capital distributions up to the limited partners' commitment as recallable during the investment period. MPEPD III can also use capital repayments without distributing to offset capital calls if the time of a particular investment coincides with a collection.

4.4. Maturity date

Market risk at maturity date is remote

The notes' legal final maturity date is 30 June 2041, the 18th anniversary of the first closing date of MPEPD III. The scheduled term of the notes is shorter than the legal final maturity and replicates the maturity profile of MPEPD III. The term of the fund is eight years from its final closing date, subject up to the options of two one-year extensions.

Given the long term of the fund and the possibility to extend the notes' scheduled maturity date, the risk of the disposal of investments to redeem the notes at the notes' legal final maturity is remote. The legal final maturity definition of the notes also leaves sufficient flexibility to prevent a forced liquidation of the partnership interests.

4.5. Scheduled payment deferral

In case the issuer available interest proceeds together with the issuer cash reserve fund are insufficient, the 1.5% fixed-rate interest can be maximum deferred until the notes legal final maturity date. On each successor payment date, any deferred fixed-rate interest will rank senior in the interest priority of payments to the targeted notes' amortisation payment. Deferred fixed-rate interest will not earn further interest. Our rating reflects the deferral-conditional time-value-of-money loss.

The targeted notes amortisation of 5% p.a. of the notes principal balance outstanding will always be subject to funds being available either through issuer interest funds and/or the available cash reserve balance. Notes repayment can also be paid only partially.

Unpaid fixed-rate interest or unpaid notes principal will only constitute an event of default at the notes' legal final maturity.

4.6. Liquidity reserve

The issuer will establish a cash reserve held with JP Morgan to cover scheduled senior cost payments, fixed-rate interest and notes amortisation payments. The reserve will have an initial size of zero and will be funded through available excess spread. This reserve has a target size of 5% of the outstanding note principal balance, thus it amortises alongside the notes. Given that it also covers the targeted notes amortisation, the reserve is more an additional excess spread capturing mechanism, rather than a real liquidity support.

Any excess funds in this reserve will be distributed to noteholder(s) as a variable return.

4.7. Notes partial early repayment

Notes partial early repayments help to build overcollateralisation

During each interest period, remaining interest proceeds available after paying issuer senior costs and notes' fixed interest will be used to repay up to 5% p.a. of the notes principal balance outstanding. Capital distributions from the fund will be first applied to repay notes principal.

Excess capital funds can be applied to cover any unpaid items in the interest priority of payments items, but only if the rated notes are repaid [until EUR 1 is left].

4.8. Hedging and borrowing

Credit risk associated with hedging and borrowing is limited

MPEPD III may use credit arrangements mainly to ease the operational burden linked to capital calls and cash management purposes. The maximum amount of borrowing is the minimum of 33% of total commitments and 100% of total undrawn commitments. MPEPD III also uses derivative instruments to hedge interest rates and foreign currency exposures.

The credit risk associated with the hedging and borrowing is limited, given the limited size and short tenor of the credit lines and Muzinich's experience in managing such operations. The issuer is not expected to enter into any hedging or borrowing arrangements.

5. Cash flow analysis and rating stability

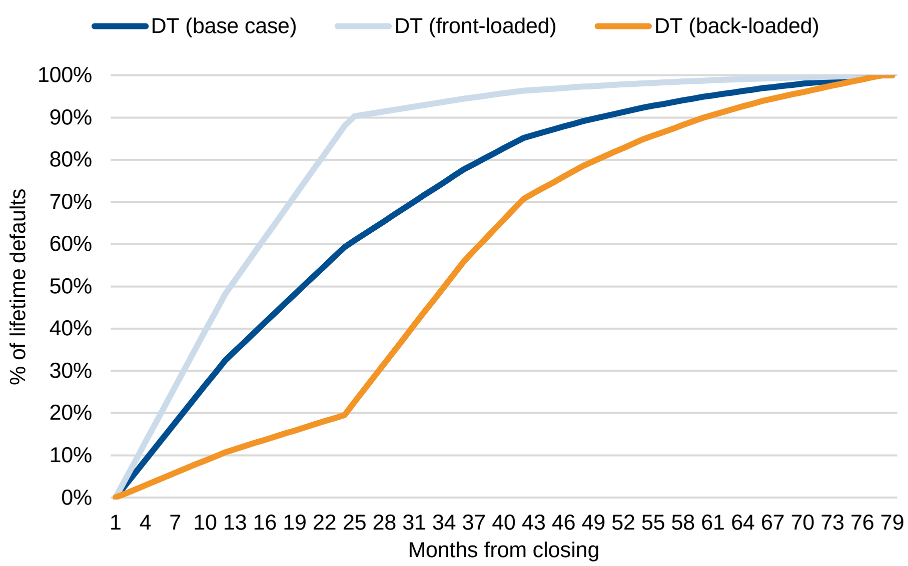
Our cash flow analysis considers the structural features of the transaction

We analysed the model portfolio on a loan-by-loan basis using a Monte Carlo simulation. For each loan, we assumed: i) a specific default probability; ii) a specific recovery upon default; and iii) asset correlations between the loans, as described in section 3.2. The resulting default distribution has a mean default rate of 24.4% and an implicit coefficient of variation of 51.1% over a weighted average portfolio life of 5.1 years.[3] The resulting base case portfolio recovery rate is 68.2% and the BBB rating-conditional portfolio recovery rate 58.7%.

Our base case considers the default timing (DT) derived from the Monte Carlo simulation. As shown in Figure 11, we also tested more front-loaded and back-loaded default timings, with the results showing little sensitivity to this parameter. Still, given the reliance on excess spread and the sound capturing mechanisms, more front-loaded default timings are more punitive for the structure.

[3] Reinvestments increase the weighted average life.

Figure 11: Default timing vectors



Source: Scope Ratings

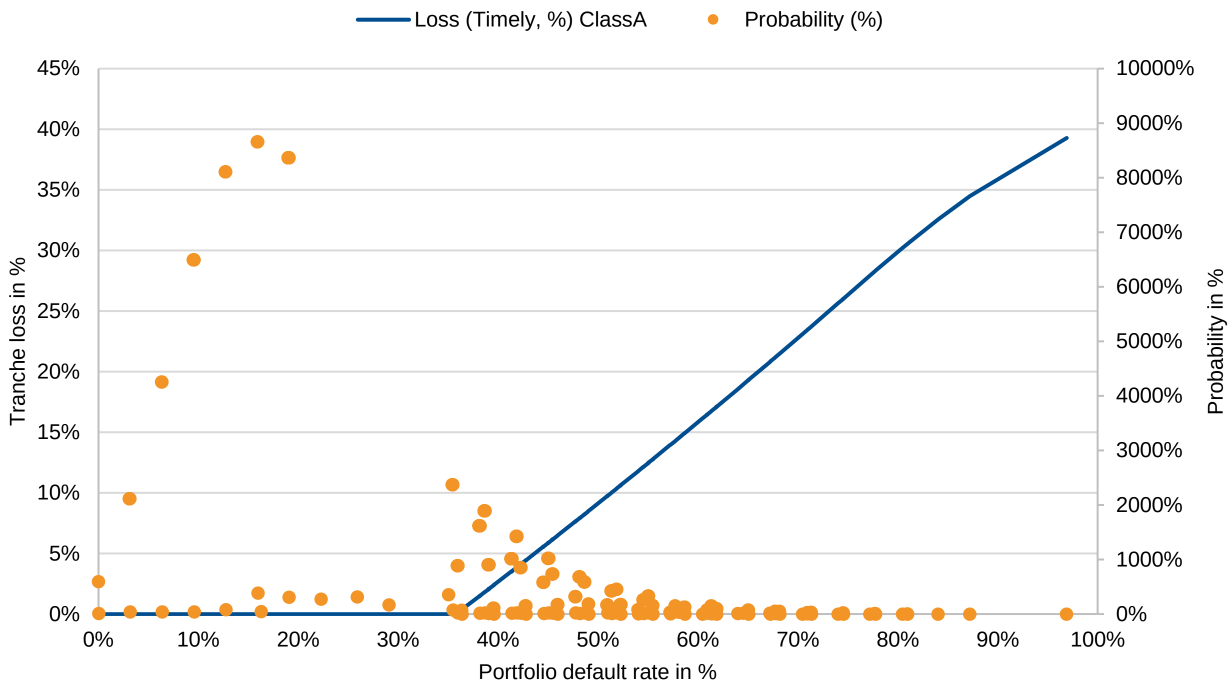
Using the resulting default rate distribution, portfolio recovery rates and default timing, we projected the transaction's cash flows, considering senior expenses and fees as well as structural features, including reinvestments, the notes amortisation mechanism, the cash reserve, the fixed-rate coupon, and the notes' partial early repayments.

Our ratings reflect expected losses over the instrument's expected risk horizon

The rating assigned to the notes reflects the expected losses over the instrument's expected risk horizon, commensurate with the idealised expected loss table. We accounted for possible reinvestments when deriving the instrument's expected risk horizon.

Figure 12 shows the evolution of losses for the rated instrument depending on the portfolio default rate scenario. The break-even loss scenario beyond 35% portfolio defaults reflects well the protection that the instrument receives from captured excess spread over the life of the transaction and the individual asset recovery.

Figure 12: Instrument loss evolution



Note: The probability displayed on the right-hand-side axis should be considered in the context of the calculation of the probability density.

Source: Scope Ratings

We tested the resilience of the rating to deviations in the main input parameters: the portfolio mean default rate and the portfolio recovery rate. This analysis has the sole purpose of illustrating the sensitivity of the rating to input assumptions and is not indicative of expected or likely scenarios. The following shows how the results change compared to the assigned rating when the assumed mean default rate increases by 50%, or the portfolio's expected recovery rate decreases by 50%, respectively:

- Sensitivity to mean default rate, two notches;
- Sensitivity to recovery rate, three notches.

6. Sovereign risk

No mechanistic cap

Sovereign risk does not limit the rating of the notes.

7. Counterparty risk

Counterparty risk does not limit the transaction's rating

None of the considered material counterparty exposures constrain the rating achievable by this transaction. In the absence of counterparty replacement mechanisms, we factored in the current sound counterparty credit quality of the money handling agents JP Morgan and State Street Bank. Their credit quality was implied by either the entity's available public credit rating or through its parent entity's available credit rating.

The main counterparty risk exposures relate to: i) JP Morgan as account bank of the issuer; ii) State Street Bank as MPEPD III account bank; iii) Muzinich as the asset manager; and iv) Alter Domus and affiliates as corporate services provider, calculation agent and registrar of the issuer.

7.1. Asset manager

Muzinich's infrastructure and operations are adequate for its different roles in the transaction. We view the company's longstanding experience in managing private debt funds, as well as its track record and market access in the European direct lending space as key factors in achieving the issuer's investment objectives. Besides reputational issues, the interests of Muzinich and that of the noteholder(s) are well aligned: i) Muzinich will invest own funds into MPEPD III alongside with the issuer; and ii) the fund management fees are split between fixed-rate senior fees and performance fees, which are only paid if sufficient money have been provided to the SPV that allows full repayment of the rated notes.

7.2. Account bank risk

Limited account bank risk due to high agent credit quality

Given the high credit quality of JP Morgan and State Street Bank, we consider the risk of account bank default-related losses as sufficiently remote to be immaterial for the notes. We have assessed the credit quality of the two entities considering public information including external credit ratings.

8. Legal structure

8.1. Legal framework

The Issuer is a compartment special purpose entity incorporated under Luxembourg law in accordance with the Luxembourg securitisation law. Its Compartment Pan III 1K has been validly created. The issuer has the authority to enter into transaction documents, exercise and perform its obligations, and issue notes. The issuer's obligations under a Luxembourg court would be recognised as legal, valid and binding in accordance with the transaction documents. The transaction documents are governed by Luxembourg law. The issuer is 100% owned by Stichting 450 Funding, a Dutch stichting foundation.

Issuer perceived to be a bankruptcy remote special purpose vehicle

The assets and liabilities of the Compartment Pan III 1K are exclusively available to satisfy the rights of the creditors whose claims have arisen on the creation, operation or liquidation of the compartment. The noteholders accept that they will have only recourse to the assets of the compartment, not to the assets of other compartments or any other assets of the issuer.

Based on transaction documentation as well as representations and warranties made by the issuer, the issuer's contractual agreements are consistent with those of a bankruptcy remote entity, such as restrictions related to limited recourse, non-petition and no liability for further deficits.

The fund Muzinich Pan-European Private Debt III, SCSp is an alternative investment fund under Luxembourg law, and shares most bankruptcy-remoteness relevant properties of a Luxembourg securitisation vehicle.

8.2. Tax risk

Tax efficient set-up

The issuer is a tax-efficient vehicle where only minimum taxes apply, which we do consider well covered under our senior costs modelling assumptions.

Minimum net-wealth tax and value-added-tax (VAT) only for certain contracted services, such as set-up costs, legal, audit and IT services, will remain a cost for the issuer.

8.3. Use of legal and tax opinions

We have reviewed the Luxembourg law legal and tax opinion produced by the issuer's counsel. It supports our analytical assumptions regarding the transaction's robust legal structure and efficient tax set-up.

9. Monitoring

Continuous rating monitoring

We will monitor this transaction based on performance reports, portfolio updates as well as other public information. The rating will be monitored on an ongoing basis.

Scope analysts are available to discuss all the details of our rating analysis, the risks to which this transaction is exposed, and the ongoing monitoring of the transaction.

10. Applied methodology and data adequacy

For the analysis of this transaction we applied our General Structured Finance Rating Methodology (as of 25 January 2023), our Counterparty Risk Methodology (as of 13 July 2023) and our CLO Rating Methodology (as of 28 April 2023). All documents are available on www.scoperatings.com.

Muzinich provided a detailed investment-by-investment track record and performance data related to the two former Pan-European private debt funds launched in May 2017 and August 2020. We received quarterly performance reports related to the two former funds, including its historical cash-flow and audited financial statements. Muzinich provided annual reports and financial statements covering the past three years. Moreover, we received a detailed due fund diligence questionary with the related answers.

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