Regatta III Funding Ltd./LLC

Presale Report

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Related Presale Appendix

Regatta III Funding, Ltd./LLC (February 2014)

Related Criteria

Global Structured Finance Rating Criteria (May 2013)

Global Rating Criteria for Corporate CDOs (August 2013)

Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds (January 2014)

Counterparty Criteria for Structured Finance and Covered Bonds (May 2013)

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Capital Structure

Class	Expected Rating	Expected Rating Outlook	Amount ($Mil.)	CE (%)[a]	Interest Rate (%)	Final Maturity	TT (%)	TTLM (x)
A-1A	AAAsf	Stable	244.50	38.00	3mL + 1.52	April 2026	62.0	6.97
A-1B	AAAsf	Stable	0.00[b]	38.00	3mL + 1.47	April 2026	62.0	6.97
A-1 Loan	AAAsf	Stable	50.00[b]	38.00	3mL + 1.47	April 2026	62.0	6.97
A-2	NR	N.A.	59.38	25.50	3mL + 2.10	April 2026	N.A.	N.A.
B	NR	N.A.	30.88	19.00	3mL + 2.85	April 2026	N.A.	N.A.
C	NR	N.A.	26.13	13.50	3mL + 3.45	April 2026	N.A.	N.A.
D	NR	N.A.	26.13	8.00	3mL + 4.90	April 2026	N.A.	N.A.
E	NR	N.A.	10.69	5.75	3mL + 5.50	April 2026	N.A.	N.A.
Subordinated Notes	NR	N.A.	44.65			April 2026	N.A.	N.A.
Total			**492.34**					

[a]Credit enhancement (CE) is based on the target par amount of $475 million. [b]Class A-1 loans are issued at close and include a conversion option into class A-1B notes. See the Class A-1 Loan Conversion Option section on page 10. Notes: Expected ratings do not reflect final ratings and are based on information provided by the issuer as of Feb. 26, 2014. These expected ratings are contingent on final documents conforming to information already received. Ratings are not a recommendation to buy, sell or hold any security. The offering circular and other material should be reviewed prior to any purchase. TT – Tranche thickness. TTLM – Tranche thickness loss multiple. NR – Not rated. N.A. – Not applicable.

Transaction Summary

Regatta III Funding Ltd. (the issuer) and Regatta III Funding LLC (the co-issuer) represent an arbitrage cash flow collateralized loan obligation (CLO) that will be managed by Napier Park Global Capital LLC (Napier Park). Net proceeds from the issuance of notes will be used to purchase a portfolio of approximately $475 million of leveraged loans. The CLO will have a four-year reinvestment period.

Key Rating Drivers

Sufficient Credit Enhancement: Credit enhancement (CE) of 38% for class A-1A and A-1B notes and class A-1 loans (together, the class A-1 debt), in addition to excess spread, is sufficient to protect against portfolio default and recovery rate projections in the 'AAAsf' stress scenario. The level of CE for class A-1 debt is in line with the average for recent CLO issuances.

'B/B–' Asset Quality: The average credit quality of the indicative portfolio is 'B/B–', which is consistent with that of recent CLOs. Issuers rated in the 'B' rating category denote relatively weak credit quality; however, in Fitch Ratings' opinion, the class A-1 debt is unlikely to be affected by the foreseeable level of defaults. The class A-1 debt is robust against default rates of up to 59.2%.

Strong Recovery Expectations: The indicative portfolio consists of 98.2% first lien senior secured loans, 93.1% of which have strong recovery prospects or a Fitch-assigned recovery rating of 'RR2' or higher. This is in line with the seniority profile of recent vintage CLOs.

Consistent Portfolio Parameters: The portfolio will be actively managed and bound by concentration limitations addressing various loan characteristics. The concentration limitations presented to date are within the range of limits set in the majority of recent CLOs. Fitch addressed the impact of the most prominent risk-presenting concentration allowances.

Related Research

U.S. Leveraged Market Quarterly (Fourth-Quarter Synopsis/2014 Preview) (January 2014)

U.S. Leveraged Finance: Road to Recovery Ratings (June 2013)

Fitch U.S. High Yield Default Insight (December 2013)

Transaction Comparison

			4Q13–1Q14[a]		
	Regatta III Funding	Regatta II Funding Ltd.	Average	Minimum	Maximum
Collateral Manager	Napier Park	Napier Park			
Target Portfolio Amount ($ Mil.)	475.0	400.0	461.8	250.0	719.3
Closing Date	3/27/14	2/21/13			
Reinvestment (Years)	4	4	4	2	5
Noncall (Years)	2	2	2	1	3
Maturity Date	4/15/26	1/15/25			
AAA Spread (bps)	152	135	144	97	158
Notes - CE					
AAA CE (%)	38.0	35.9	37.9	34.5	42.8
Structure					
Senior OC Test (Class)	A-1/A-2	A			
Senior OC Test Level (%)	124.2	123.6	125.0	117.8	135.9
Portfolio Covenants and Concentration					
Maximum WAL (Years)	8.0	8.0	7.9	6.0	8.3
Initial Target Moody's WARF	2800	2500	2744	2450	3140
Maximum CCC Assets (%)	5.0	7.5	7.2	5.0	7.5
Minimum WAS (%)	3.80	4.30	3.80	3.45	4.38
Initial WAS All-In Rate (%)	4.55	4.76	4.73	4.20	5.91
Maximum Fixed Assets (%)	7.5	5.0	6.0	0.0	10.0
Minimum WAC (%)	7.0	7.0	6.8	4.5	8.0
Maximum Single Obligor (Top Five) (%)	2.5	2.5	2.5	2.0	4.0
Maximum Single Obligor (Below Top Five) (%)	2.0	2.0	2.0	1.5	2.5
Maximum Single Industry (Largest) (%)	15.0	15.0	15.1	12.0	30.0
Maximum Single Industry (2nd Largest) (%)	12.0	12.0	12.7	12.0	30.0
Maximum Single Industry (3rd Largest) (%)	12.0	10.0	11.5	10.0	15.0
Maximum Single Industry (4th Largest) (%)	12.0	10.0	10.6	8.0	15.0
Maximum Single Industry (Below Top Four) (%)	10.0	10.0	10.2	8.0	15.0
Minimum Senior Secured (%)	92.5	90.0	91.5	90.0	95.0
Maximum Second Lien (%)	7.5	10.0	8.4	0.0	10.0
Maximum Subordinate (%)	0.0	10.0	4.9	0.0	10.0
Maximum Senior Unsecured (%)	7.5	10.0	7.4	0.0	10.0
Maximum Covenant-Lite (%)	50.0	40.0	53.9	40.0	65.0
Maximum Long-Dated Collateral (%)	0.0	0.0	0.1	0.0	2.0
Maximum Other than U.S. (%)	20.0	15.0	18.1	5.0	20.0

[a]CLOs backed by broadly syndicated loans and priced between Oct. 1, 2013 and Feb. 23, 2014.

Asset Analysis

Fitch's analysis centered on a Fitch stressed portfolio, which was created by making adjustments to the indicative portfolio to reflect permissible concentration limits and collateral quality test levels, as described in this presale report. References to the Fitch stressed portfolio in this report reflect the portfolio created by Fitch.

The Fitch Portfolio Credit Model (PCM v.2.4.2) was used to determine hurdle default rates (rating default rates, or RDRs) and expected portfolio recovery rates (rating recovery rates, or RRRs) for the 'AAAsf' rating level. The PCM was run on the indicative portfolio, as well as a Fitch stressed portfolio that was created according to the portfolio concentration limits and collateral quality tests, as described below. Fitch's analysis focused on the Fitch stressed portfolio, given the manager's ability to reinvest principal proceeds.

The indicative portfolio includes 211 loans from 200 high-yield (HY) obligors, including 50 unidentified assets with assumed characteristics constituting 22.2% of the portfolio. Fitch considers the indicative portfolio to be of similar diversity, in terms of obligor and industry concentration, as recently issued CLOs.

Asset Quality

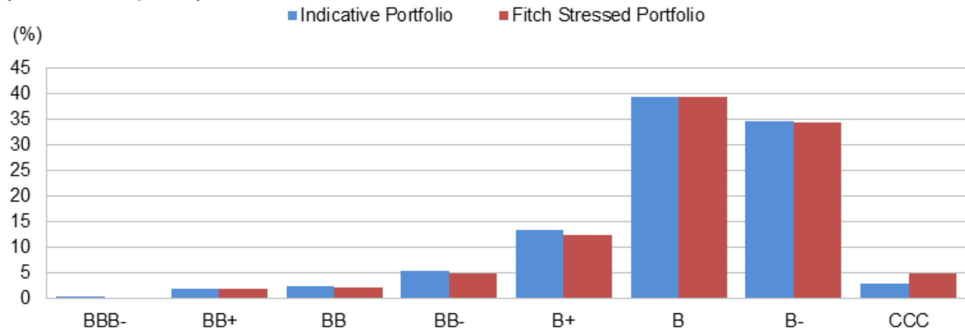
The weighted average rating of the portfolio is 'B/B–'. Fitch has an explicit rating or a credit opinion for 49 obligors comprising 28.2% of the total portfolio par balance; ratings for 48.1% of the total portfolio were derived using Fitch's issuer default rating (IDR) equivalency map. In addition, the 22.2% of unidentified obligors were indicated to be within the 'B' rating category. The remaining 1.4% did not have a public rating or a Fitch credit opinion and were assumed to be rated 'CCC'.

Fitch considers 2.9% of the indicative portfolio to be rated in the 'CCC' rating category, including 1.4% of unrated obligors, for which Fitch assumed 'CCC' ratings. The remaining 1.4% are explicitly rated 'CCC+' or below.

The transaction has two concentration limitations (as defined by either Moody's or S&P, separately) to address permitted exposure to 'CCC'-rated collateral. Each concentration limitation has a 5% permissible 'CCC' bucket. The exposure to 'CCC' assets in the Fitch stressed portfolio was increased to reach the 5% permitted exposure.

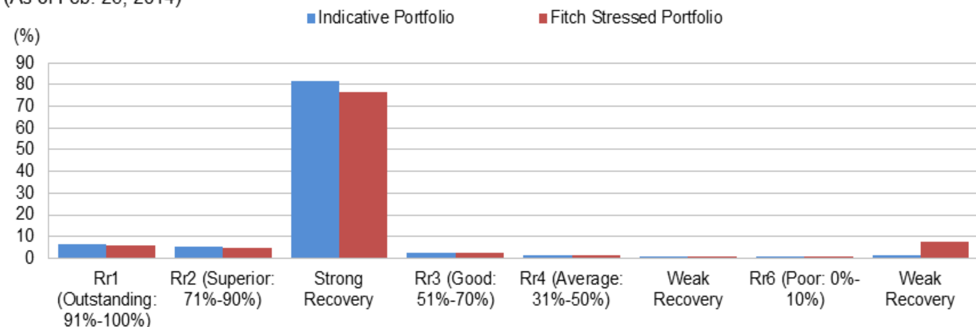
Distribution of Assets Considered CCC+ or Lower

Fitch IDR Mapping	Portfolio (%)
Rated < or = CCC+	1.4
B–/Rating Watch Negative	0.0
No Rating	1.4
Total	2.9



Asset Security

The indicative portfolio consists of 98.2% senior secured loans and 1.8% second lien loans. Fitch has assigned asset-specific recovery ratings to 17% of the portfolio assets. For assets to which no asset-specific recovery ratings were assigned, Fitch's analysis applied the standard Fitch recovery rate assumptions for assets based in the same jurisdiction and having the same ranking in the capital structure (as determined in the agency's global rating criteria for corporate CDOs).



The concentration limitations specify that senior secured loans and eligible investments must represent at least 92.5% of the portfolio; second lien loans cannot exceed 7.5% of the portfolio and bonds are not a permissible asset type, unless the Volcker Rule condition is satisfied, after which they are limited to 2.5% of the portfolio. See "Regulatory Matters" on page 13 for more information on the Volcker Rule condition. Adjustments were made to the Fitch stressed portfolio to mirror this distribution.

Obligor and Industry Concentration

The concentration limitations allow exposure of up to 2.5% each for five obligors; this was incorporated into the Fitch stressed portfolio. The remaining obligors may each constitute up to 2% of the portfolio. The transaction also allows for concentrations of up to 15% for the largest Moody's industry and 12% for each of the next three largest Moody's industries, with all other industry concentrations capped at 10%. Fitch accounted for the maximum allowable industry concentration in the top four industries in its construction of the Fitch stressed portfolio.

Top Five Industry Concentrations

(%)

Industry	Indicative Portfolio (%)	Fitch Stressed Portfolio (%)
Business Services	16.0	15.0
Energy	12.6	12.0
Telecommunications	8.3	12.0
Industrial/Manufacturing	5.6	12.0
Healthcare	5.4	3.4

Top Five Obligor Concentrations

(%)

Obligor	Fitch Rating	Indicative Portfolio (%)	Fitch Stressed Portfolio (%)	Fitch Industry	Seniority
1	B	1.0	2.5	Telecommunications	Senior Secured
2	B	1.1	2.5	Energy	Senior Secured
3	B–	1.1	2.5	Energy	Senior Secured
4	B–	1.0	2.5	Food, Beverage and Tobacco	Senior Secured
5	B–	1.0	2.5	Business Services	Senior Secured and Second Lien

Weighted Average Life

The identified portfolio has a weighted average life (WAL) of approximately 5.8 years, while the transaction is initially covenanted to an eight-year maximum WAL that steps down with the passage of time. Fitch assumed an eight-year WAL in the Fitch stressed portfolio.

Cash Flow Analysis

Fitch used a customized proprietary cash flow model to replicate the principal and interest waterfalls *(described in detail in Appendix B)* and the various structural features of the transaction, and to assess their effectiveness, including the structural protection provided by excess spread diverted through the overcollateralization (OC) and interest coverage (IC) tests. Each model run considers 12 stress scenarios to account for different combinations of default timings and interest rate stresses, as described in Fitch's cash flow analysis criteria. The cash flow model was run using the PCM outputs for the indicative portfolio, as well as for the Fitch stressed portfolio.

Transaction documents provide the asset manager the flexibility to choose certain combinations of covenants, including the minimum weighted average spread (WAS), maximum weighted

average rating factor (WARF) and minimum diversity score, toward which the portfolio will be managed. The levels of these covenants will be determined by the investment manager on or prior to the effective date, contingent on a Moody's collateral quality matrix. More discussion on the use of these multiple parameters as a portfolio management tool can be found in the Management to Dynamic Collateral Quality Tests section on page 8. In its analysis of the Fitch stressed portfolio, Fitch modeled the WAS at 3.8%, according to the initial level targeted by the asset manager as represented to Fitch, and the weighted average coupon (WAC) at 7%, per the minimum required level specified in the indenture.

Interest Income and LIBOR Floors

Fitch's calculations of the initial IC levels of the indicative portfolio are based on a portfolio WAS of 4.6% over LIBOR. Fitch included the benefit from LIBOR floors for indicative assets featuring such floors.

Fitch's calculations of the initial IC levels of the Fitch stressed portfolio assume that all floating-rate assets pay a 3.8% spread over LIBOR, and that the fixed-rate collateral pays interest at 7% per annum.

The calculation of WAS includes additional spread above actual LIBOR from loans that have a LIBOR floor mechanism in place. While LIBOR floors create additional interest cash flow during periods of low LIBOR, the benefit is expected to disappear after LIBOR reaches 1.5%. The indicative portfolio's WAS is 4.6% when including the benefit from LIBOR floors, while the same portfolio would lead to WAS of 3.8% if LIBOR rises above 1.5%. Approximately 98% of the current indicative portfolio has LIBOR floors between 0.75% and 1.5%, which is generally in line with recent HY loan issuance.

Fitch's analysis of the indicative portfolio accounted for the actual spreads on the indicative portfolio assets (including LIBOR floors), while the analysis of the Fitch stressed portfolio assumed all floating-rate assets earn 3.8% over LIBOR, without additional benefit from LIBOR floors. Additionally, the transaction documents permit a maximum of 7.5% fixed-rate collateral, with a minimum WAC of 7%, as represented to Fitch. Fitch included the maximum fixed-rate collateral bucket in its analysis of the Fitch stressed portfolio and assumed the remaining 95% of the portfolio to pay on a floating-rate basis. Finally, the Fitch stressed portfolio assumed that 5% of the underlying assets pay interest less frequently than quarterly. No assets may pay interest less frequently than semiannually.

OC, IC and Interest Reinvestment Tests

The structure includes standard OC tests, IC tests and an interest diversion test. Failure of an OC or IC test will result in interest or principal proceeds, as applicable, being diverted to redeem the rated debt sequentially, except for classes A-1A, A-1B and the A-1 loans, which are redeemed pro rata. The IC tests are not applicable until the second payment date.

The interest diversion test is calculated the same way a class E OC test would be calculated and is applicable during and after the reinvestment period. Upon failure of this test during the reinvestment period, the lesser of 50% of the remaining interest proceeds and the required cure amount shall be applied to purchase additional assets or deposited into the principal collection account for future reinvestment. After the reinvestment period, the lesser of 50% of the remaining interest proceeds and the required cure amount shall be applied to redeem the debt, in accordance with the debt payment sequence.

Coverage Tests

		Indicative Portfolio		Fitch Stressed Portfolio	
	Trigger (%)	Initial Level (%)[a]	Cushion	Initial Level (%)[a]	Cushion
Overcollateralization (OC) Tests					
Class A OC Test	124.23	134.23	10.00	134.23	10.00
Class B OC Test	115.46	123.46	8.00	123.46	8.00
Class C OC Test	109.61	115.61	6.00	115.61	6.00
Class D OC Test	104.70	108.70	4.00	108.70	4.00
Interest Diversion Tests					
Interest Diversion Test	103.10	106.10	3.00	106.10	3.00
Interest Coverage (IC) Tests					
Class A IC Test	120.00	283.26	163.26	253.66	133.66
Class B IC Test	115.00	247.24	132.24	221.40	106.40
Class C IC Test	110.00	219.09	109.09	196.19	86.19
Class D IC Test	105.00	190.20	85.20	169.49	64.49

[a]Initial OC levels based on target portfolio amount of $475 million.

Effectiveness of Coverage Tests May be Diminished by Discount Obligation Provisions

The transaction features discount obligation provisions that differ slightly from recent CLO issuances to accommodate compliance with Section 13 of the Bank Holding Company Act of 1956 (the Volcker Rule).

While discount obligations are generally included at their purchase price for purposes of calculating OC tests, a senior secured loan (or if the Volcker Rule condition has been satisfied, a loan) will not be considered a discount obligation unless it is rated ‘B3’ or higher and is purchased at a price below 80% of par. For a senior secured loan (or if the Volcker Rule condition has been satisfied, a loan) rated below ‘B3’, the price threshold increases to 85% of par. Collateral other than a senior secured loan (or if the Volcker Rule condition has been satisfied, a bond) will not be considered a discount obligation unless it is rated ‘B3’ or higher and is purchased at a price below 75% of par; for ratings below ‘B3’, this price threshold increases to 80% of par. Since assets purchased at a price below par, yet above discount obligation thresholds, may be marked at par for calculations of OC and interest reinvestment test ratios, this may minimize the effectiveness of these tests during the reinvestment period. The asset manager may potentially build par with purchases of assets priced below par, yet above discount obligation thresholds. Therefore, Fitch considered a sensitivity scenario in which credit was not given to excess spread or the diversion of interest proceeds through OC and IC tests during the four-year reinvestment period.

Cash Flow Model Outputs

Break-even default rates (BDRs) show the maximum portfolio default rates A-1 debt could withstand in stress scenarios without experiencing a loss. BDRs for class A-1 debt were then compared with PCM hurdle rates at the ‘AAAsf’ rating stress. A rating committee would typically expect the BDR to be above the PCM hurdle rate to achieve a given rating, in this case, ‘AAAsf’ for class A-1 debt.

The table on page 7 presents the lowest BDR of the 12 stress scenarios. Class A-1 debt passed the ‘AAAsf’ PCM hurdle rate in all 12 stress scenarios when analyzing the indicative portfolio with a minimum cushion of 9.5%. Class A-1 debt passed the ‘AAAsf’ PCM hurdle rate

in 10 of 12 stress scenarios when analyzing the Fitch stressed portfolio, with the largest model failure at 2%. Fitch was comfortable assigning an expected 'AAAsf' rating to the class A-1 debt, despite the two minor failures, because the agency believes the notes can sustain a robust level of defaults, combined with low recoveries, as well as the strong performance of class A-1 debt in the sensitivity scenarios.

Break-Even Default Rates

Portfolio	Indicative	Fitch Stressed[a]
Class	Class A-1 Debt	Class A-1 Debt
Break-Even Default Rate (%)	62.3	59.2
Assumed Recovery Rate (%)	38.4	35.5
PCM Hurdle Default Rate (%)	52.8	61.2
Default Cushion (%)	9.5	(2.0)
Default Timing	Mid	Mid
LIBOR	Up	Up

[a]Fitch stressed portfolio based on assumed eight-year WAL, 3.8% WAS and maximum second lien, obligor and industry concentrations.

Rating Sensitivity

In addition to Fitch's stated criteria, the agency analyzed the structure's sensitivity to the potential variability of key model assumptions. The rating sensitivity analysis is based on the Fitch stressed portfolio. These sensitivities only describe the model-implied impact of a change in one or more of the input variables. This analysis is designed to provide information about the sensitivity of the rating to key model assumptions. It should not be used as an indicator of possible future performance. The key model assumptions analyzed are described below.

Rating Sensitivity to Default Probability

A default probability multiplier of 125% and 150% is applied to the default probability of each obligor.

Rating Sensitivity to Recovery Rates

A 75% and 50% multiplier is applied to loan-level recovery rates.

Rating Sensitivity to Correlation

A 2.0x base country correlation increase is applied.

Rating Sensitivity to Combined Stress

A default probability multiplier of 125%, recovery rate multiplier of 75% and 2.0x base correlation for the country are applied.

Rating Sensitivity to Inefficient Coverage Tests

OC and IC tests were not accounted for during the reinvestment period.

Rating Sensitivity to Moody's Matrix Points

Fitch expects to test two extreme points on the Moody's matrix, which features various WAS, WARF and diversity score combinations, once the matrix becomes available. The results will be published in the new issue report after closing. The two matrix points to be tested are:

- Lowest credit quality/highest WAS combination, where Fitch will increase the WAS to the highest limit and reduce the average credit quality of the portfolio to be commensurate with the Fitch equivalent of the highest Moody's WARF specified in the matrix.
- Highest credit quality/lowest WAS combination, where Fitch will reduce the WAS to the lowest limit without adjusting the average credit quality of the portfolio, creating additional cushion to the actual matrix point that would require a commensurate improvement in average credit quality to reduce the WAS.

Rating Sensitivity

	Class A-1 Debt	
	Median Rating	Lowest Rating
Rating Sensitivity to Default Probability (DP) – 125% DP Multiplier	AA+	AA+
Rating Sensitivity to DP – 150% DP Multiplier	AA+	A+
Rating Sensitivity to Recovery Rates (RRs) – 75% RR Multiplier	AA+	AA–
Rating Sensitivity to RRs – 50% RR Multiplier	AA–	A
Rating Sensitivity to Correlation – 2.0x Base Correlation Increase	AA+	AA+
Rating Sensitivity to Combined Stress – 125% DP Multiplier, 75% RR Multiplier, 2.0x Base Correlation Increase	A+	A–
Rating Sensitivity to Inefficient Coverage Tests	AA+	AA–
Rating Sensitivity to Moody's Matrix Point 1 (High Credit Quality/Low WAS)	TBD	TBD
Rating Sensitivity to Moody's Matrix Point 2 (Low Credit Quality/High WAS)	TBD	TBD

Portfolio Management

Regatta III will have a four-year reinvestment period, which is expected to expire in April 2018. Discretionary sales are permitted at any time other than during the restricted trading period and are limited to 25% of the portfolio during the preceding 12-month period (as measured by the portfolio balance at the beginning of such 12-month period). The manager will be permitted to sell defaulted, credit-risk and credit-improved assets and equity securities at any time, including after the reinvestment period. All unscheduled principal proceeds and proceeds from credit-risk sales may be reinvested after the reinvestment period, subject to certain requirements.

Management to Dynamic Collateral Quality Tests

Management of the portfolio will be constrained by a Moody's asset quality matrix that identifies permitted combinations of the minimum diversity score, minimum WAS and maximum rating factor requirements. The manager will select a particular point on the Moody's matrix on or prior to the effective date and may change such election at any time thereafter, given certain conditions. Portfolio trading is generally restricted such that each covenant in the Moody's matrix must be satisfied, or if currently failing, maintained or improved, pursuant to any reinvestment.

Fitch views several factors as mitigating the risk presented by the multitude of potential asset quality parameters presented by the Moody's collateral quality matrix. First, the construction of the collateral quality matrix is designed to allow for manager flexibility through various market scenarios while

maintaining similar overall portfolio risk characteristics. Consequently, the introduction of additional portfolio risk should be mitigated with a concurrent tightening of another covenant. For example, a lower-average credit quality should be mitigated by an offsetting aspect, such as higher spread and/or portfolio diversity. Second, Fitch has assessed the manager and gained comfort with Napier Park's ability to adequately manage the portfolio in accordance with the transaction documents. Finally, Fitch has tested various sensitivity scenarios, as discussed in this report, which highlight the strong performance of the notes in high-default and/or low-recovery scenarios, among others.

Conditions to Reinvestment

	During Reinvestment Period		After Reinvestment Period	
	Type of Proceeds: Scheduled/Unscheduled Principal Payments, Discretionary Sales and Credit-Improved Sales	**Type of Proceeds: Credit-Risk Sales and Defaulted Obligations Sales**	**Type of Proceeds: Credit-Risk Sales**	**Type of Proceeds: Unscheduled Principal Payments**
Collateral Quality Tests	Satisfaction, or if failing, maintain or improve. If failing, principal proceeds received from defaulted obligations or proceeds from the sale of a defaulted obligation will not be reinvested.		The Moody's WARF test must be satisfied. Also, (a) the Moody's WARR test, WAS test, WAC test and diversity test must be satisfied or, if failing, maintained or improved and (b) either (i) the WAL test must be satisfied or (ii) the reinvestment condition shall have been satisfied. The Moody's WARF test must be satisfied.	
Concentration Limitations	Satisfaction, or if failing, maintain or improve.		Not more than 5% of the CPA may have a Moody's default probability rating of Caa1 or below. All other concentration limitations must be satisfied, or if failing, maintained or improved.	
Coverage Tests	Satisfaction, or if failing, maintain or improve.		Each coverage test must be satisfied.	
Maturity Requirements	N.A.		Maturity of new asset, or average life, in the case of a substitute obligation with scheduled amortization earlier that its stated maturity, must be the same or earlier than that of the related disposed obligation.	
Par Amount Requirements	(i) The APB of all collateral shall be maintained or increased, or (ii) the APB of all collateral and principal proceeds shall be greater than the RTPB.	(i) The APB of all collateral purchased with such proceeds will at least equal such sale proceeds, (ii) the APB of all collateral shall be maintained or increased or (iii) the APB of all collateral and principal proceeds shall be greater than the RTPB.	The APB of all collateral purchased with such proceeds will at least equal such sale proceeds.	The APB of all collateral will be maintained or increased.
Rating Requirements	N.A.		New asset must have the same or higher Moody's rating as the related disposed obligation.	
Restricted Trading Period	N.A.		Applicable	
Model-Based Monitor Test	N.A.	N.A.	N.A.	

Note: Conditions to reinvestment outlined above assume additional assets meet the definition of a CDO as defined in the indenture. APB – Aggregate principal balance. RTPB – Reinvestment target par balance. CPA – Collateral principal amount. N.A. – Not applicable. Reinvestment condition – A condition satisfied if the average WAL of the CDOs (excluding defaulted) for each of the last five days of the reinvestment period is less than or equal to 4.00 and never greater than 4.05.

Additional Portfolio Concentrations

In addition to the permitted 'CCC' bucket, second lien loan and industry and obligor concentrations, the documents include other notable concentration limitations. Exposures to fixed-rate assets, assets paying less frequently than quarterly and current-pay assets, among others, are kept to a minimum. Investments in structured finance assets, synthetic assets, deferrable interest assets and long-dated assets are not permitted. These concentration limitations and collateral quality tests are further detailed in Appendix C, starting on page 17.

Additional Structural Features

Class A-1 Loan Conversion Option

The class A-1 loan contains a conversion option where, if exercised, the outstanding class A-1 loan balance converts to class A-1B notes, which is issued with a $0 balance at closing. Upon conversion, the aggregate outstanding amount of class A-1B notes shall be increased by the principal amount of the outstanding balance of class A-1 loans, and the class A-1 loans shall cease to be outstanding. Interest accrued on class A-1 loans since the prior payment date (or closing date, if no payment date has occurred) will be deemed to have accrued on class A-1B notes.

The option may be exercised once and only if the entire outstanding balance of class A-1 loans will be converted to class A-1B notes. No class A-1B notes may be converted into class A-1 loans.

The conversion option provides liquidity to class A-1 loans, as loans are less tradable relative to notes. The economics of holding class A-1 loans is equivalent to those of holding class A-1B notes.

Repurchased/Surrendered Notes

No note may be surrendered, including in connection with any abandonment, for any purpose other than for payment in full, registration, transfer, exchange or redemption. The issuers are not permitted to repurchase notes from any noteholder; however, the transaction gives the manager the ability to designate notes for repurchase using funds available from the contribution account. The par balance of any repurchased notes will be deemed outstanding for the coverage test ratios until such class is the most senior class. This eliminates the possibility of utilizing note cancellations to artificially improve the performance of OC ratios by reducing the denominator in the amount of the cancelled notes.

Additional Notes

During the reinvestment period and with written consent of both the manager and a majority of the subordinated notes, the issuer may issue additional notes of existing classes or of any new class of notes subordinate to the class A-1A notes, except a larger proportion of the subordinated notes may be issued and any class may be issued as a component of a combination security, provided that certain conditions are met. Proceeds from any such issuance shall be treated as principal proceeds or will be used to purchase additional collateral.

Provisions for additional note issuance include:

- Issuance cannot exceed 100% of the original principal amount of the applicable class or classes of rated notes.
- Notice has been given to each rating agency, unless only additional subordinated notes are being issued.
- No additional issuance shall be senior to the class A-1A notes, and, in the case of additional issuance of any class A-1A notes or any additional class of notes that is pari passu with the class A-1A notes, prior written consent of at least two-thirds of the class A-1A notes shall be obtained.
- The degree of compliance with respect to the OC ratio for each class of notes must be maintained or improved after giving effect to such issuance.
- Terms of any new notes must be identical to those of the previously issued notes of the same class, except for the interest rate.
- If additional rated notes are issued, the interest rate of such notes may not exceed the interest rate of the original notes of such class, as applicable.

These provisions should mitigate any credit concerns for class A-1 debt, as the degree of subordination and OC available to such notes must be maintained or increased pursuant to an additional note issuance. Fitch will evaluate the impact of any additional issuance at the time of such occurrence.

Optional Redemption/Refinancing

The transaction features standard optional redemption and refinancing provisions that may be undertaken any time after the two-year noncall period expires and at the written direction of a majority of the subordinated notes. An optional redemption would result in the liquidation of the collateral portfolio and may only occur if the expected liquidation proceeds are sufficient to repay all classes of debt in full, including accrued and unpaid interest, and any administrative expenses.

The transaction also features the possibility for any one or more classes to be redeemed in whole via refinancing after the noncall period. As part of a refinancing, either a loan would be acquired or new debt would be issued in the same amount as those being refinanced. Any new debt issued pursuant to a refinancing would have the same principal amount and a spread over LIBOR or fixed coupon that does not exceed that of the refinanced debt. Additionally, the stated maturity of the new debt would be equal to that of the debt being replaced.

Fitch's credit view on these features is neutral, since repayment in whole of the applicable class of debt is a prerequisite to any redemption or refinancing.

Repricing

Investors may be required to sell their notes at a price equal to the full principal plus accrued interest if they do not consent to a proposed repricing.

After the noncall period expires, a majority of the subordinated notes may direct the issuer to reduce the spread over LIBOR for any class of notes other than the class A-1A notes, which are not subject to repricing. Any repricing must be applied to all debt of the applicable class or classes; a partial repricing of a class of notes is not permitted.

Notices of repricing will be distributed to the applicable debtholders at least 25 business days prior to the proposed repricing date, and such holders will be asked to consent to such repricing and to specify the lowest rate at which they would accept a repricing.

If any holders of the applicable class do not provide written consent to the proposed repricing at least 20 business days before the proposed repricing date, the issuer or the repricing intermediary will provide notice to the consenting holders of such class specifying the aggregate outstanding amount of such nonconsenting debt. The consenting holders will be given the opportunity to purchase debt from the nonconsenting holders at the repricing redemption price.

In the event of oversubscription, the nonconsenting notes will be sold to the consenting noteholders on a pro-rata basis based on how many notes each consenting holder desired to purchase. In the event of undersubscription, those holders who opted to purchase nonconsenting notes will be able to purchase such notes, and the issuer or a repricing intermediary will sell the remaining nonconsenting notes to one or more transferees designated by the repricing intermediary, in all cases, at the repricing redemption price. If confirmation is not delivered to the trustee 12 business days prior to the proposed repricing date that the issuer has received commitments for the purchase of all nonconsenting notes, then the repricing will not occur.

Release of Unused Principal Proceeds after the Effective Date

Before the first determination date after the effective date is reached, which may be reached solely via the passage of time or any date selected by the manager after the aggregate ramp-up par condition is satisfied, the manager may divert up to $4.75 million from the ramp-up account to be transferred to the interest collection account, so long as the aggregate ramp-up par condition has been satisfied and a rating confirmation redemption is not required. The aggregate ramp-up par condition is satisfied if, as of the effective date, the sum of principal proceeds in the collection account and the traded portfolio has reached $475 million.

Events of Default: Undercollateralization

On any measurement date after the effective date, an event of default (EOD) will occur if the ratio of the aggregate principal balance of the portfolio (with defaulted assets carried at market value) plus eligible investments and any equity securities to the aggregate outstanding amount of class A-1 debt is less than 102.5%. If an EOD occurs under this clause, holders of a majority of the class A-1 debt may direct the sale and liquidation of the portfolio.

Counterparty Risk

Asset Manager

Fitch views Napier Park as satisfactory for the management of Regatta III.

The transaction will be managed by Napier Park. As part of its analysis, Fitch's Funds and Asset Manager Ratings Group evaluated Napier Park and determined its capabilities satisfactory in the context of the ratings assigned to the transaction and the investment parameters that govern Napier Park's activities.

As compensation for managing the portfolio, the asset manager will receive senior and subordinated management fees of 20 bps and 30 bps per annum, respectively, based on the total portfolio size as of the beginning of each collection period. The senior management fee is paid prior to class A-1 debt interest, while the subordinate management fee will be payable after all debt interest is paid and after the interest diversion test. Fitch views the senior management fee as being in line with industry averages, which is an important factor in facilitating the replacement of an asset manager in the event of the departure of key members of the management team or any other form of wind-down, bankruptcy or insolvency of the existing asset manager.

Hedge Counterparties

The floating-rate notes and most of the indicative assets reference the same index, minimizing basis risk. No hedging strategies are included in the analysis at this time. Fitch would evaluate any credit implications of future entry into a hedge agreement at such time.

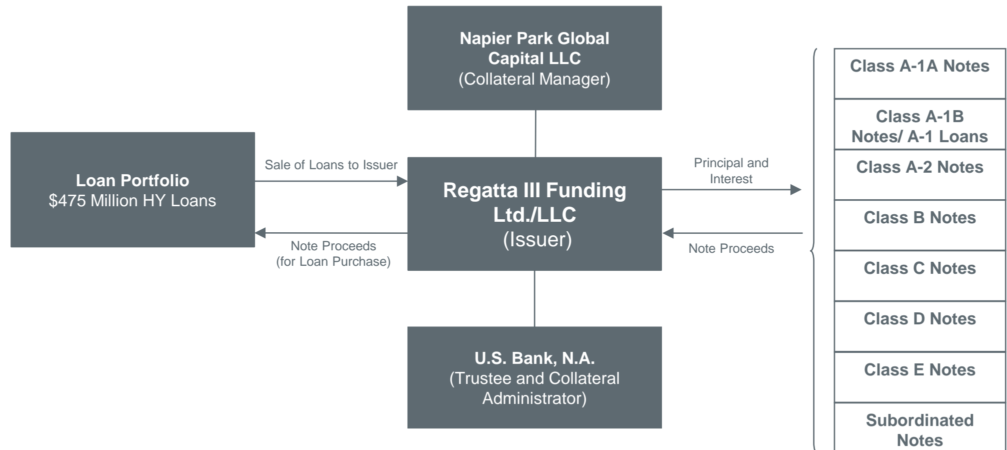
Other Counterparties

Provisions for the eligible investments to be purchased with intra-period interest and principal collections, as well as the rating requirements of the institutions at which the issuer's various bank accounts will be established, mostly conform to Fitch's counterparty criteria for supporting note ratings of 'AAAsf' and are expected to conform by closing. Requirements for other counterparties, such as the trustee, collateral administrator and custodian, also conform to Fitch criteria.

Transaction and Legal Structure

The debt will be issued by Regatta III Funding Ltd. and Regatta III Funding LLC, which are bankruptcy-remote, special-purpose vehicles organized under the laws of the Cayman Islands and the state of Delaware. The debt is secured by the underlying loan portfolio. Payments to the debt will be made quarterly and are expected to begin in October 2014.

Transaction Structure



Source: Transaction Documents.

Regulatory Matters

The transaction documents contain provisions designed to address Section 13 of the Bank Holding Company Act of 1956 (the Volcker Rule). Bonds are not a permissible asset type, unless the Volcker Rule condition is satisfied, after which they are limited to 2.5% of the portfolio. The Volcker Rule condition is satisfied if the A-1 debtholders have been notified that the issuer has received an opinion of counsel stating that the issuer's ownership of bonds will not cause it to be a "covered fund" under the Volcker Rule, or that the secured debt does not constitute "ownership interests" under the rule.

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Criteria Application, Model and Data Adequacy

Criteria Application

Key criteria reports used include "Global Rating Criteria for Corporate CDOs," dated August 2013, available on Fitch's website at www.fitchratings.com. Additional criteria used in Fitch's analysis are listed on page 1.

Model

The credit analysis followed a two-step process. First, the agency analyzed the portfolio's default and recovery probabilities using Fitch's PCM v.2.4.2, in accordance with its corporate CDO criteria. Second, Fitch analyzed the structure using its proprietary cash flow model, as customized for the transaction's specific structural features, in accordance with the cash flow analysis criteria.

Data Adequacy

Fitch utilized publicly available information to provide credit opinions on 20.1% of the underlying public companies. In addition, Fitch publicly rates 8.1% of the portfolio. The information utilized in Fitch's analysis is as of Feb. 26, 2014.

Fitch's credit opinions and recovery ratings are produced by the Corporates group and reviewed by a rating committee. The rating committee has a similar profile to those for Fitch's explicit ratings in terms of the number and seniority of voting members in the quorum. Fitch will review and update its credit opinions and recovery ratings through this committee process at least annually, with informal reviews on a quarterly basis and ongoing monitoring of information in the market.

Performance Analytics

Fitch will monitor the transaction regularly and as warranted by events with a review. Events that may trigger a review include, but are not limited to, the following:

- Asset defaults, paying particular attention to restructurings and recoveries.
- Portfolio migration, including assets being downgraded to 'CCC' or portions of the portfolio being placed on Rating Watch Negative or Rating Outlook Negative.
- OC or IC test breach.
- Breach of concentration limitations or portfolio quality covenants.
- Future changes to Fitch's rating criteria.

Surveillance analysis is conducted on the basis of the then-current portfolio. Fitch's goal is to ensure that the assigned ratings remain an appropriate reflection of the issued notes' credit risk. Details of the transaction's performance are available to subscribers on Fitch's website at www.fitchratings.com.

Appendix A: Transaction Overview

Regatta III Funding Ltd./LLC — U.S./Structured Credit

Capital Structure

Class	Expected Rating	Expected Outlook	Amount ($ Mil.)	CE (%)[a]	Interest Rate (%)	Final Maturity	TT (%)	TTLM (x)
A-1A	AAAsf	Stable	244.50	38.0	3mL + 1.52	April 2026	62.0	6.97
A-1 Loans	AAAsf	Stable	0.00[b]	38.0	3mL + 1.47	April 2026	62.0	6.97
A-1B	AAAsf	Stable	50.00[b]	38.0	3mL + 1.47	April 2026	62.0	6.97
A-2	NR	N.A.	59.38	25.5	3mL + 2.10	April 2026	N.A.	N.A.
B	NR	N.A.	30.88	19.0	3mL + 2.85	April 2026	N.A.	N.A.
C	NR	N.A.	26.13	13.5	3mL + 3.45	April 2026	N.A.	N.A.
D	NR	N.A.	26.13	8.0	3mL + 4.90	April 2026	N.A.	N.A.
E	NR	N.A.	10.69	5.8	3mL + 5.50	April 2026	N.A.	N.A.
Subordinated Notes	NR	N.A.	44.65	N.A.	Residual	N.A.	N.A.	N.A.
Total			**492.34**					

[a]Based on the target par amount of $475 million. [b]Class A-1 loans are issued at close and include a conversion option to be converted into class A-1B notes.
NR – Not rated. N.A. – Not applicable.

Scheduled Revolving Period Four years

Swaps None
Payment Frequency Quarterly

Key Information Details:
Expected Closing Date March 2014
Country of Assets and Type U.S. Leveraged Loans
Country of SPV Cayman Islands
Primary Analyst Aaron Hughes
+1 312 368-2074
Secondary Analyst Christine Choo
+1 212 908-0603
Leveraged Finance Analyst Darin Schmalz
+1 312 606-2324

Parties:
Arranger Citigroup Global Markets Inc.
Trustee and Collateral Administrator U.S. Bank, N.A.
Asset Manager Napier Park Global Capital LLC
Issuers Regatta III Funding, Ltd. and Regatta III Funding, LLC

Key Rating Drivers

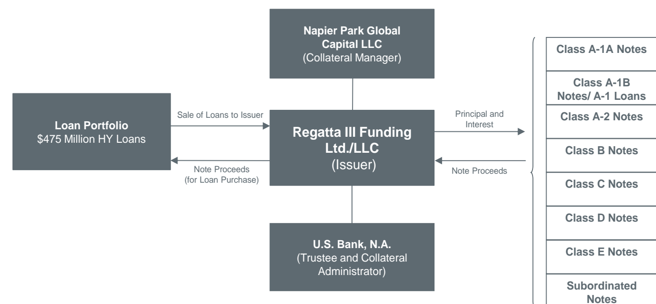
Sufficient Credit Enhancement: Credit enhancement (CE) of 38% for class A-1A and A-1B notes and class A-1 loans (together, the class A-1 debt), in addition to excess spread, is sufficient to protect against portfolio default and recovery rate projections in the 'AAAsf' stress scenario. The level of CE for class A-1 debt is in line with the average for recent CLO issuances.

'B/B–' Asset Quality: The average credit quality of the indicative portfolio is 'B/B–', which is consistent with that of recent CLOs. Issuers rated in the 'B' rating category denote relatively weak credit quality; however, in Fitch Ratings' opinion, the class A-1 debt is unlikely to be affected by the foreseeable level of defaults. The class A-1 debt is robust against default rates of up to 59.2%.

Strong Recovery Expectations: The indicative portfolio consists of 98.2% first lien senior secured loans, 93.1% of which have strong recovery prospects or a Fitch-assigned recovery rating of 'RR2' or higher. This is in line with the seniority profile of recent vintage CLOs.

Consistent Portfolio Parameters: The portfolio will be actively managed and bound by concentration limitations addressing various loan characteristics. The concentration limitations presented to date are within the range of limits set in the majority of recent CLOs. Fitch addressed the impact of the most prominent risk-presenting concentration allowances.

Transaction Structure



Source: Transaction Documents.

Appendix B: Priority of Payments

Waterfalls

	Interest Waterfall		Principal Waterfall
1	First, pay taxes and governmental fees, and, second, pay administrative expenses (up to 0.018% + 200,000 p.a.)	1	First, pay taxes and governmental fees, and, second, pay administrative expenses (up to 0.018% + 200,000 p.a.)
2	Senior management fee (0.20% p.a.)	2	Senior management fee (0.20% p.a.)
3	Any hedge payments and hedge termination payments	3	Any hedge payments and hedge termination payments
4	Class A-1A interest	4	Class A-1A interest
5	Class A-1 loans interest (or class A-1B notes interest, if applicable)	5	Class A-1 loans interest (or class A-1B notes interest, if applicable)
6	Class A-2 interest	6	Class A-2 interest
7	Class A coverage tests	7	Class A coverage tests
8	Class B interest	8	If the class B notes are the controlling class, class B interest
9	Class B coverage tests	9	Class B coverage tests
10	Class B deferred interest	10	If the class B notes are the controlling class, class B deferred interest
11	Class C interest	11	If the class C notes are the controlling class, class C interest
12	Class C coverage tests	12	Class C coverage tests
13	Class C deferred interest	13	If the class C notes are the controlling class, class C deferred interest
14	Class D interest	14	If the class D notes are the controlling class, class D interest
15	Class D coverage tests	15	Class D coverage tests
16	Class D deferred interest	16	If the class D notes are the controlling class, class D deferred interest
17	Class E interest	17	If the class E notes are the controlling class, class E interest
18	Class E deferred interest	18	If the class E notes are the controlling class, class E deferred interest
19	If an effective date ratings confirmation failure occurs, payment of the rating confirmation redemption amount, in accordance with the debt payment sequence	19	If an effective date ratings confirmation failure occurs, payment of the rating confirmation redemption amount, in accordance with the debt payment sequence
20	If the interest diversion test is not satisfied, (1) during the reinvestment period, the lesser of 50% of remaining interest proceeds and the amount required to cure the interest diversion test to be used for the purchase of additional collateral or invest in eligible investments; and (2) after the reinvestment period, the lesser of 50% of remaining interest proceeds and the amount required to cure the interest diversion test to be used to redeem the notes, in accordance with the debt payment sequence.	20	On any special redemption date, payment of the special redemption amount, in accordance with the debt payment sequence
21	Subordinated management fee (0.30% p.a.)	21	(1) During the reinvestment period, to purchase additional collateral or invest in eligible investments; (2) after the reinvestment period, at the discretion of the investment manager, as long as no EOD has occurred and is continuing, principal proceeds from the sale of credit-risk obligations and unscheduled principal proceeds may be used to purchase additional collateral or invest in eligible investments
22	Unpaid admin. expenses not paid due to the admin. expense cap in clause 1	22	After the reinvestment period, to make payments in accordance with the debt payment sequence
23	Unpaid hedge payments and hedge termination payments	23	After the reinvestment period, the subordinated management fee (0.30% p.a.)
24	At the direction of the collateral manager, the supplemental reserve amount	24	After the reinvestment period, to pay any unpaid admin. expenses not paid due to the admin. expense cap in clause 1
25	First, to pay the subordinated notes until an IRR of 12% is achieved, and then 20% of the remaining interest proceeds to pay the collateral manager as the incentive fee amount	25	After the reinvestment period, unpaid hedge payments and hedge termination payments
26	Remainder to the subordinated notes	26	First, to pay the subordinated notes until an IRR of 12% is achieved, and then 20% of the remaining interest proceeds to pay the collateral manager as the incentive fee amount
		27	Remainder to the subordinated notes

p.a. – per annum. IRR – Internal rate of return. Debt payment sequence: (i) Class A-1A notes and A-1 loans (or class A-1B notes, if applicable) principal, pro rata; (ii) class A-2 principal, pro rata; (iii) class B interest, and then class B deferred interest; (iv) class B principal; (v) class C interest, and then class C deferred interest; (vi) class C principal; (vii) class D interest, and then class D deferred interest; (viii) class D principal; (ix) class E interest, and then class E deferred interest; and, finally, (x) class E principal.

Appendix C: Collateral Quality Tests, Concentration Limitations and Coverage Tests

Notable Concentration Limitations

Description	Limit
Minimum % of Senior Secured Loans and Eligible Investments Representing Principal Proceeds	92.5
Maximum % of Second Lien and Unsecured Loans	7.5
Minimum % of U.S. Obligations and/or Cash and Eligible Investments	80.0
Maximum % of Covenant-Lite Loans	50.0
Maximum % Top Moody's Industry	15.0
Outside of the Top Moody's Industry, Maximum % of Next Three Moody's Industries	12.0
Outside of the Top Four Moody's' Industries, Maximum % of Single Moody's Industry	10.0
Maximum % of Revolving or Unfunded Delayed Draw Loans	10.0
Maximum % of Fixed-Rate Assets	7.5
Maximum % of Assets that Pay Less Frequently than Quarterly	5.0
Maximum % of Assets Rated Caa1 or Below by Moody's	5.0
Maximum % of Assets Rated CCC+ or Below by S&P	5.0
Maximum % of DIP Loans	5.0
Maximum % of DIP Loans Issued by a Single Obligor	1.0
Maximum % of Participation Interests	5.0
Maximum % of Letters of Credit	3.0
Maximum % of Partial Deferring Obligations	2.5
Maximum % of Current-Pay Assets	2.5
Maximum % of Each of the Top Five Obligors	2.5
Outside of the Top Five Obligors, Maximum % of Single Obligor	2.0
Prohibited Asset Types	
Maximum % of Senior Secured Bonds and Senior Unsecured Bonds[a]	0[a]
Maximum % of Equity Securities or Securities Convertible to Equity	0.0
Maximum % of Synthetic Securities	0.0
Maximum % of Long-Dated Assets	0.0
Maximum % of Structured Finance Securities	0.0
Maximum % of Zero-Coupon Securities	0.0
Maximum % Step-Up and Step-Down Securities	0.0
Maximum % of Deferrable Securities	0.0
Maximum % of Small Obligor Loans	0.0
Maximum % of Margin Stock	0.0
Maximum % of Assets that Pay Less Frequently than Semiannually	0.0
Maximum % of Leases Other than Finance Leases	0.0
Maximum % of Obligors Domiciled in Portugal, Italy, Greece or Spain	0.0

[a]If the Volcker Rule condition is satisfied, then the maximum percentage is 2.5%.

Collateral Quality Tests

Description	Limit
Minimum Weighted Average Spread (at Close %)	3.8; Subject to Matrix
Minimum Weighted Average Coupon (%)	7
Maximum Weighted Average Life (Years)	8.0 (Declining)
Moody's Minimum Weighted Average Recovery Rate (%)	TBD
Maximum Moody's Weighted Average Rating Factor (at Close)	2800; Subject to Matrix
Minimum Moody's Diversity Score (at Close)	60; Subject to Matrix

TBD – To be determined.

Coverage Tests

(%)

Test	Trigger	Definition[a]
OC		
Class A	124.2	ACPA divided by A
Class B	115.5	ACPA divided by A + B (including class B deferred interest amounts)
Class C	109.6	ACPA divided by A + B + C (including class B and C deferred interest amounts)
Class D	104.7	ACPA divided by A + B + C + D (including class B, C and D deferred interest amounts)
Reinvestment OC Test		
Interest Diversion Test	103.1	ACPA divided by A + B + C + D + E (including class B, C, D and E deferred interest amounts)
IC		
Class A	120.0	Interest proceeds and expected interest income minus senior expenses, divided by interest due to class A
Class B	115.0	Interest proceeds and expected interest income minus senior expenses, divided by interest due to class A and B
Class C	110.0	Interest proceeds and expected interest income minus senior expenses, divided by interest due to class A, B and C
Class D	105.0	Interest proceeds and expected interest income minus senior expenses, divided by interest due to class A, B, C and D
Par Value EOD		
EOD Par Ratio	102.5	Aggregate principal balance of the collateral obligations (with defaulted obligations at MV) and eligible investments, divided by the aggregate outstanding amount of class A

[a]A equals class A-1A, A-1 loans (or A-1B notes, if applicable) and A-2 principal amounts outstanding; B equals class B principal amounts outstanding; C equals class C principal amounts outstanding; D equals class D principal amounts outstanding; and E equals class E principal amounts outstanding. MV – Market value. Notes: The adjusted collateral principal amount (ACPA) equals the aggregate principal balance of assets plus principal proceeds in collection and ramp-up accounts and principal financed accrued interest. Assets are generally included at their par value, except the following, which are included at: defaulted and deferring assets: if defaulted < three years, the Moody's collateral value (the lesser of (i) its Moody's recovery amount and (ii) its MV). If defaulted for > three years, treated as zero. Discounted obligations are included at the purchase price. Excess of the greater of (x) assets with a Moody's default probability rating of 'Caa1' or below or (y) assets with an S&P rating of 'CCC+' or below, above 7.5% of the aggregate collateral balance of assets: included at MV. Long-dated assets are not permitted.
Source: Transaction documents.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

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