

# GOLDEN KNIGHT II CLO

Non-Presale Report

## Rating Summary (Non-NRSRO)

Table of Contents		Tranche	Interest Rate <sup>1</sup>	EJR Rating	Other NRSRO Rating <sup>2</sup>	Cur Par (USD m)	Credit Enhmt(%) <sup>3</sup>	TT(%) <sup>4</sup>	Exp Loss (% of Par)	Life Horizon (yrs) <sup>5</sup>
Rating Summary	1									
Transaction Summary	1	A	3mLR + 0.24%	AAA(sf)	AAA	6.673	1,588.3	6.30	0.000	0.25
Pros & Cons	1	B	3mLR + 0.39%	AAA(sf)	AAA	40.000	227.1	37.74	0.000	1.25
Tranche Details	2	C	3mLR + 0.67%	AAA(sf)	AAA	18.250	163.3	17.22	0.000	1.5
Collateral Disclosure	7	D	3mLR + 1.04%	AAA(sf)	AAA	14.000	134.3	13.21	0.000	2
Sensitivity Analysis	7	E	3mLR + 3.5%	A-(sf)	BBB	13.000	115.3	12.27	0.054	2.25
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## Transaction Summary

This transaction was issued on March 21, 2007 pursuant to an indenture among Golden Knight II CLO, Ltd (the "Issuer"), Golden Knight II CLO, Corp. (the "Co-Issuer") and Deutsche Bank Trust Company Americas (the "Trustee"). Lord, Abbett & Co. LLC serves as the Collateral Manager on behalf of the Issuers. The Notes are scheduled to mature on April 15, 2019. The principal amount of the collateral pool is approximately \$105.9M and the Weighted Average Life<sup>6</sup> of the receivables is approximately 27 months from the issuance date of this report. We are assigning ratings to the tranches as are shown in the chart above as a Non-NRSRO.

## Strength and Concerns

These rating actions are primarily a result of deleveraging of the senior notes and strong Credit Enhancement ("CE"). The Class A Note has almost been paid off. CE for Class B, Class C, Class D and Class E is 227.1%, 163.3%, 134.3% and 115.3%, respectively. The notes are well collateralized with the cash amounting to 57.7% in the asset pool. The Weighted Average Spread<sup>6</sup> of the asset pool is 193.3 basis points.

The performance of this CLO is dependent on the flow of credit in the economy and concentration of speculative grade debt maturities, which could make refinancing difficult for issuers in a tight credit environment. Other factors that could affect the CLO performance are the CLO manager's investment strategy and legal interpretation of CLO documentation. Deleveraging of the CLO could gain traction due to high prepayment in the market, which could have impact on the notes' ratings.

### Notes:

We are rating this transaction as a Non-NRSRO. This report does NOT make any trading suggestion.

- 1) 3mLR stands for 3 month LIBOR Rate.
- 2) Other NRSRO Ratings indicate the median ratings from other NRSROs.
- 3) Credit Enhancement: Ratio of collateral par over the sum of principal of this tranche and all superior tranches.
- 4) Tranche Thickness (TT): Ratio of tranche size to current collateral balance.
- 5) A life horizon of "NA" indicates that the par will not be fully paid back.
- 6) See Collateral Disclosure Section.

**Tranche Class A**

Summary

Current Par (k)	6,673
Interest Rate	3mLR + 0.24%
IRR <sup>1</sup>	1.02%
OC Benchmark <sup>2</sup>	111.50%
OC Test	Passed
Tranche Thickness	6.30%
Tranche Close Date	4/15/2019
Payment Frequency	Quarterly
Implied Rating	AAA(sf)
Assigned Rating	AAA(sf)

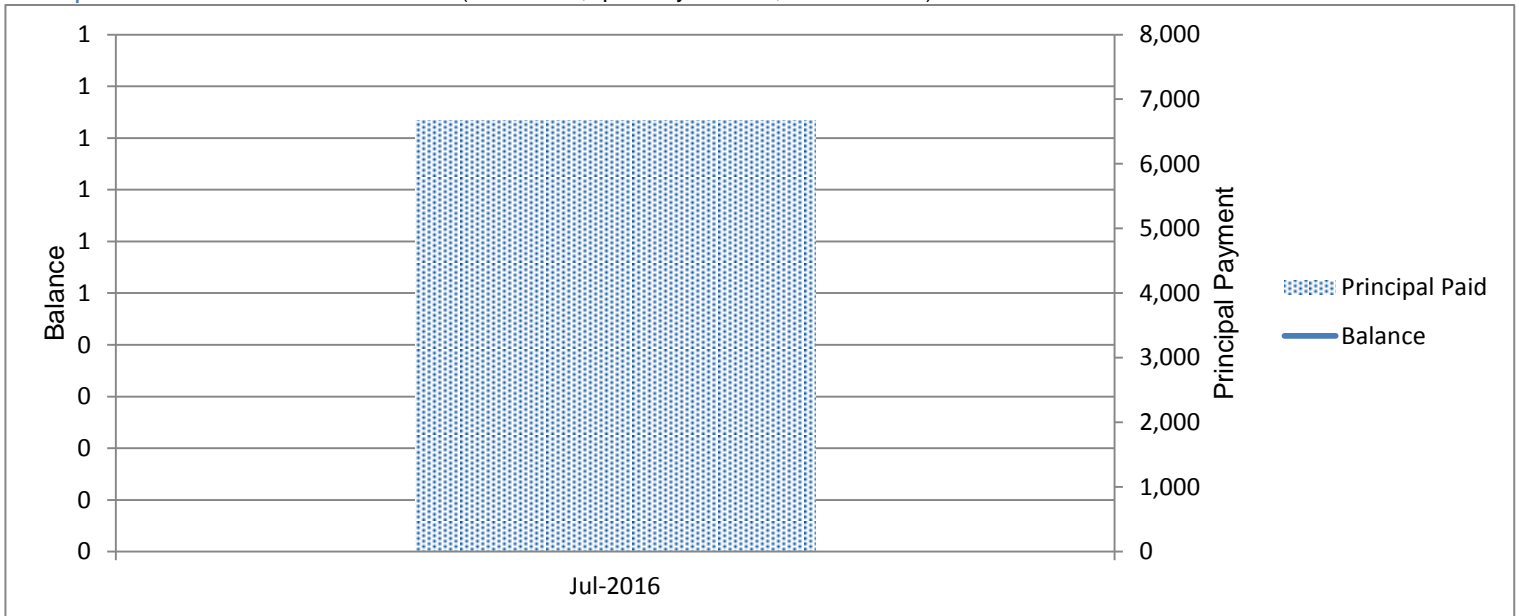
Expected Loss

Scenario <sup>3</sup>	Expected Loss
Base Case	0
Default Rate Up	0
Default Rate Down	0
Pool Correlation Up	0
Pool Correlation Down	0
Interest Rate Up	0
Interest Rate Down	0

\* Notes to the tables are on Page 7

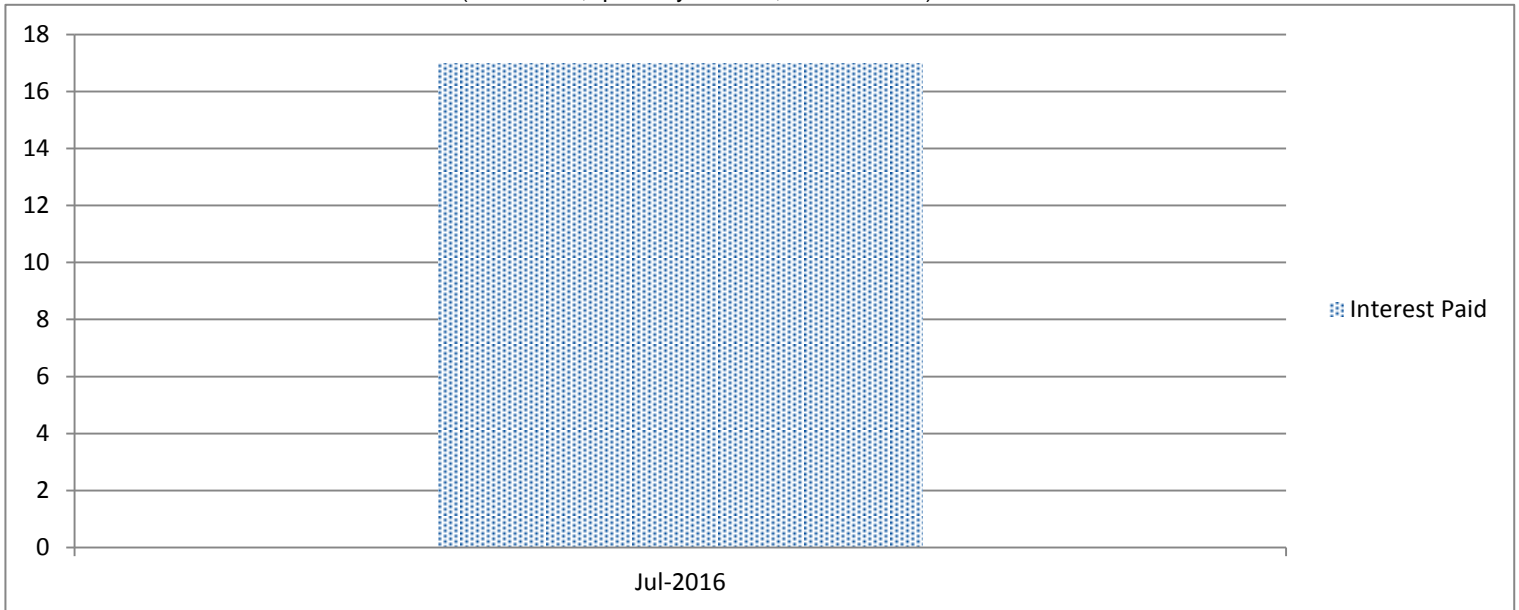
Principal Cash Flow

(Base case, quarterly amount, in thousands)



Interest Cash Flow

(Base case, quarterly amount, in thousands)



**Tranche Class B**

Summary

Current Par (k)	40,000
Interest Rate	3mLR + 0.39%
IRR <sup>1</sup>	1.21%
OC Benchmark <sup>2</sup>	111.50%
OC Test	Passed
Tranche Thickness	37.74%
Tranche Close Date	4/15/2019
Payment Frequency	Quarterly
Implied Rating	AAA(sf)
Assigned Rating	AAA(sf)

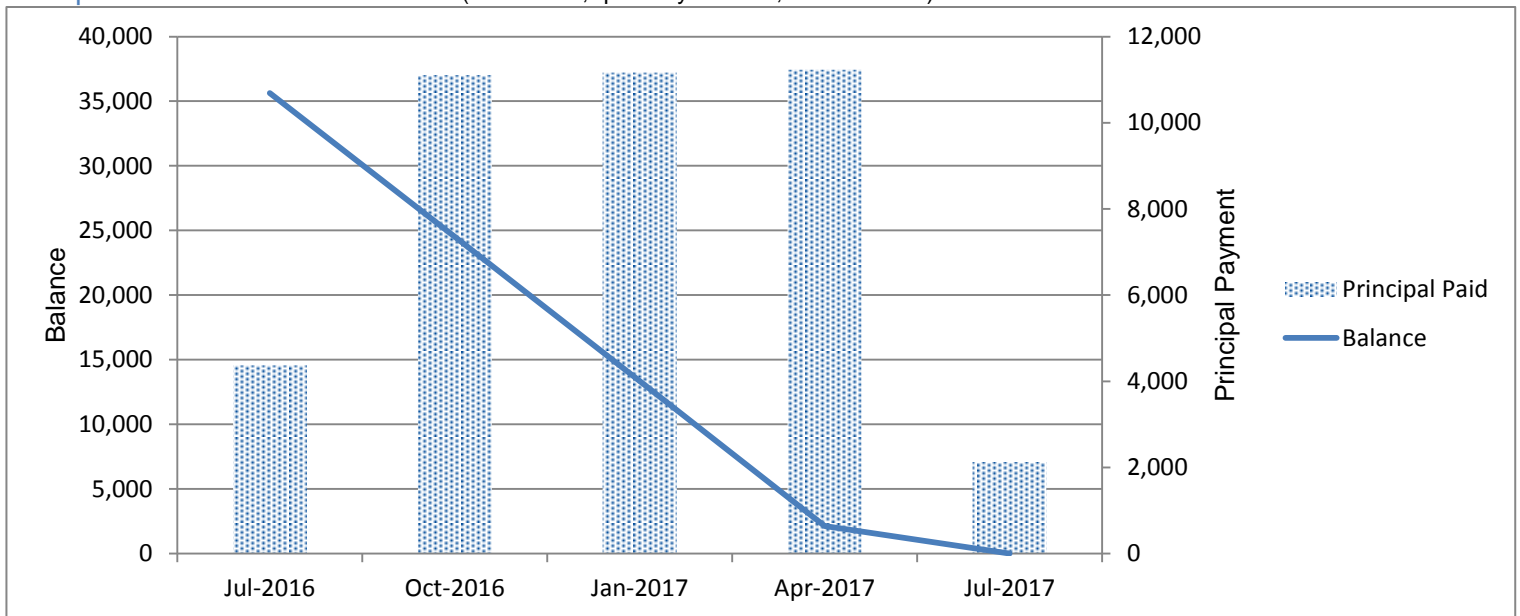
Expected Loss

Scenario <sup>3</sup>	Expected Loss
Base Case	0
Default Rate Up	0
Default Rate Down	0
Pool Correlation Up	0
Pool Correlation Down	0
Interest Rate Up	0
Interest Rate Down	0

\* Notes to the tables are on Page 7

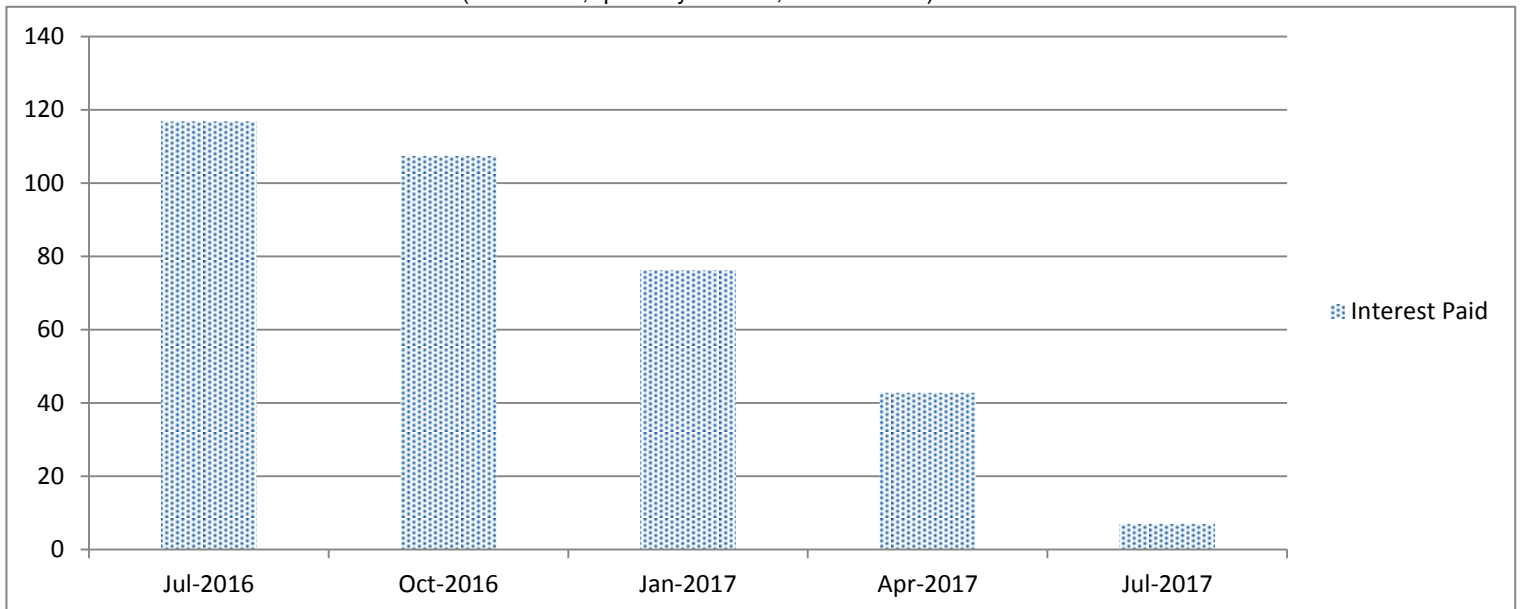
Principal Cash Flow

(Base case, quarterly amount, in thousands)



Interest Cash Flow

(Base case, quarterly amount, in thousands)



**Tranche Class C**

Summary

Current Par (k)	18,250
Interest Rate	3mLR + 0.67%
IRR <sup>1</sup>	1.53%
OC Benchmark <sup>2</sup>	107.00%
OC Test	Passed
Tranche Thickness	17.22%
Tranche Close Date	4/15/2019
Payment Frequency	Quarterly
Implied Rating	AAA(sf)
Assigned Rating	AAA(sf)

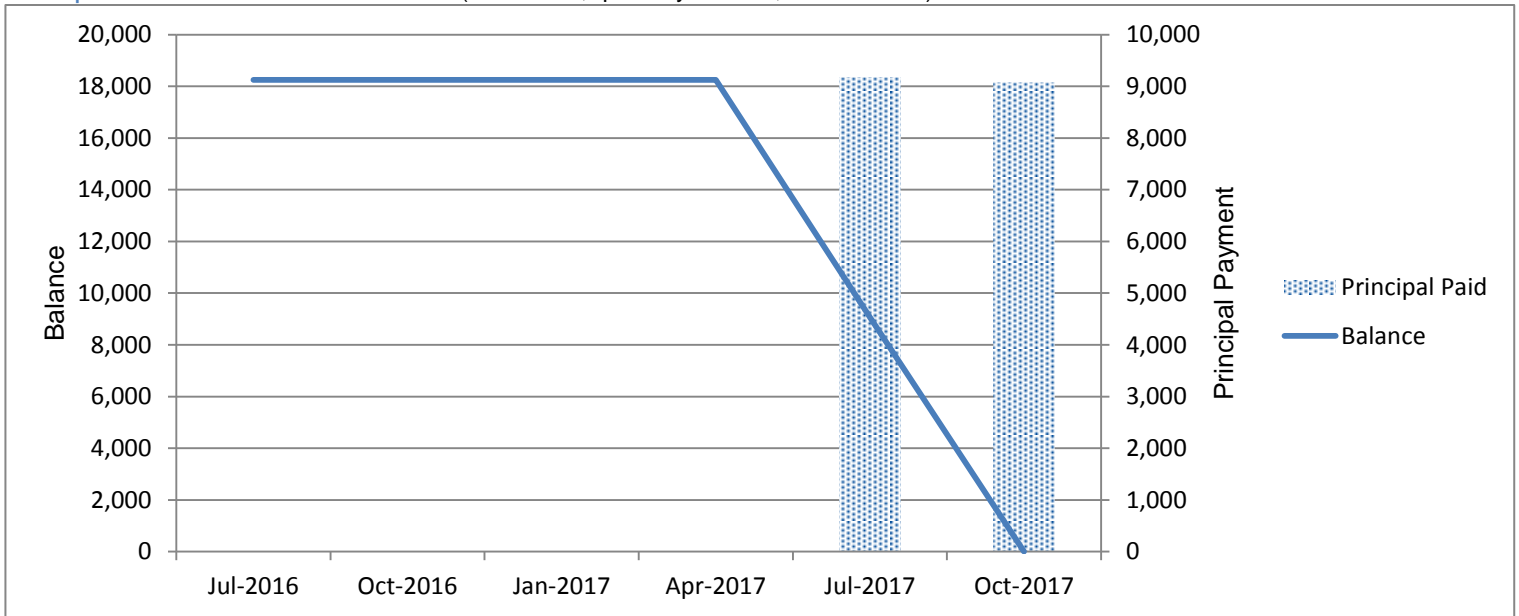
Expected Loss

Scenario <sup>3</sup>	Expected Loss
Base Case	0
Default Rate Up	0
Default Rate Down	0
Pool Correlation Up	0
Pool Correlation Down	0
Interest Rate Up	0
Interest Rate Down	0

\* Notes to the tables are on Page 7

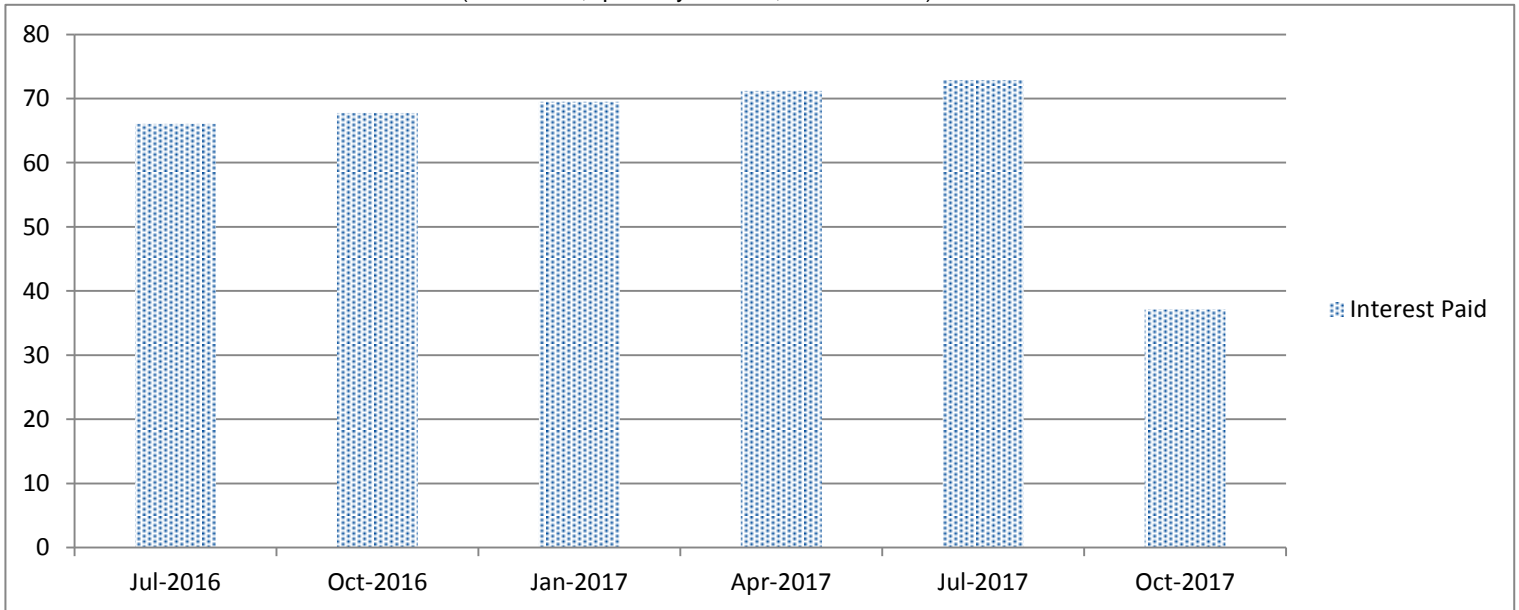
Principal Cash Flow

(Base case, quarterly amount, in thousands)



Interest Cash Flow

(Base case, quarterly amount, in thousands)



**Tranche Class D**

Summary

Current Par (k)	14,000
Interest Rate	3mLR + 1.04%
IRR <sup>1</sup>	1.93%
OC Benchmark <sup>2</sup>	105.00%
OC Test	Passed
Tranche Thickness	13.21%
Tranche Close Date	4/15/2019
Payment Frequency	Quarterly
Implied Rating	AAA(sf)
Assigned Rating	AAA(sf)

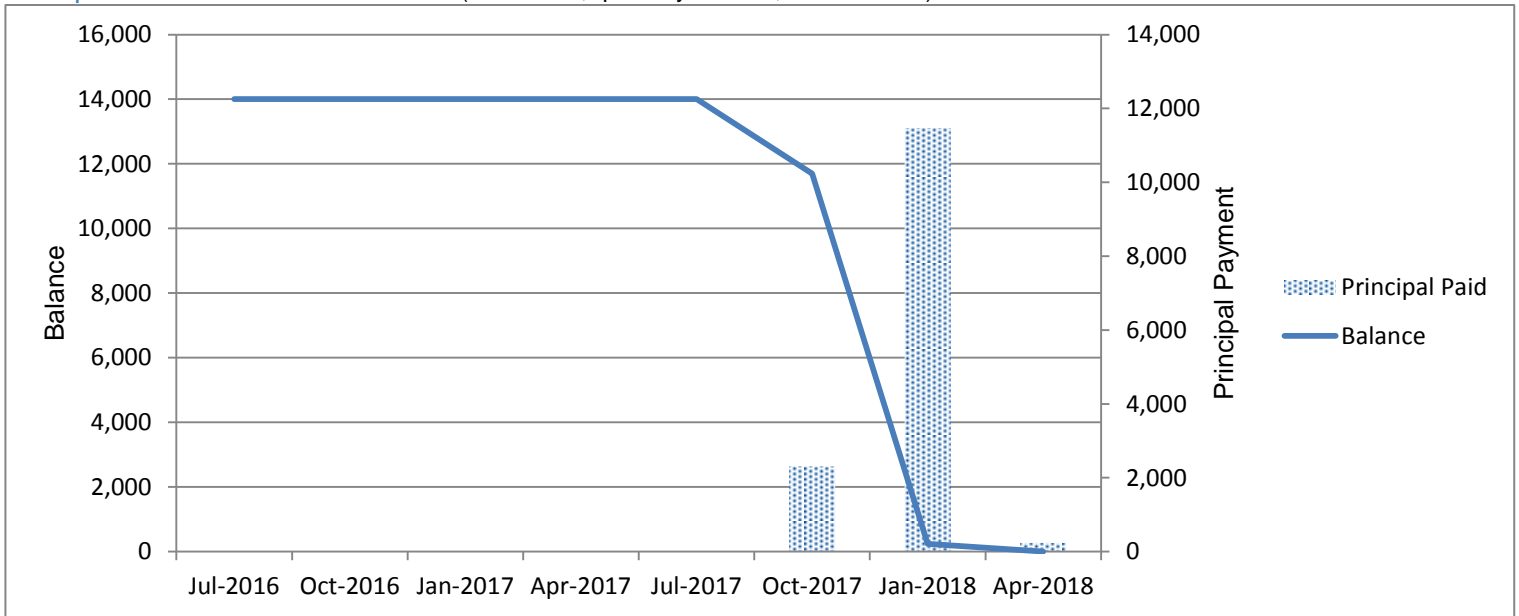
Expected Loss

Scenario <sup>3</sup>	Expected Loss
Base Case	0
Default Rate Up	0
Default Rate Down	0
Pool Correlation Up	0.001%
Pool Correlation Down	0
Interest Rate Up	0
Interest Rate Down	0

\* Notes to the tables are on Page 7

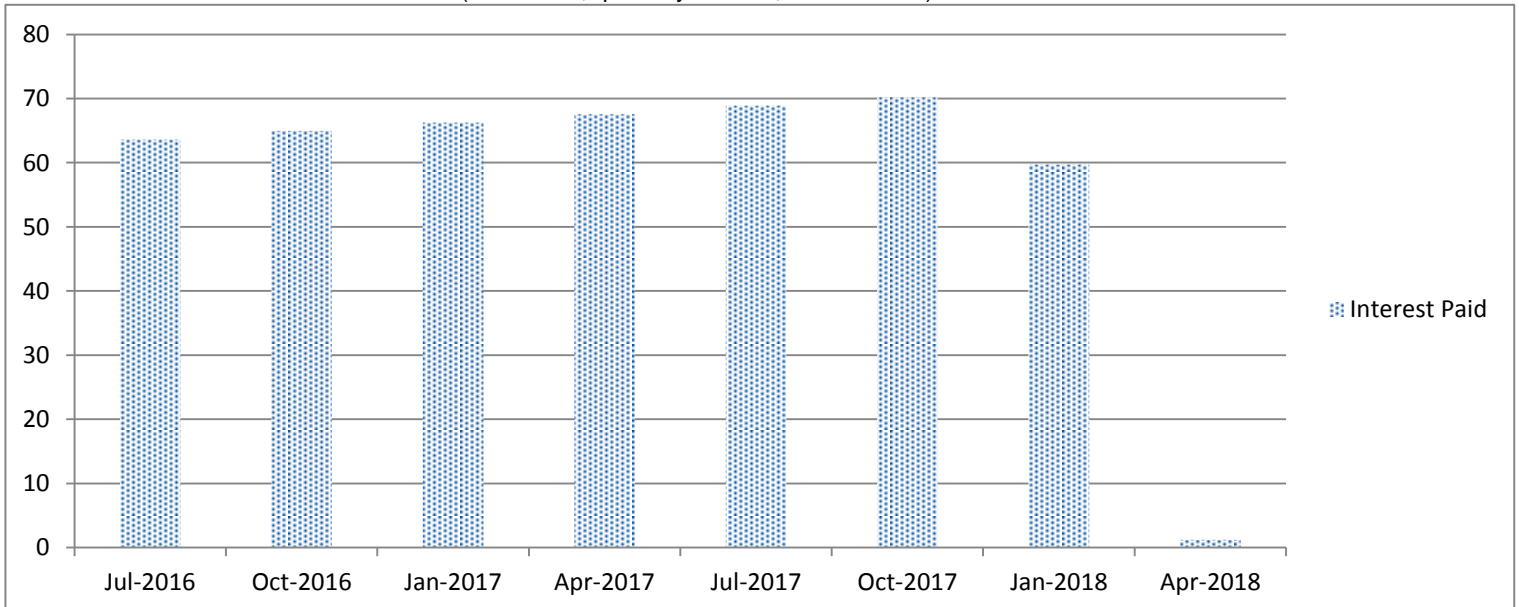
Principal Cash Flow

(Base case, quarterly amount, in thousands)



Interest Cash Flow

(Base case, quarterly amount, in thousands)



**Tranche Class E**

Summary

Current Par (k)	13,000
Interest Rate	3mLR + 3.5%
IRR <sup>1</sup>	4.41%
OC Benchmark <sup>2</sup>	102.00%
OC Test	Passed
Tranche Thickness	12.27%
Tranche Close Date	4/15/2019
Payment Frequency	Quarterly
Implied Rating	A(sf)
Assigned Rating	A-(sf)

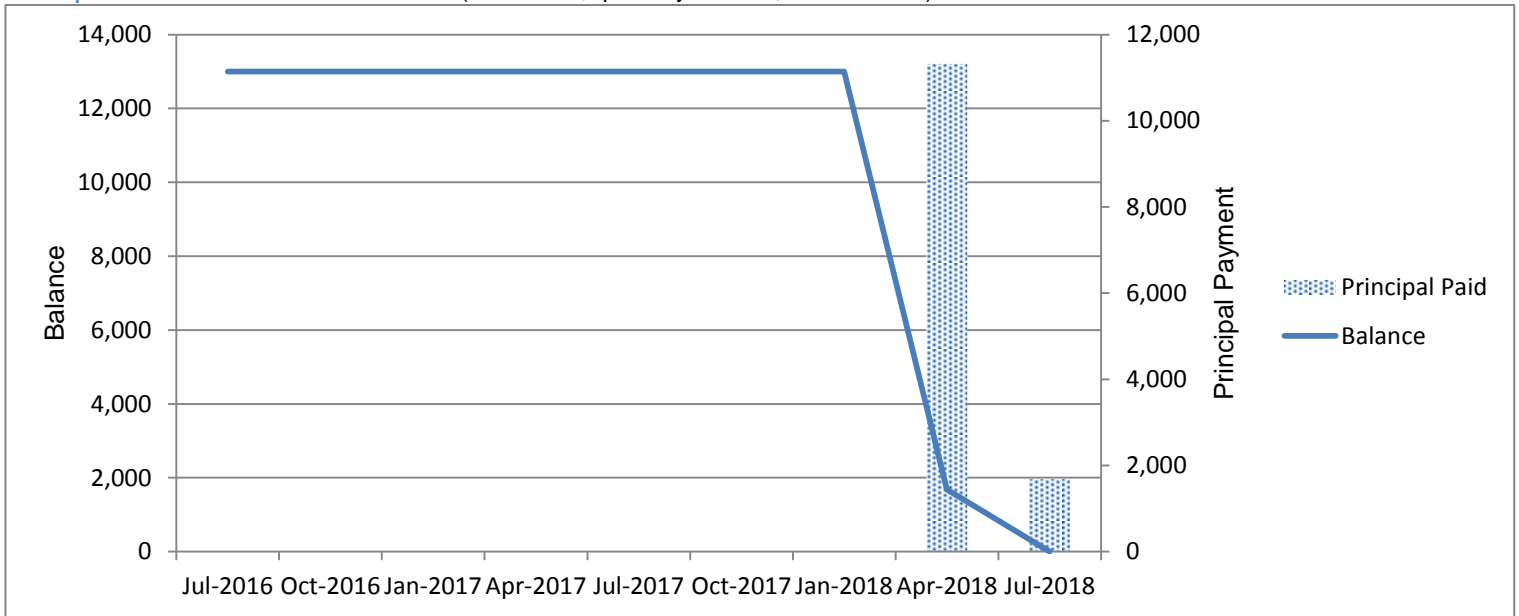
Expected Loss

Scenario <sup>3</sup>	Expected Loss
Base Case	0.054%
Default Rate Up	0.316%
Default Rate Down	0.002%
Pool Correlation Up	0.601%
Pool Correlation Down	0.010%
Interest Rate Up	0.068%
Interest Rate Down	0.067%

\* Notes to the tables are on Page 7

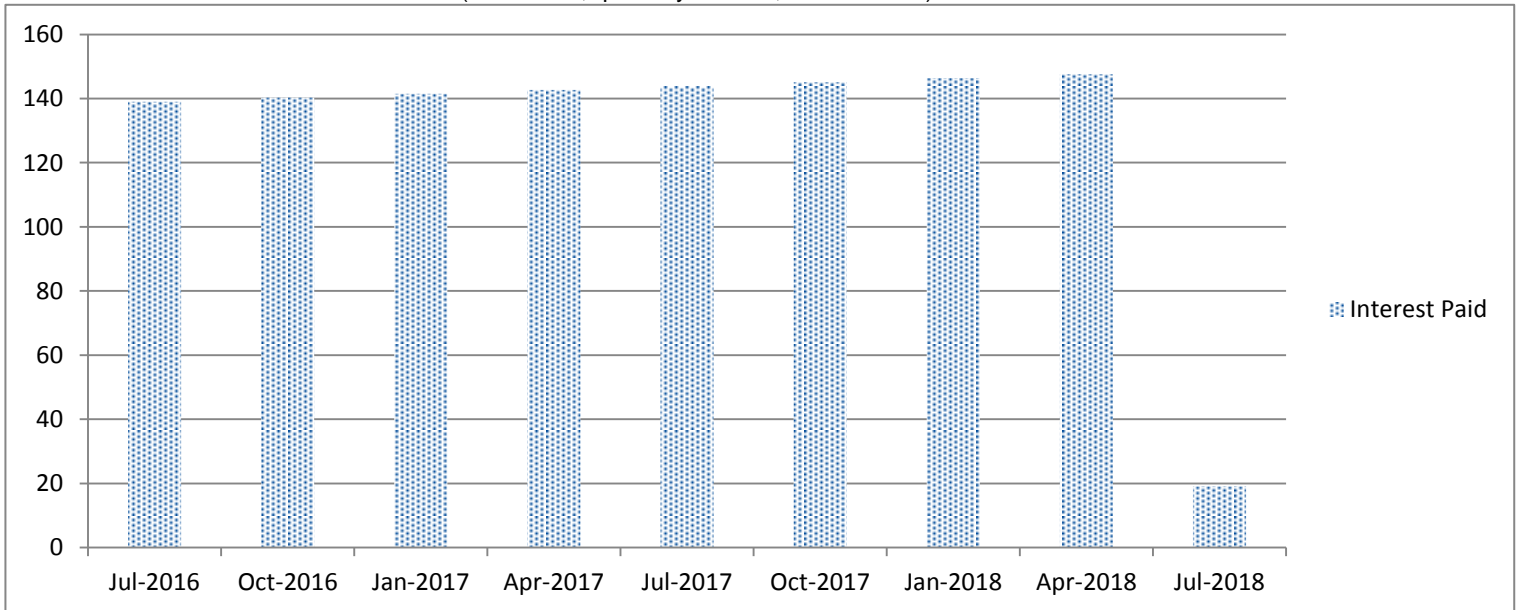
Principal Cash Flow

(Base case, quarterly amount, in thousands)



Interest Cash Flow

(Base case, quarterly amount, in thousands)



**Collateral Disclosure**
**Summary**

Balance (k)	105,992
WAS <sup>4</sup> (bps)	193
Floor (bps)	30.03
WAL <sup>5</sup> (yrs)	2.25
Exp DR <sup>6</sup> (%)	4.47
WARR <sup>7</sup> (%)	37.16
Obligors No.	40
Diversity	13

**Top Weighted Industries**

Industry	Weight
CASH	57.80%
HEALTHCARE	6.55%
INDUSTRIALS	5.81%
HIGH TECH	4.28%
ELECTRICITY	3.11%
AEROSPACE	2.74%
MEDIA	2.62%
HOTEL	2.23%
PERSONAL PRODUCTS	2.04%
CHEMICALS	1.87%

**Rating Distribution**

Rating	Weight
AAA	0.0000
AAA to AA	0.0000
AA to A	0.0000
A to BBB	0.0249
BBB to BB	0.0400
BB to B	0.1766
B to CCC	0.1324
CCC to CC	0.0482
CC to C	0.0000

**Sensitivity Analysis<sup>8</sup>**

Tranche	Base Case	Default Rate	Default Rate	Correlation	Correlation	Interest Rate	Interest Rate
		Up by 50%	Down by 50%	Up by 50%	Down by 50%	Up by 1.5x $\sigma$	Down by 1.5x $\sigma$
A	AAA(sf)	AAA(sf)	AAA(sf)	AAA(sf)	AAA(sf)	AAA(sf)	AAA(sf)
B	AAA(sf)	AAA(sf)	AAA(sf)	AAA(sf)	AAA(sf)	AAA(sf)	AAA(sf)
C	AAA(sf)	AAA(sf)	AAA(sf)	AAA(sf)	AAA(sf)	AAA(sf)	AAA(sf)
D	AAA(sf)	AAA(sf)	AAA(sf)	AA+(sf)	AAA(sf)	AAA(sf)	AAA(sf)
E	A(sf)	BBB(sf)	AA+(sf)	BBB-(sf)	AA-(sf)	A-(sf)	A-(sf)

**Notes:**

- 1) IRR: Internal Return Rate, indicates the expected return of holding the tranche at the cost of par amount.
- 2) OC Benchmark: Over-collateralization ratio that needs to be satisfied according to the prospectus. OC Test shows the current test result.
- 3) Scenario: Different scenario cases as described in the Sensitivity Analysis.
- 4) WAS: Weighted Average Spread.
- 5) WAL: Weighted Average Life.
- 6) Exp DR: Expected Annualized Default Rate.
- 7) WARR: Weighted Average Recovery Rate.
- 8) The Sensitivity Analysis shows how the changes of key factors affect the implied ratings. There are 3 key factors in our analysis, which are the credit worthiness indicated by the default rate, the correlation between collateral assets indicated by the independence factor and the interest rate. The default rate increases and decreases by 50% of the rate itself in the pessimistic and optimistic scenarios, and respectively, the independence factor decreases and increases by 50% of itself and decreases by 1.5x annualized volatility in each scenario. The ratings in the different scenarios are the implied ratings.

## SEC Rule 17g-7(a) Disclosure

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

**1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:**

For the transaction GOLDEN KNIGHT II CLO we have assigned the rating of AAA(sf), AAA(sf), AAA(sf), AAA(sf), A-(sf), for each rated tranche. There are three notches in each of our rating category (e.g., A-(sf), A(sf) and A+(sf) for category A(sf)) except for CC(sf), C(sf) and D(sf).

**2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:**

We are using the methodology available in our Form NRSRO Exhibit #2 dated Jun. 10, 2016 available via [egan-jones.com](http://egan-jones.com) under the tab at the bottom of the page "Methodologies".

**3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:**

The credit rating assigned reflects our judgement regarding the future credit quality of the issue. The major assumptions used to construct the methodologies include:

- 1). Past data reflects the performance and credit worthiness of the pooled assets, and is useful for projections.
- 2). Financial information that EJR gets from the issuer or the third party is reliable and accurate.
- 3). The economy and regulation policies will remain stable in the foreseeable future.

Specific quantitative assumptions used in this credit analysis applied to the collateral assets, which include Annualized Default Rate (4.47%) and Recovery Rate (35.%). According to the methodology, EJR converts the collateral assets into numbers of identical independent assets with the same default rate and recovery rate. The number of these converted assets (or Independence Factor) is calculated to be 13 in this analysis.

**4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:**

Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity or other risks associated with holding the instrument.

**5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:**

Our rating is dependent on numerous factors including the reliability, accuracy, and quality of the data used in determining the credit rating. The data is sourced from issuers' publicly disclosed reports, or from third-party data vendors. For solicited rating reports, EJR may also use the information provided by the client. In some cases, the information is limited because of issues such as the lack of reported data. Such shortcomings are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

**6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:**

EJR does not utilize third-party due diligence services.

**7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:**

Servicer and/or remittance reports are used to get the current financial data of both collateral assets and tranches. EJR did not conduct surveillance of this rating.



**8. A description of the data that were relied upon for the purpose of determining the credit rating as required by**

**Paragraph (a)(1)(ii)(H) of Rule 17g-7:**

EJR uses the prospectus file and servicer reports to obtain essential data for ratings on this ABS product.

**9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7:**

The information used in this analysis is generally of high quality.

**10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:**

This rating is unsolicited.

**11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:**

Our rating aims to assess the possible loss of investing in the obligations. Factors which affect such projection, and in turn our rating, include changes in the credit worthiness of the collateral assets, changes in the correlation between them, and overall economic changes.

**12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:**

Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, Exhibit 1. EJRC does not assess the expected probability of default. The expected loss is listed on the page of each tranche.

**13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:**

See in the report, Section "Sensitivity Analysis".

**14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:**

Such information in this analysis is non-public. Hence EJRC decides that this disclosure doesn't apply to this report.

**ATTESTATION FORM**

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

- 1) No part of the credit rating was influenced by any other business activities,
- 2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
- 3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

**Analyst Signature:**

**Today's Date**

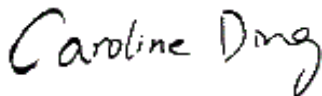


September 02, 2016

.....  
Nikhil Chaudhari  
Rating Analyst

**Reviewer Signature:**

**Today's Date**



September 02, 2016

.....  
Caroline Ding  
Rating Analyst

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