



# CHORUS CAPITAL

Risk-sharing in European and North American banks' core loan portfolios

*Presentation to: Employees' Retirement System of Rhode Island*

**February 2024**

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## **Chorus Capital Overview**

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### Opportunity Overview

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### Portfolio Construction & Case Study

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### ESG & DEI

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### Fund V Terms

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# Chorus Capital Overview

## Firm overview

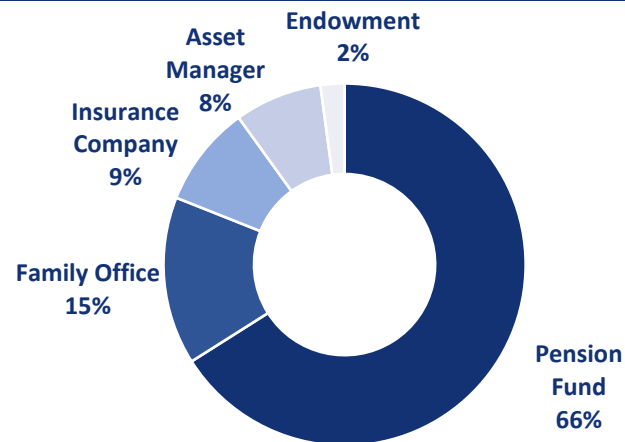
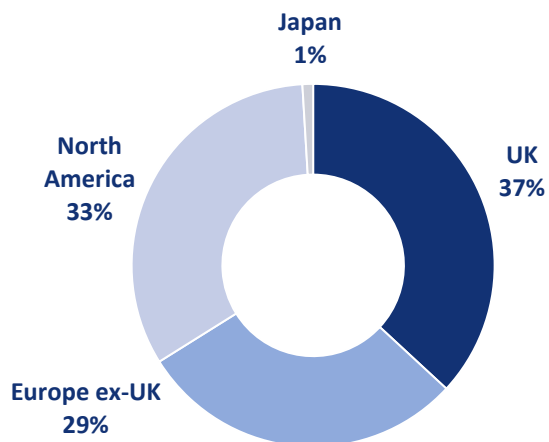
### Firm

- **Pure player in risk-sharing transactions (RST)** based in London, the global hub for the asset class
- **29 employees** including **4 senior originators** and a **dedicated team of credit analysts**
- **18 years' investment leaders<sup>1</sup> average RST experience** with **prior senior roles issuing RSTs / bank capital management<sup>2</sup>**
- **100%-owned by employees, co-founders and directors**
- **\$3.6bn in aggregate commitments** from global institutional investors
- **Consistent track record with no negative IRR investment** since the firm started managing capital in 2014<sup>3</sup>

### Strategy

- RSTs on **corporate loan portfolios** from the **core lending** activities of **large, sophisticated banks**
- **Proactive sourcing:** transactions with 21 different banks to date
- Focus on predominantly **investment grade, fully-disclosed large corporate loan portfolios** (mostly Revolving Credit Facilities or RCFs)
- Fundamental, **bottom-up portfolio underwriting** and monitoring
- **High level of diversification and granularity** across borrowers, industries, countries and banks (typically 100-250 borrowers per investment and c. 3,000 large corporate borrowers per fund)

## Investors<sup>4</sup>















1) CEO, CIO, CRO and Head of Origination. (2) CIO, CRO and Head of Origination. (3) Junior investments across all vehicles since firm's inception. **Past and projected performance is not necessarily indicative of future results.** An investment entails risks, including that of an investor losing their capital entirely. Please refer to the disclaimer and the performance related disclosures for important disclosures. As of January 2024. (4) Firm-wide investor data as of January 2024.



# Chorus Capital Overview

## Team

| CEO  |   |  |
|--|---|--|
|  <b>Gilles Marchesin</b><br>CEO and Founder  |   |  |
| Investment Team  | Risk  | Finance, Ops & Compliance  |
|  <b>Kaikobad Kakalia</b><br>CIO<br> <b>Juan Grana</b><br>Managing Director                 |  <b>Neil Wilson</b><br>CRO  |  <b>Arnaud Chassain</b><br>COO<br> <b>John Hudson</b><br>CFO                                       |
|  <b>Elena Cosic</b><br>Managing Director<br> <b>Giorgio Gallo</b><br>Managing Director     | Capital Formation   |  <b>Mark Tan</b><br>Senior Legal Counsel<br> <b>Sadia Thavarajan</b><br>Director, Compliance       |
|  <b>Enrico Longato, CFA</b><br>Managing Director<br> <b>Alex O’Gorman, CFA</b><br>Director |  <b>Chloe Harper</b><br>Director<br> <b>Nicholas Jaroszek, CFA</b><br>Director  |  <b>Mallika Bedia</b><br>Associate Director, Finance<br> <b>Dilshan Sidhu</b><br>Director, Finance |
|  <b>Helena Olsson</b><br>Director<br> <b>Sundeep Hothi</b><br>Director                   |  <b>Eirian Tredinnick</b><br>Analyst<br> <b>Rex Yardley-Rees</b><br>Analyst |  <b>Toby Belton</b><br>Associate, Finance<br> <b>Gavin Parker</b><br>Associate, Finance          |
|  <b>Cameron Hawkins, CFA</b><br>Associate<br> <b>Xinping Zhang</b><br>Analyst          |   |  <b>Oliver Hill</b><br>Analyst, Finance   |
| Technology   | Support   |  |
|  <b>Akil Browne</b><br>Director<br> <b>Alex Little</b><br>Associate Director           |  <b>Marie-Chantal Coe</b><br>Senior Co-Ordinator   |  <b>Deanna Bragoli</b><br>Office Manager  |



# Chorus Capital Overview

## Track record

| Fund     | Committed Capital <sup>1</sup> | Projected Gross Return <sup>2</sup> | Projected Net Return <sup>3</sup> | Gross Return to Date <sup>4</sup> | Net Return to Date <sup>5</sup> | Gross TVPI <sup>6</sup> | Net TVPI <sup>7</sup> |
|----------|--------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|---------------------------------|-------------------------|-----------------------|
| Fund I   | \$50m                          | 9.1% <sup>8</sup>                   | 6.1% <sup>8</sup>                 | 9.1% <sup>8</sup>                 | 6.1% <sup>8</sup>               | 1.21x <sup>8</sup>      | 1.15x <sup>8</sup>    |
| Fund II  | \$175m                         | 11.5% <sup>8</sup>                  | 10.0% <sup>8</sup>                | 11.5% <sup>8</sup>                | 10.0% <sup>8</sup>              | 1.26x <sup>8</sup>      | 1.22x <sup>8</sup>    |
| Fund III | \$515m                         | 10.9%                               | 8.1%                              | 10.8%                             | 8.0%                            | 1.43x                   | 1.29x                 |
| Rondo A  | \$395m                         | 14.5%                               | 12.3%                             | 13.6%                             | 11.4%                           | 1.30x                   | 1.27x                 |
| Fund IV  | \$1.1bn                        | 13.2%                               | 10.7%                             | 12.5%                             | 9.7%                            | 1.32x                   | 1.23x                 |
| Rondo B  | \$490m                         | 17.6%                               | 14.8%                             | 36.9% <sup>9</sup>                | 28.8% <sup>9</sup>              | 1.15x                   | 1.11x                 |

### Chorus Capital funds key statistics

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Negative IRR investments<sup>10</sup>

93%

Investments outperforming<sup>11</sup>  
(Realised losses < expected losses)

72%

Investments with no  
realised loss<sup>11,12</sup>

44%

RL/EL ratio (Fund IV)<sup>13</sup>

Data as of December 2023. **Past and projected performance is not necessarily indicative of future results.** An investment entails risks, including that of an investor losing their capital entirely. Please refer to the disclaimer and the performance related disclosures for important disclosures including the effect of financing. Data for Fund III and IV reflect the investment performance of the U.S. Dollar sleeves. (1) Total fund-level commitments in USD, converted using first-close exchange rate where applicable. (2) Projected base case lifetime gross (of management fees, carry and expenses) fund-level IRR. (3) Projected base case lifetime net fund-level IRR. (4) Gross (of management fees, carry and expenses) fund-level IRR to date. (5) Net fund-level IRR to date. (6) Gross (of management fees, carry and expenses) fund-level TVPI to date. (7) Net fund-level TVPI to date. (8) Realised performance. (9) Rondo LP Series B returns are not representative and reflect the use of financing. (10) Junior investments across all Chorus Capital vehicles since the firm's inception. (11) Chorus Capital Credit Fund III, IV, IV-B, V, Rondo A and B. (12) Accounts for first loss retained by the bank. All transactions. (13) Calculated using Loss given default as a % of committed capital / underwritten loss to date. Accounts for first loss retained by the bank.



# Chorus Capital Overview

## Stability of returns

### Consistent stable performance across Chorus Capital funds

|                                    | Fund I | Fund II | Fund III | Rondo A | Fund IV | Rondo B |
|------------------------------------|--------|---------|----------|---------|---------|---------|
| Numbers of months since inception  | 54     | 51      | 80       | 52      | 50      | 17      |
| % of months with a positive return | 93%    | 94%     | 95%      | 98%     | 96%     | 100%    |
| Standard deviation of returns      | 1.1%   | 3.4%    | 4.6%     | 5.1%    | 6.0%    | 4.9%    |

### Fund IV stable returns since inception

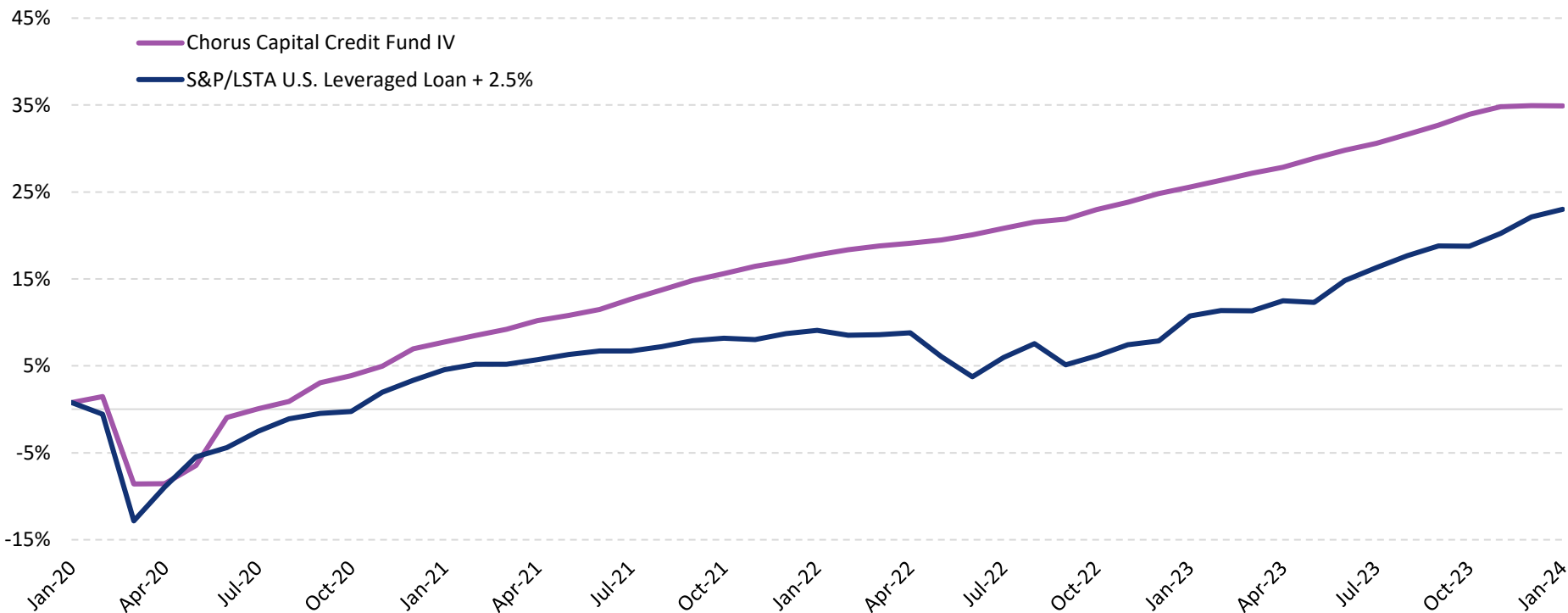


Chart produced by Chorus Capital. S&P/LSTA US Leveraged Loan Index. The choice of this index is not a benchmark but for illustration purposes only. Past and projected performance is not necessarily indicative of future results. An investment entails risks, including that of an investor losing their capital entirely. Please refer to the performance related disclosures for important disclosures.



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**Opportunity Overview**

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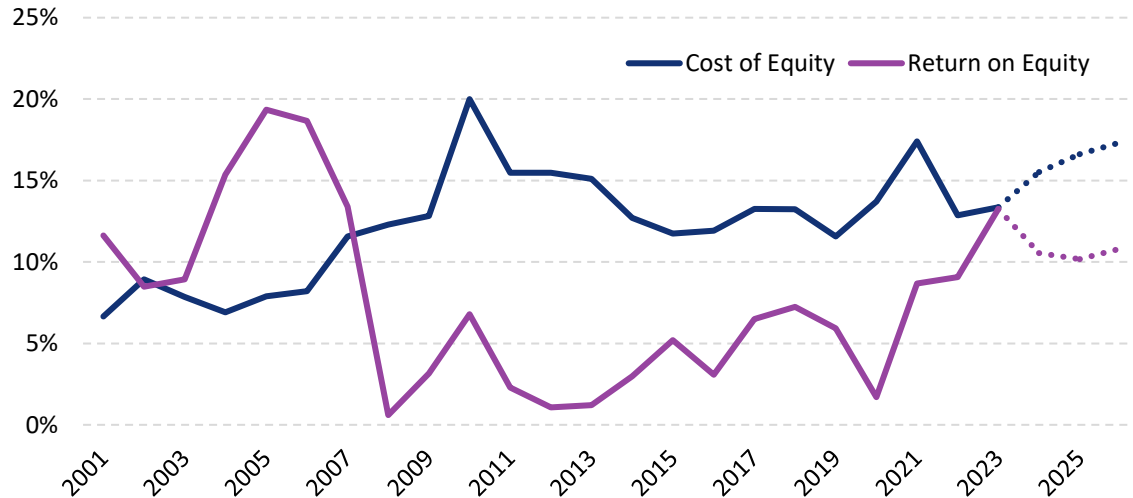




# Opportunity Overview

## RST: a capital management tool boosting bank solvency and profitability

### European banks' Return-on-Equity (RoE) has been below their Cost-of-Capital (CoC) since 2008



- **Banks continue to lend actively, at a loss,** to maintain relationship with their large corporate, investment banking fee-generating clients
- **Largely undrawn RCFs** are very difficult to transfer for relationship and P&L reasons
- **30-35% of European banks' regulatory capital** tied up in **low-RoE corporate loan books**<sup>1</sup>

### Regulatory and market pressure on bank capital ratios, in Europe and now in the US

#### Regulations

##### Basel III (adopted in Europe in 2013)

- Higher capital requirements & higher liquidity requirements

##### Basel IV/Basel III Endgame (finalized by Basel committee in 2017)

- Higher risk weights for all types of bank loan portfolios and introduction of an output floor (from January 2022 in Europe)
- US: new bank capital proposals announced in July 2023

#### Markets

- **Rating migration due to the economic downturn,** leading to higher risk weights and capital charges for banks' corporate loan books
- **M&A activity** has also weighed on capital ratios
- Ambitious **shareholder distribution plans**

### RSTs are the most effective way for banks to recycle capital tied into capital-intensive and low return loan portfolios

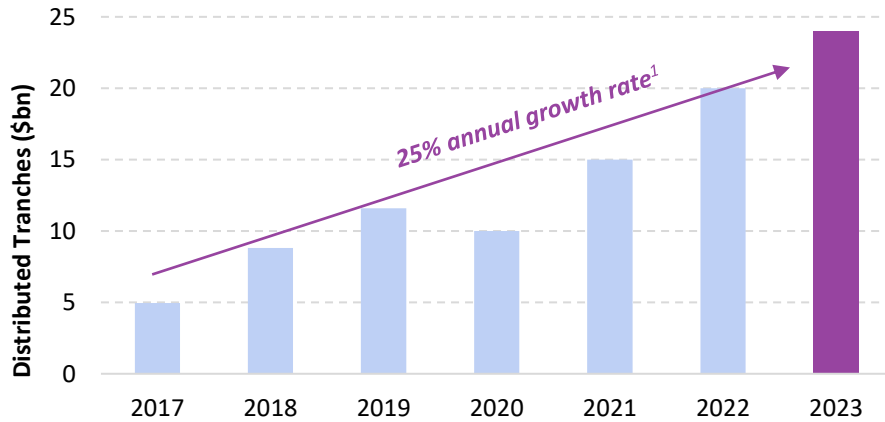
Chart produced by Chorus Capital. Source: Bloomberg, median RoE & CoC for 20 EU banks. Bloomberg consensus forecasts. (1) Chorus Capital internal estimates based on ECB data. Historical market trends are not reliable indicators of actual future market behaviour, data shown herein for illustration purposes only.



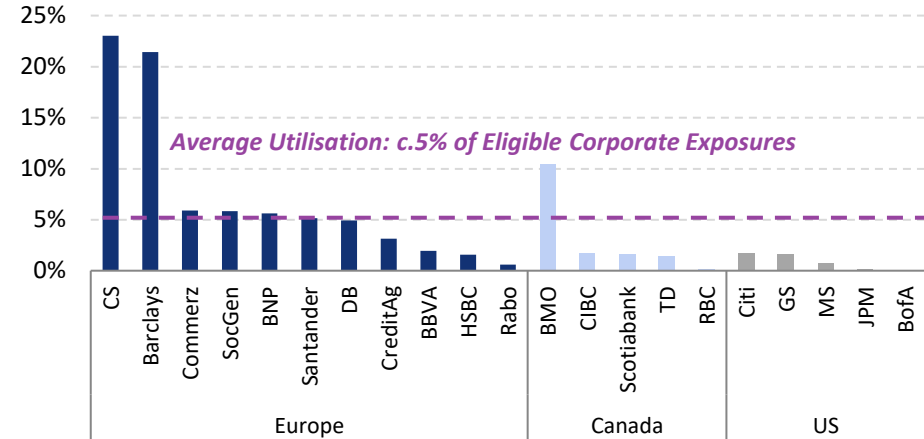
# Opportunity Overview

## Improving risk-adjusted returns due to persisting supply/demand imbalance

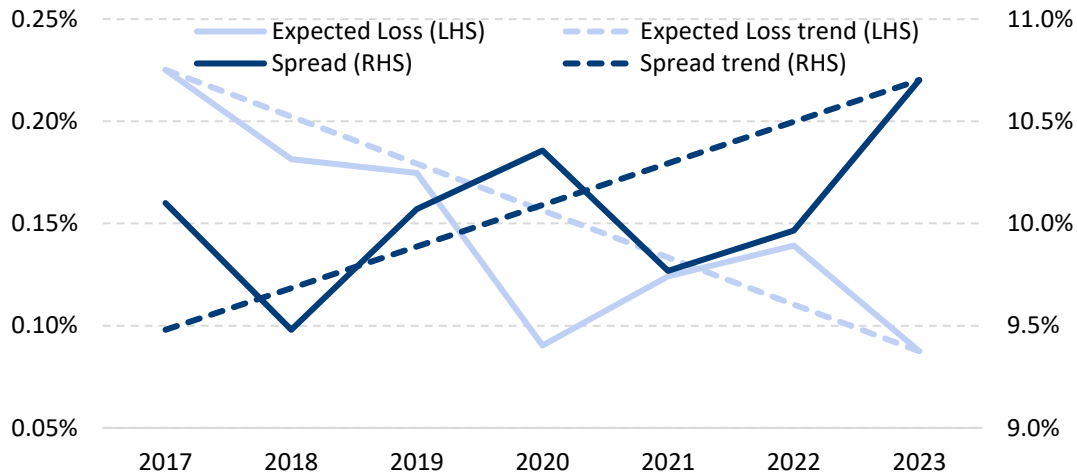
### Fast growing RST supply



### Significant spare capacity for RST issuance<sup>2</sup>



### Improving expected risk-adjusted returns for Chorus Capital's LCL RSTs<sup>3</sup>



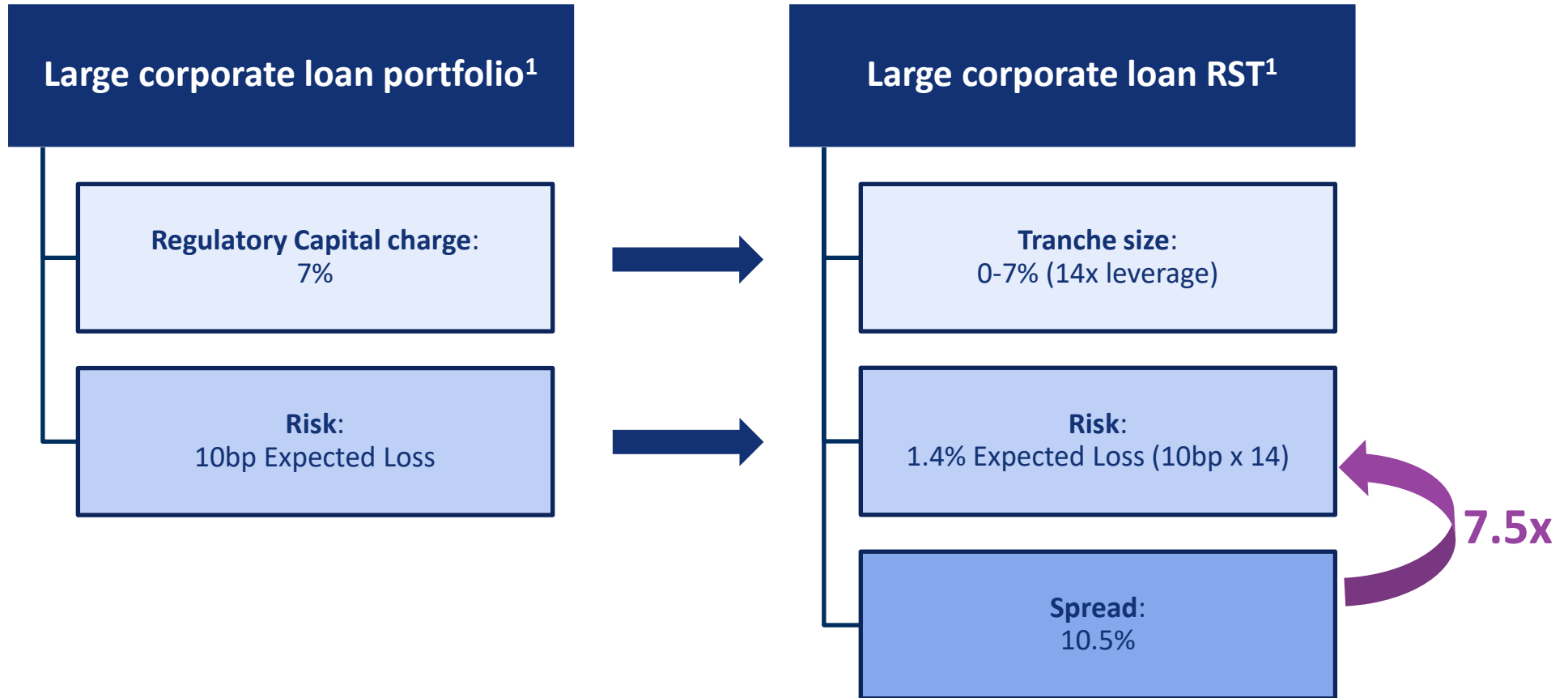
- **100bp+ spread widening** combined with **50%+ reduction in portfolio risk<sup>4</sup>** since 2018<sup>3</sup>
- Leverage-adjusted **spread/EL ratio up to 8.1x (2023) from 3.8x (2018)** in our large corporate loan RSTs<sup>3</sup>
- **Fast-growing bank interest to issue RSTs vs. limited availability of capital** despite a few new entrants

All charts produced by Chorus Capital. (1) and (2) Chorus Capital estimates, using total bank securitised assets over corporate exposures. (3) Data as of December 2023. Weighted average. All Chorus Capital investments in large corporate loan RSTs, invested capital weighted. Historical market trends are not reliable indicators of actual future market behaviour, data shown herein for illustration purposes only. **Past and projected performance and investment characteristics are not necessarily indicative of future results.** An investment entails risks, including that of an investor losing their capital entirely. Please refer to the disclaimer and the performance related disclosures for important disclosures. (4) Base case portfolio expected loss at the time of underwriting.



# Opportunity Overview

Value proposition: disconnect between capital charge and economic risk



Chorus Capital focuses on large corporate loan portfolios where we believe **the bank's regulatory capital charge to be disproportionate to the actual credit risk of the underlying loans**

Diagram produced by Chorus Capital. Indicative numbers provided for illustration purposes only. (1) Typical large corporate loan RST.



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## Portfolio Construction & Case Study

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### Our investment focus



Partnerships with large, sophisticated banks, in Europe and North America



Large corporate loan portfolios across Western Europe and North America



Core, performing loans only (100% senior loans)



High proportion of investment grade borrowers and largely-undrawn RCFs



Highly-diversified and granular loan portfolios



Investment structure with downside protection



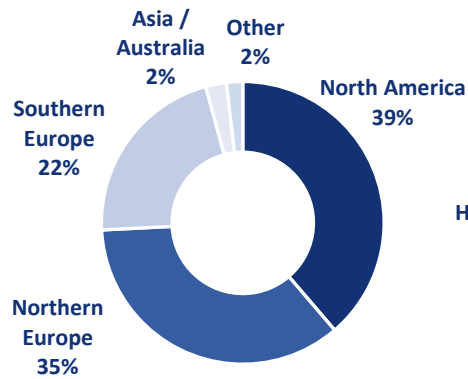
# Portfolio Construction & Case Study

## Portfolio construction

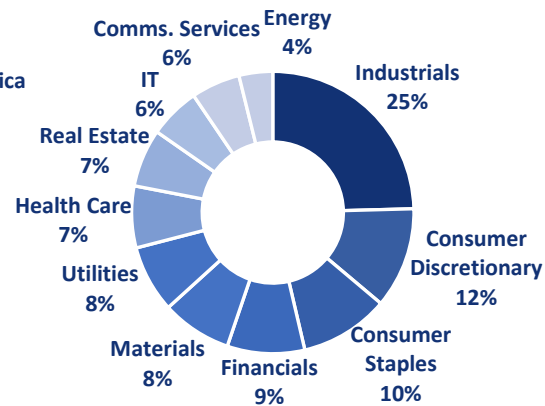
| Fund IV: key characteristics |   | Fund IV: counterparties |                  |
|------------------------------|---|-------------------------|------------------|
| <b>21 investments</b>        | <b>17 Large Corporate Loan transactions</b> | 4 SME transactions      |                  |
|                              | <b>16 First loss</b>                        | 5 Second loss           |                  |
|                              | <b>9 Bilateral</b>   <b>5 Anchor</b>        | 6 Club                  | 1 Secondary      |
|                              |   | <b>15 issuing banks</b> | 8 European       |
|                              |   |                         | 3 UK             |
|                              |   |                         | 4 North American |

## Fund IV: portfolio exposure<sup>1</sup>

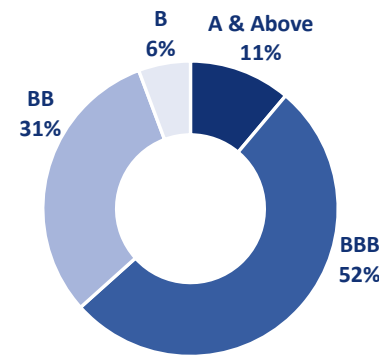
### Geography



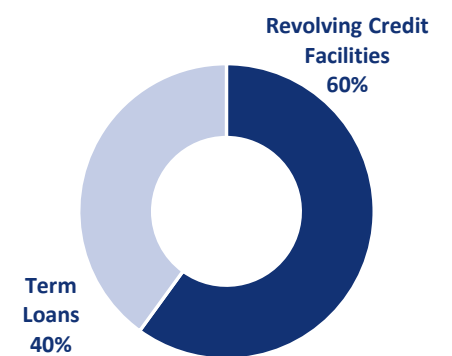
### Sectors



### Ratings



### Instruments



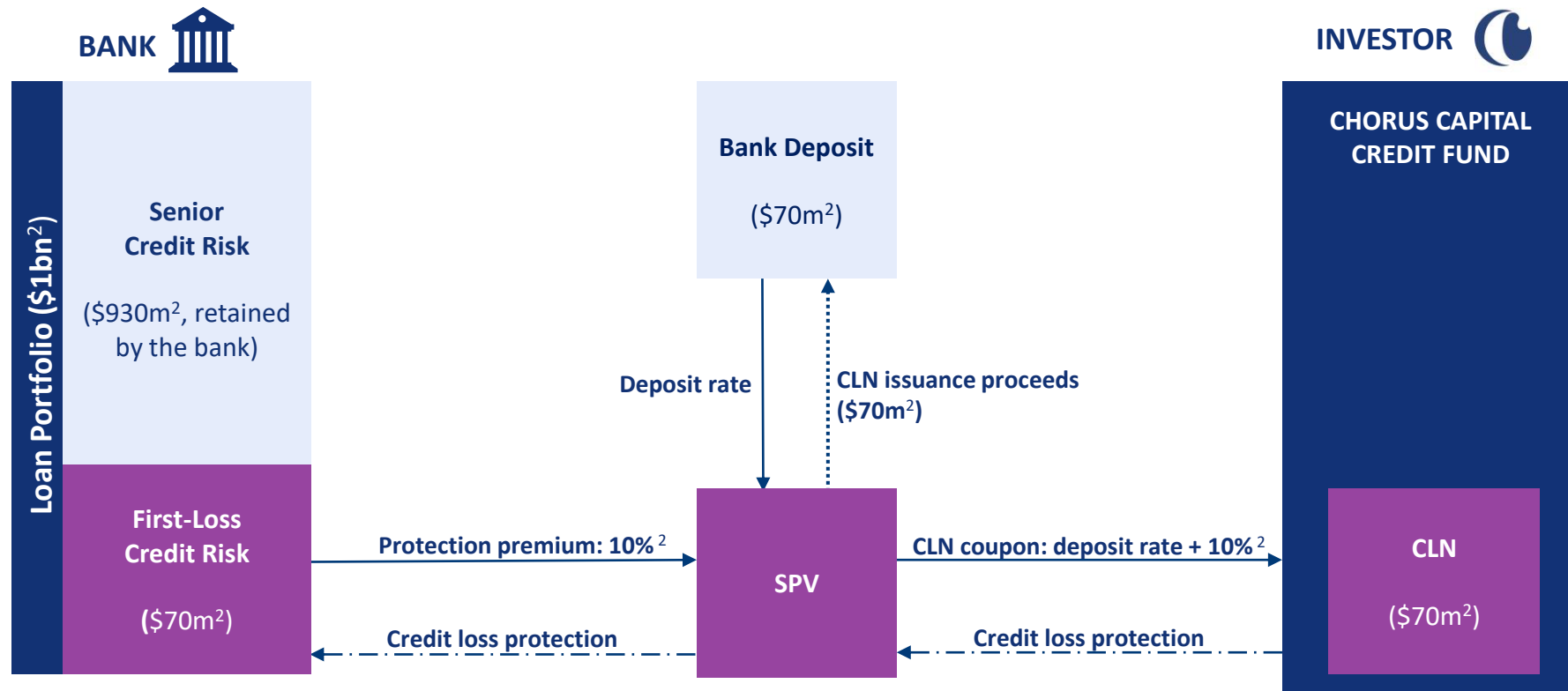
For illustration purposes only. There can be no guarantee that Chorus Capital will have access to or be able to execute investments of a similar profile in the future. (1) Shown as a % of total invested assets, portfolio data at the inception of each investment.



# Portfolio Construction & Case Study

## Typical structure for a transaction with a large bank

- The bank covers the **first-loss risk** (equity tranche) of its loan portfolio through a **Credit-Linked Note issued to investors**
- The loan portfolio **remains on the bank's balance sheet**
- **Note notional calibrated on the portfolio's regulatory capital charge** (regulatory requirement to obtain capital relief)
- **Note proceeds held in a bank deposit** (senior to the bank's TLAC<sup>1</sup>)



RSTs allow banks to recycle capital from capital-intensive and low return loan portfolios without selling the loans, which would jeopardise the bank's commercial relationships, its P&L and, in turn, its capital position

Diagram produced by Chorus Capital. (1) Total Loss-Absorbing Capacity. (2) Indicative numbers provided for illustrative purposes.

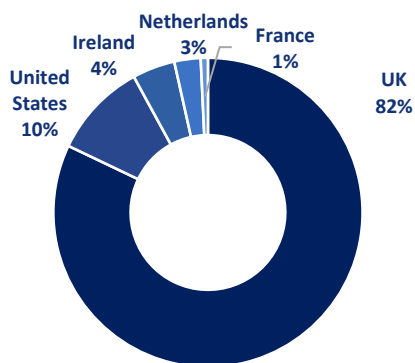


# Portfolio Construction & Case Study

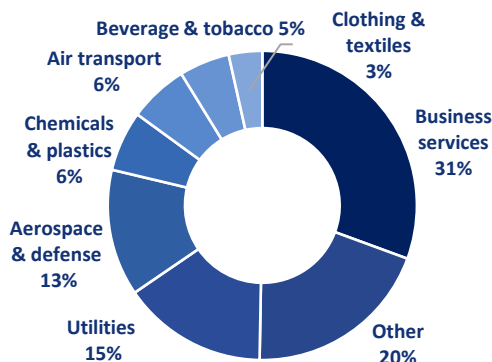
## Transaction case study

|                               |  |                      |                      |                                     |
|-------------------------------|--|----------------------|----------------------|-------------------------------------|
| <b>Transaction</b>            | c. \$100m equivalent primary investment in a RST on a portfolio of relationship loans from a Tier 1 European bank  |                      |                      |                                     |
| <b>Key terms at inception</b> | <b>CLN notional</b>  | c. \$100m equivalent | <b>Portfolio WAL</b> | 2-3 years                           |
|                               | <b>Issuance</b>  | 2023                 | <b>Coupon</b>        | Base Rate + low double digit spread |
|                               | <b>Risk tranche</b>  | 0-7%                 | <b>Expected life</b> | 4-5 years                           |
| <b>Risk/return profile</b>    | <ul style="list-style-type: none"> <li>• Base case expected return<sup>1</sup> of 15.4% (USD)</li> <li>• Portfolio constructed based on Chorus Capital's line-by-line feedback (negotiations began in July 2022)</li> <li>• c. 85% Investment Grade portfolio, with a BB- rating cut off<sup>2</sup></li> <li>• Selected 120 borrowers for the initial portfolio, replenishment restricted to a pre-agreed list of 50 borrowers</li> </ul> |                      |                      |                                     |
| <b>Portfolio</b>              | <ul style="list-style-type: none"> <li>• UK (c. 80%) and US (c. 10%)</li> <li>• 100% disclosed portfolio</li> <li>• 85% RCFs</li> <li>• Maximum group weights of 0.5-1.5% for IG and 0.25-0.75% for sub-IG</li> </ul>  |                      |                      |                                     |

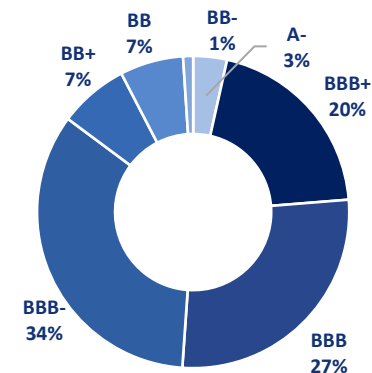
### Geographical exposure



### Sector exposure



### Rating exposure



For illustration purposes only. There can be no guarantee that Chorus Capital will have access to or be able to execute investments of a similar profile in the future. Ranges provided due to disclosure agreements. (1) Gross IRR to term. Please refer to the projected performance assumptions and the disclaimer at the back of this document for important disclosures. (2) Based on the bank's ratings.





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## Responsible Investment

### RI in underwriting

All disclosed borrowers in our portfolios are checked for ESG risks that may impact their credit profile

If a material risk is identified, the company cannot be scored higher than “CE2” in our Credit Event framework<sup>1</sup>, regardless of other credit metrics

Removal of high risk ESG names

### Business Involvement Screening (BIS) to manage risk and generate stable returns



**Companies on the CA, UK, UN, EU and OFAC sanction lists**  
*- monitored and updated monthly*



**Companies involved with controversial weapons**  
*- anti-personnel mines, biological and chemical weapons, cluster munitions etc.*



**Companies with significant thermal coal mining and oil sands exposures<sup>2</sup>**



**Companies involved in tobacco production and manufacturing<sup>2</sup>**



**Companies that generate part of their revenues from sensitive industries<sup>3</sup>**  
*- Fund III exposure: 0.5%; Fund IV exposure: 1.4%*

### Investment portfolio level

Bank shares borrower list with Chorus Capital



Chorus Capital assigns ESG ratings to the portfolio using MSCI's portfolio screening tools



Preliminary ratings used to negotiate changes to the portfolio

Fund ratings

|                 |                |
|-----------------|----------------|
| <b>Fund III</b> | <b>Fund IV</b> |
| A               | A              |

MSCI provides ESG data for BIS screening and carbon footprint reporting

(1) Chorus Capital internal credit risk rating scale, from CE Risk 1 (highest risk) to CE Risk 4 (lowest risk). (2) Derive more than 10% of their revenue from these activities. (3) Combined sensitive sector BIS exposure.



## DEI and Corporate Initiatives

| Corporate initiatives   |   |
|---|---|
|    | <b>UNPRI Signatory</b> since Q2 '22. In Q4 '23, Chorus Capital partnered with PRI Academy to introduce regular ESG training                           |
|    | <b>ESG Policy</b> formalized in Q1 '22, covering governance, environmental stewardship, human rights and requirements when working with third parties |
|    | <b>Women in Banking and Finance</b> network member  |
|  | <b>UK Social Mobility Foundation</b> employee volunteering with under-privileged students   |
|  | Chorus Capital Management Limited has been <b>Certified CarbonNeutral®</b> since Q1 '22   |

### Diversity, Equity and Inclusion

- DE&I discussed at each quarterly company board meeting
- 7 hires in 2023 - 5 women and 2 representatives of minority backgrounds

#### Firmwide<sup>1</sup>

| Category  | Sub-category | Percentage |
|-----------|--------------|------------|
| Gender    | Female       | 31%        |
|           | Male         | 69%        |
| Ethnicity | Caucasian    | 65%        |
|           | Minority     | 35%        |

#### Investment Team<sup>1</sup>

| Category  | Sub-category | Percentage |
|-----------|--------------|------------|
| Gender    | Female       | 30%        |
|           | Male         | 70%        |
| Ethnicity | Caucasian    | 60%        |
|           | Minority     | 40%        |

(1) Staff composition as of December 2023. Minority backgrounds include Asian, Black, Hispanic, and mixed Asian/Caucasian.



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# Fund V Terms

## Key terms

|                             |   |  |
|-----------------------------|---|--|
| <b>Fund name</b>            | Chorus Capital Credit Fund V  |  |
| <b>Structure</b>            | Closed-end partnership (drawdown structure)                                 |  |
| <b>Domicile</b>             | Luxembourg  |  |
| <b>Distributions</b>        | Quarterly, starting during the fund's investment period                     |  |
| <b>Evergreen structure</b>  | At the end of the investment period, LPs may opt to exit the fund (run-off) |  |
| <b>Investment period</b>    | Series A:   | 18 months from final closing                 |
|                             | Subsequent Series:  | 36 months from launch of the relevant series |
| <b>Fund term</b>            | Series A:   | 7 years from final closing                   |
|                             | Subsequent Series:  | 8 years from launch of the relevant series   |
| <b>Management fee</b>       | 1.25%   |  |
| <b>Performance fee</b>      | 15% (above a 6% hurdle with an 80/20 catchup)                               |  |
| <b>Legal counsel</b>        | Kirkland & Ellis LLP  |  |
| <b>Auditor</b>              | Deloitte Luxembourg   |  |
| <b>Administrator</b>        | Citco Fund Services (Luxembourg) Ltd  |  |
| <b>Depository/Custodian</b> | Citco Bank Nederland N.V. Luxembourg Branch / Bank of New York Mellon       |  |

The information contained herein is provided for informational and discussion purposes only and is not, and may not, be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any funds.



## Performance related disclosures

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### Projected performance assumptions

Full projected return assumptions are transaction-specific and available on request.

Base case expected return scenarios generally apply historical or rating-agency expected credit performance, based on our expectations of future macroeconomic conditions, to a transaction's portfolio, and assume future interest rates follow current forward-curves.

Downside expected return scenarios typically apply the worst available relevant historic credit performance to a transaction's portfolio and assume future interest rates follow current forward-curves.

Projected returns are shown for illustrative purposes only and are subject to change. This presentation does not intend to forecast or predict future events or outcomes and it does not guarantee any future results. Neither shall it constitute investment research, recommendation, or advice.

### Financing disclosures

The impact of subscription line leverage on Chorus Capital's funds is as follows:

- Chorus Capital Credit Fund IV USD: 0.35% (Projected Net Return) and 0.43% (Realised Net Return)
- Rondo LP Series A: 0.63% (Projected Net Return) and 0.71% (Realised Net Return)
- Rondo LP Series B: 2.89% (Projected Net Return) and 16.66% (Realised Net Return)

NAV-based lending facilities were in place for Fund III, Fund IV and Rondo LP Series A. Further information is available upon request.



## For more information

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