



State of Rhode Island
Office of the General Treasurer

Chorus Capital Credit Fund V, L.P. - Staff Recommendation

February-2024

RECOMMENDATION:

- [Rhode Island Employees Retirement Systems Pooled Trust \(“ERSRI”\)](#): Approve a commitment of up to \$20 million to Chorus Capital Credit Fund V, L.P. (“Chorus V”).
- [Rhode Island OPEB System Trust \(“OPEB”\)](#): Approve a commitment of up to \$2 million to Chorus Capital Credit Fund V, L.P. (“Chorus V”).

ASSET CLASS: Private Credit

SUB-STRATEGY: Bank Regulatory Capital Relief (aka Significant Risk Transfer or “SRT”)

ALLOCATION:

- [Rhode Island Employees Retirement Systems Pooled Trust \(“ERSRI”\)](#): The target allocation for private credit is 3% and the allocation as of 1/31/2024 is ~3.1%. The preliminary pacing plan for the 2024 vintage is \$75 million committed to 2-4 funds at ~\$20-40 million per fund. Pending approval of the recommendations above, ERSRI’s 2024 vintage commitments to Private Credit will be \$20 million.
- [Rhode Island OPEB System Trust \(“OPEB”\)](#): The target allocation for Private Credit is 5.0% and the actual allocation to Private Credit as of 1/31/2024 is ~0.43%. The preliminary pacing plan for the 2024 vintage is \$9 million committed to 2-4 primary funds at \$2-5 million per fund. Pending approval of the recommendations above, OPEB’s 2024 vintage commitments to Private Credit will be \$2 million.

PORTFOLIO FIT:

- [Rhode Island Employees Retirement Systems Pooled Trust \(“ERSRI”\)](#): ERSRI’s Private Credit allocation is composed of a core of direct lending strategies, complemented by a set of specialty finance and other niche credit strategies, such as aircraft leasing and entertainment royalties. Chorus V fits into the Private Credit portfolio’s specialty finance/other categorization, as the fund will seek to execute risk-sharing transactions (“RSTs”) with large banks, with a focus on reference portfolios of investment grade large corporate loans that are diversified across obligors, sectors, countries, and banks. RSTs are transactions in which regulated systemically important banks (“SIBs”) issue a credit-linked note to investors who take first-loss (e.g., 0-7%) or second-loss tranches of credit risk on negotiated banks’ performing loan portfolios in exchange for a contractual floating rate spread that has averaged between 8%-12%; the loans themselves remain on the issuing banks’ balance sheets and premiums paid by issuing banks to investors are not subject to cashflows from underlying assets (no waterfall). Banks are required to meet regulator-imposed balance sheet requirements and hold minimum levels of capital against their risk-weighted assets. RSTs provide banks with regulatory capital relief, reducing capital requirements in a manner that is less costly to banks than raising new equity capital, allowing them to recycle capital tied up in relatively low return portfolios like revolving credit facilities to investment grade borrowers. Pending approval of the proposed recommendations, Chorus would represent 3.8% of ERSRI’s Private Credit portfolio (NAV + uncalled commitment) (see *Appendix 4*).
- [Rhode Island OPEB System Trust \(“OPEB”\)](#): The OPEB Trust’s Private Credit portfolio is in the process of ramping up its target allocation through commitments made in tandem with those from ERSRI. Pending approval of the recommendations, Chorus would represent ~16.6% of OPEB’s Private Credit exposure (see *Appendix 5*).

MERITS:

- **SRT Strategy Characteristics:** The regulatory capital relief space exhibits characteristics that make it a complementary fit within the portfolio's private credit allocation and broader Income bucket. SRT investments provide short duration, high yield floating rate contractual cash interest from bank counterparties. Chorus's SRT reference portfolios predominately consist of large corporate IG borrowers that are diversifying to the exposures that underly ERSRI's direct lending investments. Additionally, the regulatory capital relief sub-strategy is experiencing structural tailwinds, as bank capital ratio pressures have contributed to increased supply/issuance.
- **Pure Player in the SRT market:** Chorus Capital is one of the only firms solely focused on the SRT space, having executed their strategy since the organization's founding in 2011. Because of this, banks are confident in the firm's ability to execute, affording Chorus sourcing advantages. Additionally, they have a team of 28 people; their 12-person investment team is materially larger than that of Chorus's peers and includes investment professionals who have held senior positions within European Bank teams responsible for originating risk sharing transactions. Chorus's experienced team has established strong relationships with several banks.
- **Relative Risk Positioning:** Chorus focuses on risk-sharing transactions in the core corporate lending portfolios of large, sophisticated banks. These reference portfolios are fully disclosed and mostly comprised of investment grade loans. Large corporates revolvers are senior in the capital structure and are largely undrawn, which results in very high recovery rates in case of default. These large corporate reference pools fall on the lower end of the SRT relative risk spectrum, and thus, Chorus may be low spread relative to GPs that invest primarily in sub-IG and SME loan SRT portfolios. Through Chorus's focus on risk adjusted performance, they have been able to avoid producing any negative IRR investments while still producing yield and returns commensurate to the portfolio's Income bucket objectives.

CONCERNS:

- **Regulatory Risk:** Given the strategy's linkage to regulatory capital requirements, regulation changes could potentially alter the trajectory of the opportunity set.
 - **Mitigant – Current Regulatory Environment:** Regulators have endorsed regulatory capital relief transactions and regard them as a tool to provide capital to banks. Tightened capital requirements have served as a tailwind to the opportunity set and issuance volumes have increased accordingly. Chorus's experienced team has a strong technical knowledge of banking regulation and accounting, and the firm's Executive Committee reviews and monitors impending regulatory changes.
- **European Focus:** Chorus primarily operates in Europe (60% expected obligor exposure), with 20 to 30% in North America, and 0 to 10% rest-of-world. The concentrated European exposure could pose a risk as it could rely heavily on the European economy. Additionally, the market for SRTs is growing in North America as well as around the world. With such a high concentration in Europe, the firm may not be able to proportionately invest in the expanding non-European markets.
 - **Mitigants – Diversification and Global Experience:** Chorus V is expected to build an underlying portfolio that is highly diversified across counterparties and obligors; Fund V has a 1% IG obligor cap and a 0.5% sub-IG obligor cap. Chorus has previous experience working with Canadian and US-based issuers, and we expect that they will expand their investments in those regions as the market continues along its growth trajectory. While non-European transactions are growing, European banks remain the primary issuers of Regulatory Capital Relief transactions. Chorus's home base of London serves as the hub for global SRT transactions.

ESG: Chorus Capital Partners is rated as an **Integrator** with respect to their ESG practices.

- **ESG:** Chorus has an established Responsible Investment (RI) Policy and an ESG policy. They work with an ESG consultant, YouSRI during the investment due diligence and portfolio monitoring process. Chorus Capital has been a UN PRI signatory since April 2022 and has been reporting on each fund's carbon footprint using MSCI data. They have been certified CarbonNeutral® since January 2022. They have an ESG committee that meets on a quarterly basis.
- **DEI:** Chorus Capital became a member of the Women in Banking and Finance network in 2022. Several of their employees have volunteered to act as mentors through the UK Social Mobility Foundation. Key business providers must annually report on their ESG and DE&I standing. DE&I is discussed during the due diligence process.

FEES: Fees for Chorus are in-line with industry standards.

- Management Fee: The Fund will charge a fee equal to 1.25% on invested capital, including subscription-line debt used to make investments.
- Carried Interest: 15% on a series-wide basis above a 6% hurdle with an 80/20 catch up.

Appendix 1: ERSRI Prior Fund Exposure

This section is left blank intentionally. ERSRI has no exposure to prior Chorus funds.

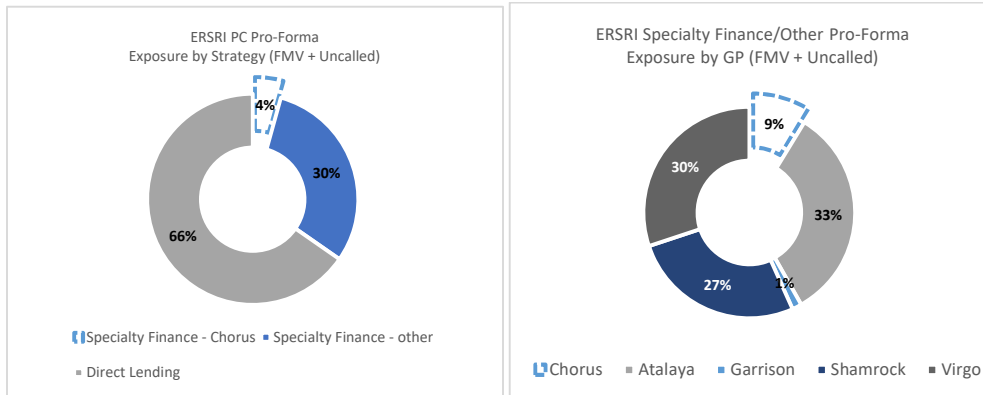
Appendix 2: ERSRI Prior Fund Performance

This section is left blank intentionally. ERSRI has no exposure to prior Chorus funds.

Appendix 3: ERSRI Private Credit Managers

ERSRI Private Credit Managers		
Manager	Strategy	Sector
Benefit Street	Direct Lending	Diversified
Owl Rock	Direct Lending	Diversified
CapitalSpring	Direct Lending	Retail & Restaurant
Deerpath	Direct Lending	Diversified
HPS	Direct Lending	Diversified
Owl Rock	Direct Lending	Diversified
Summit	Direct Lending	Diversified
Atalaya	Specialty Finance/Other	Consumer
Chorus	Specialty Finance/Other	Diversified
Garrison	Specialty Finance/Other	Diversified
Shamrock	Specialty Finance/Other	Media, Entertainment, & Communication
Virgo	Specialty Finance/Other	Diversified

Appendix 4: ERSRI Portfolio Fit



Appendix 5: OPEB Portfolio Fit

