Seer Capital Management LP
1177 Avenue of the Americas, 4th Floor
New York, NY 10036
212 850-9068
investorrelations@seercap.com
www.seercap.com

Reg Cap Recap

A bimonthly update on the Regulatory Capital Relief/Significant Risk Transfer sector

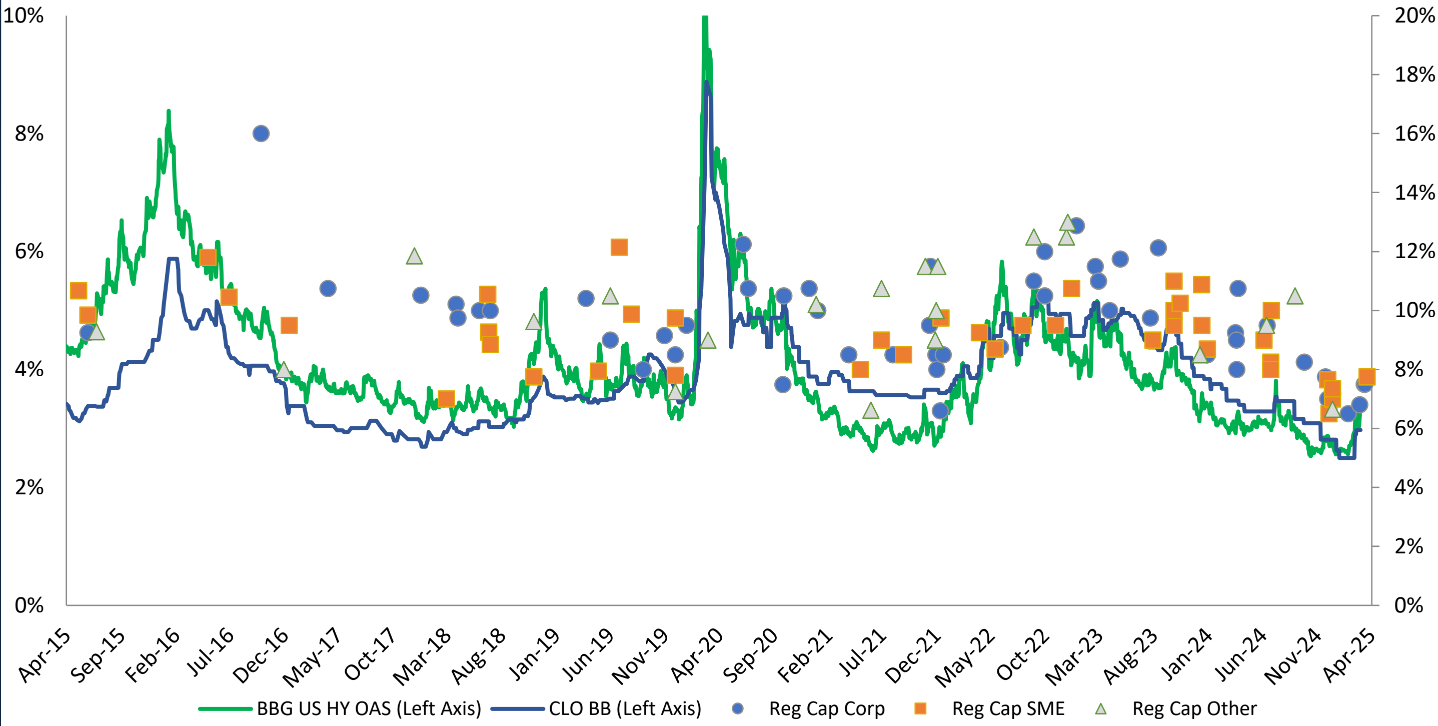
April 1, 2025

SEER CAPITAL

Reg Cap Spread Trends

March Reg Cap pricing ranged from 750 to 950bps, while HY spreads widened from 280 to 347bps during the month.

New Issue Reg Cap Spreads vs. High Yield and CLO BB*



** Source: Seer Capital Research / Bloomberg. Reflects selected first and second loss tranches but excludes mezzanine and thick (i.e. 0-12.5%) tranches. As of March 31, 2025.*

Recent New Issue Activity

The following is a representative listing of recent new issue activity.

		ASSET			PORTFOLIO SIZE		
Closing Date	Spread (bp) [1]	Type	Jurisdiction [2]	Disclosure [3]	Currency	Amount (bn)	First Loss [4]
Mar-25	715	Auto	US	No	USD	3.5	No
Mar-25	775	SME	Italy	No	EUR	2.1	No
Mar-25	750	Corporate	Global	Yes	USD	7.0	Yes
Mar-25	750	Corporate	US	No	USD	5.0	Yes
Jan-25	650	Corporate	Canada	Yes	USD	7.0	Yes
Dec-24	765	SME	Germany	No	EUR	3.1	No
Dec-24	700	Corporate	Global	Yes	EUR	6.4	Yes
Dec-24	700	SME	Spain	No	EUR	2.2	No
Dec-24	735	SME	UK	No	GBP	1.6	Yes
Dec-24	840	Auto	US	No	USD	2.6	No
Dec-24	650	SME	Spain	No	EUR	2.8	No
Nov-24	665	Auto	Sweden	No	SEK	12	No
Nov-24	750	Auto	US	No	USD	3	No
Nov-24	750	Auto	US	No	USD	4	No
Sep-24	825	Corporate	Global	Yes	USD	4.5	Yes
Sep-24	1050	Lev Loans	Global	Yes	USD	3	Yes

[1] *Spread to SOFR*
[2] *Asset jurisdiction and issuer jurisdiction may vary*
[3] *Disclosure of obligors in the reference pool of assets by name*
[4] *Indicates whether the Reg Cap issue is in the first loss position*

Seer Capital Management LP
1177 Avenue of the Americas, 4th Floor
New York, NY 10036
212 850-9068
investorrelations@seercap.com
www.seercap.com

Reg Cap Recap

April 1, 2025

Market Commentary

The record 1st quarter feels like a distant memory as we have already shifted our focus to the heavy second quarter pipeline, where we currently have at least nine deals on our desks for analysis. An increasing number of European banks are telling us that mandates to issue Reg Cap to manage RWAs and capital across different business lines and asset classes have come from the highest levels, and that is evident in the volume and breadth of deals we are seeing.

Spreads appear to have reached a floor late in the first quarter, and we found ourselves more able to secure our target allocations. Large investors seeking to deploy significant amounts of capital in Reg Cap, many of whom were expecting rapid growth out of the US, seem to have moved on. Macro volatility that is impacting liquid credit markets will affect Reg Cap in dampened fashion, as Reg Cap is supported by dedicated buy and hold investors. Assets referenced in Reg Cap have historically outperformed in economic downturns based on careful credit selection and alignment of interest with banks.

Reg Cap News

New Issue News

Deutsche Bank Asked by IFC to Sound Out Investors for New SRT (Bloomberg News, aka "BN," 3/26/25)
International Finance Corp, the arm of the World Bank that serves the private sector in emerging markets, has asked Deutsche Bank to sound out investors for a potential Reg Cap (aka "SRT") capital relief deal tied to a $500mn - $1bn portfolio of trade finance transactions. A growing number of multilateral lenders are tapping the Reg Cap market. The African Development Bank is in the process of structuring a deal tied to a $2 bn portfolio and the Inter-American Development Bank Group brought a Reg Cap deal last year.

Reg Cap News

Ex-Santander Executive Joins SRT Fintech as US Banks Eye Deals (BN, 3/19/25)
Iconicchain, a fintech firm that helps banks manage significant risk transfer transactions, is hiring a former Banco Santander private debt executive, Steve Gandy, to steer its expansion into the US market. The Helsinki-based firm says at least 30 banks in the US are actively planning Reg Cap deals. This month, U.S. Bancorp sold $625 million of bonds tied to a pool of its corporate loans, at a significantly tighter spread than initial price talk–underscoring high investor demand for the asset class. "Over the past few months, we have seen a significant uptick in SRT/CRT activity among regional and supra-regional banks," an Inocnichain executive noted. Reg Cap issuers must give investors detailed information about the reference assets in a deal, and provide periodic reporting on defaults, losses and recoveries. Iconchcain seeks to assist new entrants with Reg Cap execution, which "involves significant operational complexity." Gandy is a well-known figure in the Reg Cap market who helped establish Santander's market leading issuance platform, so his involvement bodes well for Iconicchain. One of the impediments to the growth in the US market is the operational challenges regional banks face in completing first time transactions, and Iconicchain could be very helpful here.

Deutsche Bank AT1 Jumps After Missed Call as Coupon Doubles (BN, 3/21/25)
After Deutsche Bank decided against redeeming an AT1 issue on its call date, the coupon nearly doubled (from 4.789% to 8.47%) and the price jumped in secondary trading to just above par. AT1 bonds, also known as Additional Tier 1 bonds or contingent convertibles (CoCos), are perpetuals designed to absorb losses during financial distress, potentially converting to equity or being written down if the bank's capital ratio falls below a certain threshold. Issues typically choose to call AT1s at the first call date, and investors usually invest with that expectation. It is rare for banks not to call their AT1s. DB skipped a call on this AT1 issue in 2020 as well; the next call date is 2030. The bank stated that they use "a case-by-case approach" in deciding whether to exercise calls. Due to a far weaker Euro ($1.08 vs. $1.37 when the bond was issued in 2014), exercising the call would create a FX loss of nearly €240 million for the bank. One analyst noted that "It should be very clear to investors that calls should be purely based on economic feasibility, although granted that some issuers are still more lenient than others."

Insurance Companies Bolster Investments in SRTs, IACPM Says (BN, 3/22/25)
The International Association of Credit Portfolio Managers recently completed a survey of global reinsurance companies. Survey results showed that insurers are increasingly active in the Reg Cap market. Fourteen companies participated in the survey, which showed their Reg Cap investments more than doubled YOY in 2024, to €2.8bn (in 82 transactions) vs. €1.2bn a year earlier (in 45 transactions). The deals done in 2024 primarily referenced corporate and trade loans (50%) and residential mortgages (30%). Most insurers take part in the market by selling protection to banks (aka unfunded protection), although insurance companies' asset management groups also participate in Reg Cap by buying credit-linked notes. In the US regulators do not allow unfunded credit protection to qualify for regulatory capital relief, because of concern over counterparty risk.

Invisso SRT Symposium (3/27/25)
We attended the Invisso SRT Symposium on March 27, one of the two main Reg Cap events in London each year. The conference was well attended by European issuers and investors. The tone was very bullish on European market growth—it is increasingly de rigueur for large and midsize European banks to issue Reg Cap as a means of raising and managing capital. Bank equity analysts and investors are increasingly focused on the breadth of Reg Cap programs. Large issuers are becoming more programmatic; midsize issuers are entering

Seer Capital Management LP
1177 Avenue of the Americas, 4th Floor
New York, NY 10036
212 850-9068
investorrelations@seercap.com
www.seercap.com

Reg Cap News (continued)

the market; and new jurisdictions, particularly in Eastern Europe, are coming online or seeing deals placed with the market instead of supranational entities or public pension funds for the first time.

Meanwhile a dichotomy has developed on the investor side—large global private equity and credit firms are participating selectively, with one stating that they "don't view SRT as an asset class" but rather as a way to gain exposure to attractive assets. Another altruistically stated that they are "looking to help banks in any way they can." These investors opportunistically look to deploy several hundred million at a time in Reg Cap when they view it as more attractive than other opportunities. The market has historically been dominated by a small group of dedicated investors who view Reg Cap as an attractive way to gain exposure to credit assets alongside banks. At Seer, we put ourselves in this category—we caught up with many old friends and competitors in London who, like us, seek to establish Reg Cap partnerships with banks across asset classes. Banks seek reliable distribution channels for their Reg Cap programs and face regulatory scrutiny about "flowback risk" in the event that they cannot roll maturing Reg Cap and the assets flow back onto their balance sheet, forcing them to curtail lending.

Large investors new to Reg Cap have been partially responsible for significant spread tightening in the market over the past six months. The consensus among conference participants was that Reg Cap spread tightening has been in line with, or perhaps slightly more than, other credit products, but Reg Cap still offers significant relative value based on the quality of the assets and alignment with the issuing bank. As a longstanding Reg Cap investor eloquently and concisely expressed, "bank lending is very good". High quality bank lending assets are likely to outperform in a downturn, which seems increasingly possible in the short to medium term.

We participated in a panel on the growth prospects for the US market. Participants agreed that given the scale of the US banking system, the US Reg Cap market is bound to eventually exceed Europe but will take time to develop. Regulatory uncertainty around the Basel Endgame, Fed approval process, and Volcker conflict of interest rules are causing hesitancy among banks. Regional banks in the US face more business and capital challenges, so have more immediate need for Reg Cap issuance.

<u>Banking Industry News</u>

Junk Loan Deals Are Now Getting Pulled on Both Sides of Atlantic (Bloomberg News, 3/17/25)

Companies in both Europe and the US are shelving plans to tap the leveraged loan market as trade wars trigger economic uncertainty. After a year of heavy inflows into credit funds, creating a deluge of cash chasing too few deals, spreads were tight. Now market volatility seems to have turned the tide. The average spread for new issue leveraged loans is 323bps, up from 287bp at end January. European leveraged loans on Friday recently saw the largest one-day drop in secondary pricing since October 2023, while in the US, prices in the secondary market have fallen to levels last seen in August. The percentage of US leveraged loans trading above par is 10.7%, at a 13-month low and down from 33.8% on March 1. Analysts at firms including Barclays and Goldman Sachs Group Inc. are forecasting wider spreads on US credit. The Barclays forecast reflects a roughly 20% risk of recession and estimated that market spreads currently imply only a 5% risk of recession.

US Banking Rule Reform Is Too Important to Rush (Bloomberg Opinion, 3/24/25)

Banks and their equity investors ushered in the change in administration with some euphoria, confident that the new regimes would be "biddable and regulation friendly." However, change has been slow in coming, with staffing not even complete at the regulators. This opinion piece is pro-reform, especially as it relates to the Federal Reserve's stress tests, which it argues are unpredictable and change annually, creating volatility. However, the author also argues that reform should be carefully considered to avoid weakening oversight and the process should not be rushed.

The author's key points include:

- The Fed's stress tests need to be made more transparent, and new capital requirements should be phased in over two years to help banks plan better. However, allowing banks to negotiate test scenarios could weaken their effectiveness and create opportunities to "game" the system. "Stress tests should be stressful!"
- Banks are pushing for lower capital surcharges for global systemically important institutions (G-SIBS), arguing that U.S. rules are stricter than international standards. For example, at JPMorgan. and Morgan Stanley, G-SIB surcharges increase their capital ratios by two percentage points compared with the international standard; at Bank of America., Citigroup. and Goldman Sachs, it is 1.5 percentage points greater.
- Cutting capital charges on Treasury holdings is being discussed to improve liquidity in that market.
- The broader "Basel III endgame" solution remains complex and contentious, as it now "involves rewriting hundreds of pages of a deeply unpopular proposal."
- Regulators should work toward comprehensive, well-thought-out regulation rather than piecemeal changes, emphasizing stability and alignment with international norms over quick fixes.

Seer Capital Management LP
1177 Avenue of the Americas, 4th Floor
New York, NY 10036
212 850-9068
investorrelations@seercap.com
www.seercap.com

SEER CAPITAL

Reg Cap News (continued)

EU Agencies Seek to Cut Red Tape in €1.2 Trillion ABS Market (BN, 4/1/25)
European financial authorities are exploring ways to streamline oversight of the €1.2 trillion asset-backed securities market. Regulators are proposing several measures to simplify reporting requirements and reduce red tape, including a "simplified due diligence approach" and consistent practices across the 48 authorities supervising the market. The EU plans to boost its ABS market after former European Central Bank President Draghi said that doing so would "help make the bloc more competitive economically."

ABS markets are much deeper and more active in the US, while the Reg Cap market is more active in Europe. Capital markets are generally more developed in the US, so more corporate loans and other assets remain on the balance sheets of European banks, who need Reg Cap to manage the capital and risk.

About Seer

Seer Capital Management LP is a diversified, credit-focused investment firm founded by Phil Weingord in 2008 that primarily invests in structured credit and loans. We allocate capital opportunistically across all major asset classes within structured credit in the U.S. and Europe, including: bank regulatory capital risk transfer (SRT), residential and commercial mortgages, syndicated and SME loans, and a variety of consumer loans (personal, auto, credit card, student, housing). These investments are executed through active trading in both legacy and new issue securitizations, purchase and securitization of whole loans, and direct lending joint ventures.

Seer Capital believes it is well positioned to capitalize on opportunities in structured credit as a result of our highly experienced senior investment team, which has on average more than two decades of experience working in structured credit.

For more information about Reg Cap or this publication, contact:

Terry Lanson
Managing Director
Reg Cap Portfolio Manager
212 850-9005
tlanson@seercap.com

Katya Bosshard
Director
Head of Investor Relations
212 850-9068
kbosshard@seercap.com

IMPORTANT DISCLAIMERS