5 December 2017

Alternative Income | Chenavari Toro Income*

Attractive returns and yields from European corporate and consumer credit

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This is a marketing communication. Refer to the last page for important information. * Current corporate client of Fidante Capital

Key details

Bloomberg code	TORO LN
Share price	€0.8375
Last NAV (ex-div.)	€0.9883ps
Prem./Disc.	-15.3%
Current yield	9.6%
Market cap	€272.1m
Net assets	€321.0m

Last NAV date 31 October 2017
Share price as at 1 December 2017

Summary

- A number of indicators show that European economies are improving. For example, PMI numbers released this month across various jurisdictions continued the trend seen throughout 2017, with the composite index reaching a new high (57.5), GDP is 2.5% higher than a year ago, and unemployment has fallen by 0.9 percentage points over the last 12 months. Continued low default rates and increasing recovery rates indicate that lending to companies and consumers is less risky than it was in the past. At the same time, deleveraging by banks, which has increased steadily since the global financial crisis in 2008 and is set to continue on this path limits their ability to lend. Regulations imposed on European banks (for example, the risk retention requirements for the originators of securitisations) are having the effect of further limiting banks' ability to lend to those companies (and consumers) that are increasingly seeking capital to pursue growth strategies. This retreat by the banks is leading to opportunities for others.

- Chenavari Toro Income (TORO) is one such new arrival in the credit arena. It is an internally-managed, Guernsey-domiciled investment company admitted to trading on the Specialist Fund Segment of the London Stock Exchange in May 2015. The company's investment adviser is Chenavari Credit Partners, part of the Chenavari Financial Group, a $5.4bn credit and structured finance asset manager based in London. Initially the company's investments largely comprised public ABS securities, which performed very well in the years following their sell-off in 2008. Over time, it has moved progressively away from the public markets and more into private transactions, including into direct lending. These newer strategies typically earn higher yields than the public ABS exposures (mid to high teens, rather than the 10% currently available for public ABS). Importantly, Chenavari Toro Income also originates some of the transactions it invests in, thereby earning an origination premium. It has also established an originator, through which it invests in Chenavari-managed CLOs and earns a rebate on the management fee, thereby further boosting returns.

- In 2017, TORO has achieved an annualised total NAV return of 10%, despite having cash slightly higher than the target level. There is the potential for higher returns in the future as the exposure to the newer, higher-yielding strategies is increased further. We estimate that in the medium-term, the expectation for the annualised total NAV return is 10-12%, after fees, based on projected exposures and yields following investment into Chenavari's identified pipeline of assets. Furthermore, the shares are currently yielding 9.6%, amongst the highest across the structured credit peers. With these performance attributes, we believe that there is the potential for the current wide discount to narrow once the investment proposition is more widely appreciated by new and existing shareholders.

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1. Overview

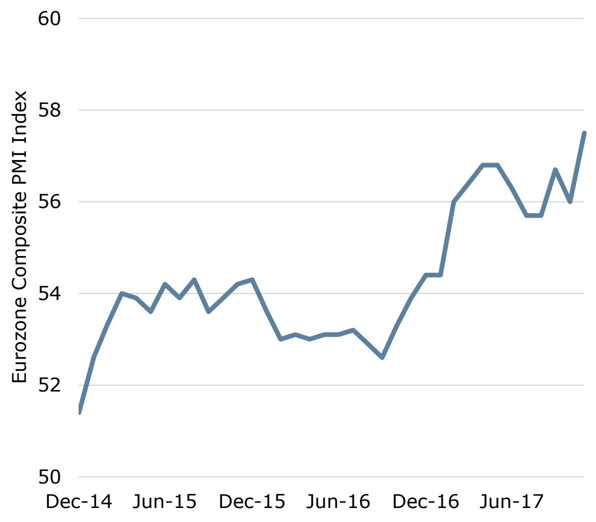
Market opportunity

There are a number of drivers behind the supportive environment for non-bank credit investment and lending in Europe:

- Economies in the region are improving, as illustrated by the strong GDP growth (+2.5% year-on-year in Q3 2017), PMI releases continuing to show positive momentum (the eurozone composite PMI has reached 57.5 in November 2017), and falling unemployment (the eurozone unemployment rate was 9.0% in September 2017, down from 9.9% 12 months previously). This economic improvement has made it less risky to lending companies and consumers – for example, European leveraged loan default rates reached a 20-month low in the 12 months to October 2017 (1.41% for the S&P Leveraged Loan Index).
- The deleveraging by banks following the 2008 global financial crisis is continuing and aggregate asset sales by banks increase year-on-year. For example, PwC forecasted that in 2017 around €160bn of loan portfolios would be sold, a new annual high. Performing loans have constituted an increasing proportion of those loan sales and were predicted to reach 50% of the total this year. Yet more remains to be sold, with around €2tn of non-core assets remaining on banks' balance sheets, as estimated by PwC earlier this year.
- A number of regulations have been introduced, including Basel III, which requires banks to hold a greater proportion of their risk-weighted assets in the form of highest quality, core tier 1, capital. Further recent regulations (CRD IV, in Europe) mean that the originators of securities must retain an economic interest in their securitisations. Both of these requirements have had the effect of putting additional constraints on banks' lending activities.

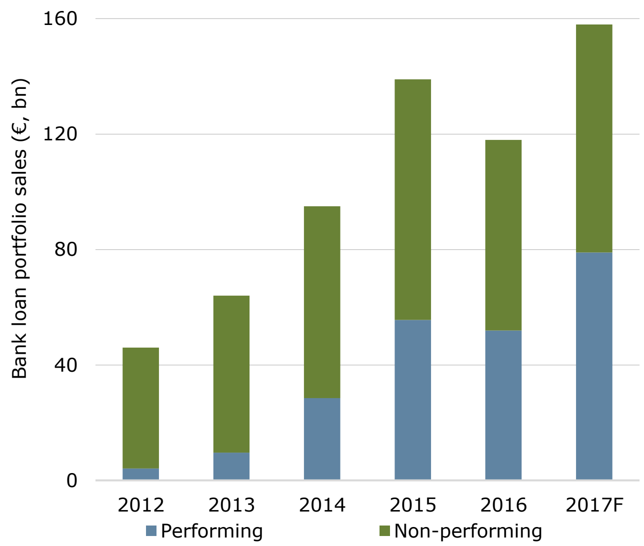
From the above, it appears that there is a credit and lending void that needs to be filled following the retreat of the banks from the scene and a demand to be satisfied from participants in the European economy (companies and consumers), buoyed by the improving conditions. Many non-banking firms across a wide range of sectors have been attracted by the opportunities (even the large tech companies such as Amazon and Apple), but there are segments of the market which have gone relatively unnoticed or are not of sufficient size for the larger players.

Figure 1: Eurozone composite PMI index



Source: Fidante Capital, Markit, Bloomberg. To November 2017.

Figure 2: Bank loan portfolio sales



Source: Chenavari, PwC.

Chenavari Toro Income

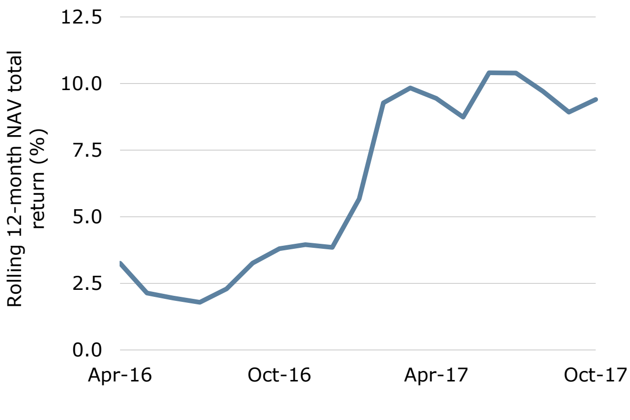
Chenavari Toro Income (TORO, or the Company) is a London-listed investment company managed by Chenavari Credit Partners, part of the Chenavari Financial Group, a $5.4bn credit and structured finance asset manager based in London. TORO has a relatively wide investment remit within European credit, allocating to those opportunities which are largely over-looked by the wider market for which the managers believe they have a structuring edge, and which have the potential to deliver attractive returns. The strategy adopted by TORO also relies on Chenavari's strong sourcing capabilities and experience.

At its IPO in May 2015, the Company's non-cash assets (c. 70% of net assets) comprised publicly-traded ABS assets (largely tranches of CDO, CLO and RMBS securities) that were transferred from the previously-existing open-ended fund, Toro Capital I, also managed by Chenavari. Since then, TORO has moved progressively away from the public markets and more into private transactions, including into direct lending, to both companies and consumers. These newer strategies typically earn higher yields than the public ABS exposures (mid to high teens, rather than the 10% for public ABS currently). The investments take various forms, including mortgage loans, senior secured (corporate) and unsecured (consumer) loans, and asset-backed financing. The Company's portfolio is well diversified geographically, with Spain representing the largest country exposure (around 20% of NAV). The underlying exposures tend to be floating rate, which provides some protection in periods of rising interest rates.

Importantly, TORO originates a significant and increasing proportion of its investments which can earn, over and above the typical return for those types of investments, an origination premium of up to 5%. Furthermore, TORO has established an originator subsidiary for the CLOs managed by Chenavari, Taurus Corporate Funding, which is used to satisfy Chenavari's risk retention requirements. Investments made by TORO into the equity tranches of these CLOs, by way of an allocation to Taurus, earn a 100% rebate on the CLO management fee (typically 0.5% per annum), pro rata to the holding, which, together with a rebate on the origination fee, can, in the current environment, boost annual returns by about seven percentage points over the typical c. 13% for CLO equity investments.

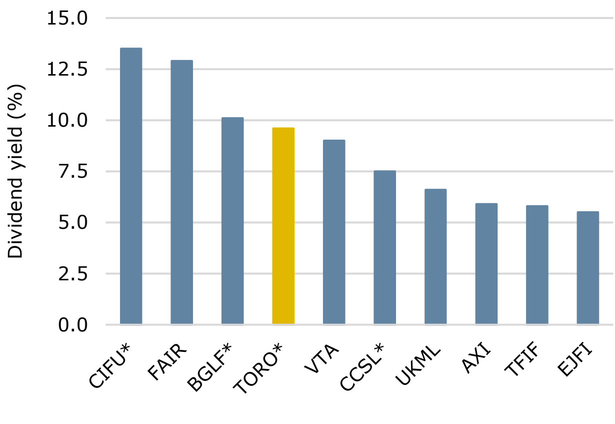
TORO pays a dividend of €0.08 per share per annum (€0.02 per share quarterly), representing a yield of 9.6% on the current share price. The annualised total NAV return in 2017 has been over 10%, despite an average cash level at the high end of the 5-10% of NAV target range. It should be noted that the rolling 12-month NAV return has increased over time. Most of the NAV gains have come from the public ABS strategy; however, there is the potential for further improved performance arising from the increased allocation to the higher-yielding strategies. Our expectation for the medium-term annualised total NAV return is 10-12%, based on projected exposures and yields. This is slightly lower than the 12-15% target at IPO due to spreads having tightened since then. TORO has attractive performance characteristics, in isolation and compared to the listed structured credit investment company peers. Lastly, the shares are currently trading at a c. 15% discount to NAV, which represents a potential further contribution to share price gains should the discount narrow from here.

Figure 3: Rolling 12-month NAV total return



Source: Fidante Capital, Company. To 31 October 2017.

Figure 4: Dividend yields across peer group



Source: Fidante Capital, companies, Bloomberg. As at 1 December 2017. Axiom European Financial Debt (AXI), Blackstone/GSO Loan Financing (BGLF), Carador Income (CIFU), Chenavari Capital Solutions (CCSL), EJF Investments (EFJI), Fair Oaks Income (FAIR), Toro (TORO), TwentyFour Income (TFIF), UK Mortgages (UKML) and Volta Finance (VTA).

SWOT analysis

Strengths

- TORO's investment objective and policy allows it to target a wide range of opportunities for which there is less competition
- Investments are predominantly made in floating rate instruments, which tend to benefit from rising interest rates
- Taurus Corporate Funding, the Company's originator through which it gains exposure to CLOs managed by Chenavari, has the most favoured terms relating to the purchased CLO income notes
- TORO's returns are enhanced through its exposure to the full life-cycle (warehousing, structuring, issuance, ongoing management and liquidation) of the CLO securities that it originates (this is also expected to apply to MBS securities in the future)
- Fee rebates (management and origination fees) on the CLO income notes purchased through Taurus reduce TORO's ongoing charges ratio, boosts performance and provide an additional buffer against losses
- Based on the current share price of €0.8375, the shares are paying an annualised dividend of 9.6%, which is sustainable
- Substantial investment in TORO by Chenavari provides alignment with investors

Weaknesses

- The shares and the NAV are currently quoted in euros, which may limit the appeal to some UK investors and prevents it from being included in the FTSE indices
- Previously unanticipated downside risks from mark-to-market losses in the public ABS markets impacted NAV returns in Q1 2016; a change in the hedging strategy has since mitigated these risks
- Limited liquidity in the trading of the Company's shares

Opportunities

- The internalised warehouse structure allows the managers to take advantage of credit market dislocation and be quick to issue a new CLO when there is an attractive opportunity (this is also expected to apply to MBS securities in the future)
- The calling of CLOs once they pass the end of their no-call periods, and their subsequent refinancing at lower costs of debt, would enhance the NAV

Threats

- A rise in realised default rates across TORO's portfolio and in the senior secured loan portfolios underpinning the CLOs (this may apply to MBS securities in the future) could lead to losses for the portfolio
- An inability to issue new CLOs due to lack of market demand (this may apply to MBS securities in the future)
- A repeal of, or otherwise unfavourable changes to, the regulations in Europe in relation to risk retention rules, which would affect the potential for origination and issuing securities in the future
- A lack of liquidity in secondary CLO and other ABS markets could limit the ability to liquidate parts of the portfolio in stress periods

Source: Fidante Capital.

2. The company

Chenavari Toro Income

Chenavari Toro Income (TORO, or the Company) is an internally-managed, Guernsey-domiciled investment company which was admitted to trading on the Specialist Fund Segment of the London Stock Exchange in May 2015. The Company's investment adviser is Chenavari Credit Partners, part of the Chenavari Financial Group, a $5.4bn credit and structured finance asset manager based in London. Following its IPO, TORO had equity capital of €333.5m (£245.7m at the prevailing exchange rates), with €184.8m from investors in the pre-existing open-ended fund, Toro Capital I (which invested in public ABS and was also managed by Chenavari), who chose to roll over their investment into the listed company. The remainder, €148.8m, was new capital. Subsequently, around €25.2m (£17.6m) was raised in two tap issuances in July 2015.

TORO is a well-diversified lender to both corporates and consumers, mainly in Europe, and tends to focus on those segments of the credit opportunity set where there is less competition and where Chenavari has a strong sourcing and structuring edge, due to their in-depth experience. The investments undertaken by the Company is either direct or indirect and can take various forms, including mortgage loans (which may be structured as CMBS or RMBS), secured/unsecured loans (perhaps through the acquisition of loan portfolios, or structured as CLOs) and asset-backed financing. Chenavari categorises the transactions into one of three strategies:

- **Public ABS** - Asset-backed securities are bought and sold in the public primary and secondary markets, based on whether Chenavari determines them to be mis-priced relative to their intrinsic value.

- **Private asset-backed finance** – A buy-and-hold strategy applied to private financing transactions. Sourcing relies on Chenavari's extensive relationships with European banks and retail credit firms.

- **Direct origination** – A buy-and-hold strategy, with loans originated by Chenavari through its industry contacts. Investments will primarily be in originators (Taurus is TORO's subsidiary originator for CLOs) that establish securitisation vehicles, thereby satisfying risk retention requirements. Alpha is generated by participation in the origination, as well as enhanced economics on the retained interests.

Immediately following the IPO, TORO was c. 70% invested in the public ABS strategy (the rest being cash), having been seeded by certain of the assets from Toro Capital I. In line with the stated intention at the IPO, the Company's portfolio has become progressively less exposed to public ABS, and the two other strategies have been introduced, and given increased weight, so that TORO may benefit from their larger return potential.

Figure 5: Investment strategies

	Public ABS	Private asset-backed finance	Direct origination
Current allocation (%)	26.4	20.1	34.0
Yield to maturity (%)	9.7	13.9	19.1
Case studies	CDO of ABS	Irish residential mortgages	Irish buy-to-let mortgages; Spanish real estate development; CLOs

Source: Fidante Capital, Company, Chenavari. As at 31 October 2017. Hedging was 2.1% of the exposure and cash was 17.4%. The yields to maturity are forward-looking, and the weighted average yield to maturity across the entire portfolio was 12.0%. Case studies are examples of transactions for each of the strategies and are described in Section 5 ("Case studies").

For the first 24 months of the Company's life, the target dividend was at least €0.05 per annum (payable quarterly), but in May 2017 the target was increased to at least €0.08 per annum, following the move into higher-yielding strategies. Our expectation for the medium-term annualised total NAV return is 10-12%. The management fee is 1.0% of NAV per annum and the performance fee paid to Chenavari is 15% of the annual NAV gain (40% paid in TORO shares issued at NAV with a two-year lock), with a high watermark. TORO earns rebates of up to 100% on the management fee (pro rata) for the investments it makes in its originator subsidiary, Taurus. Discount control exists in the form of the Company directors having the discretion to buy back shares when the average discount is more than 7.5% over rolling six month periods.

Figure 6: Key attributes

Company	Chenavari Toro Income Limited (TORO)
Sector	Credit/lending – structured credit
Listing	LSE (Specialist Fund Segment) and The International Stock Exchange (TISE)
	8 May 2015
Domicile	Guernsey
Share class	EUR
Management	Self-managed; independent non-executive board; Chenavari Credit Partners is the company's investment adviser; Carne Global AIFM Solutions (C.I.) is the investment manager
Investment objective	The investment objective of the company is to deliver an absolute return from investing and trading in asset backed securities and other structured credit investments in liquid markets, and investing directly or indirectly in asset backed transactions, including through the origination of credit portfolios
Projected performance	Medium-term annualised total NAV return expectation is 10-12%, after fees, based on projected exposures and yields (slightly lower than the 12-15% target at IPO due to spreads having tightened since then).
Dividends	Target at least €0.08 per share per annum; paid quarterly
Gearing	Up to 130% of NAV, at the fund level, at the time of borrowing
FX hedging	Non-EUR underlying FX exposures are hedged into EUR (base currency)
Fees	Management fee 1.0% of NAV per annum; performance fee 15% of NAV total return with high watermark (60% paid in cash and 40% paid in Toro shares issued at NAV, with a two-year lock)
Fee rebate	TORO receives a rebate on the investments it makes in Taurus, its subsidiary originator of CLOs, equal to 100% of the management fee for CLOs managed by Chenavari (the rebate may be different for CLOs managed by third party managers)
Ongoing charges	1.40% (including the management fee)
Reporting	December year-end; monthly NAV estimates
Discount management	The directors may, at their discretion, repurchase shares when the average discount is more than 7.5% over rolling six month periods
Life	Unlimited
Board	Fred Hervouet (Chair), John Whittle, Roberto Silvotti (non-independent); all directors are non-executive
Website	torolimited.gg

Source: Fidante Capital, Chenavari, Company.

Chenavari – The organisation and investment personnel

Chenavari is a London-based credit and structured finance asset manager, founded in 2008 with an AUM of around $5.4bn, largely from institutional clients. The firm is focussed on niche credit market strategies across credit (corporate and high yield, financials and credit derivatives), structured finance (ABS, CMBS and regulatory capital) and illiquid credit opportunities (private debt, real estate and consumer finance), predominantly in European and Asian markets.

The firm employs over 100 professionals, more than 40 of whom are investment professionals (including fundamental credit experts, credit portfolio managers and risk managers), with the remainder covering operations and IT, finance, legal and compliance and business development. The main office is in London with additional offices in Luxembourg, Hong Kong and New York. Ownership of the company lies predominantly with the partners and employees (Dyal Capital Partners has a 10% passive stake). In addition to Toro, Chenavari is the manager for another company, Chenavari Capital Solutions*, listed on the LSE (Specialist Fund Segment) since October 2013, which invests in European regulatory capital relief transactions.

Figure 7: Chenavari structured credit investment committee

Name	Title
Loïc Fery	CEO and co-CIO
Frederic Couderc	Co-CIO
Ed Smalley	Head of Risk
Benoit Pellegrini	Senior Portfolio Manager, European ABS
Mark Vasilache	Portfolio Manager, Structured Finance
Hubert Tissier de Mallerais	Portfolio Manager, Structured Finance

Source: Fidante Capital, Chenavari.

The Chenavari structured credit investment committee oversees the investments made on behalf of Toro. The portfolio managers are Benoit Pellegrini and Mark Vasilache.

Benoit Pellegrini co-started the European ABS and Structured Finance team at Chenavari in 2009. He is responsible for defining and implementing the investment strategy across ABS mandates run by the firm, including Toro. Prior to joining Chenavari, Mr. Pellegrini worked as an ABS/CDO trader at Natixis, where he was in charge of managing a multi-billion euro portfolio which involved analysing, modelling, pricing and monitoring a wide range of European structured credit products. He received a Magistere des Sciences in International Economics & Finance and a post graduate degree in Corporate Finance from the University of Bordeaux IV.

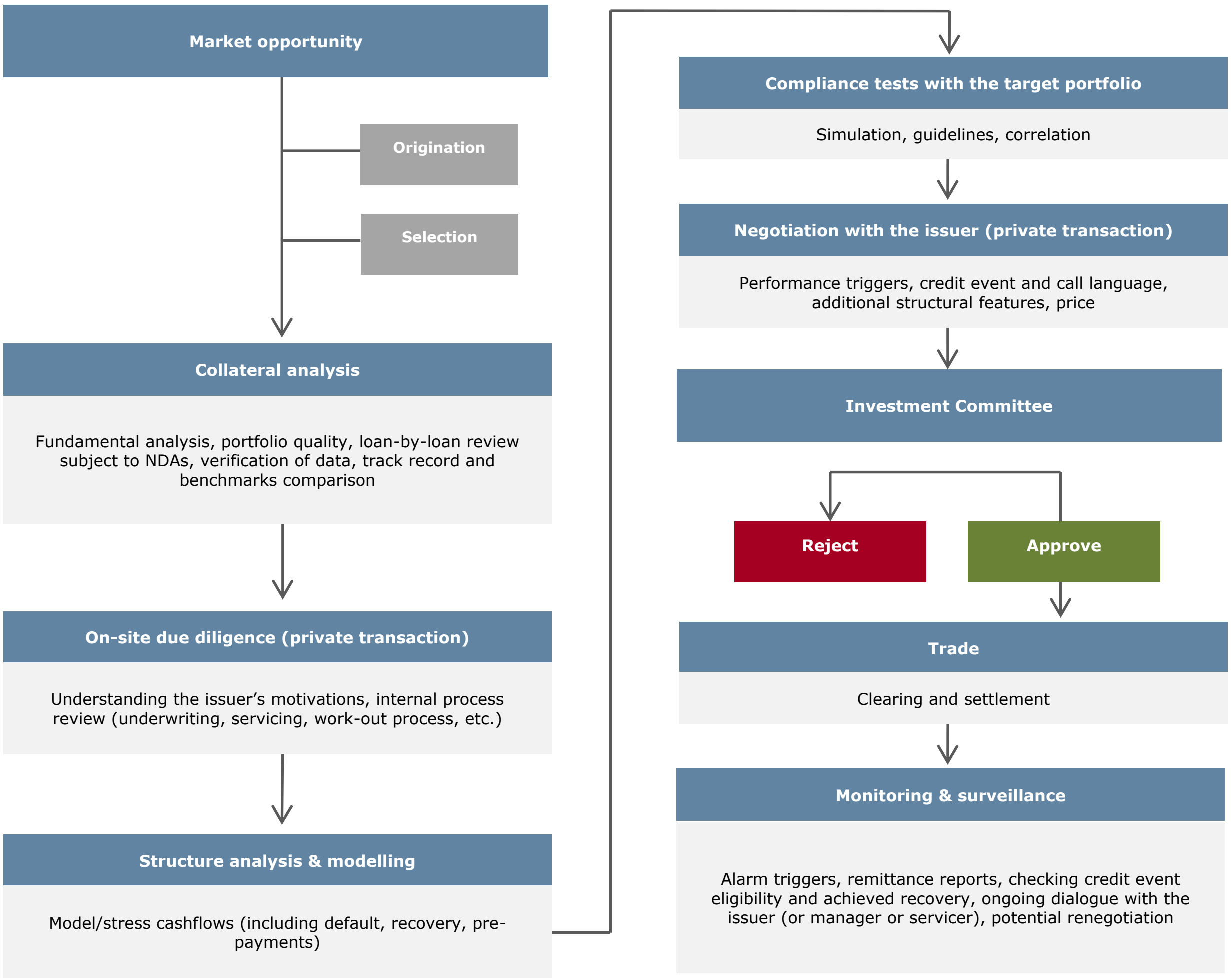
Mark Vasilache has 19 years' experience in European and US leveraged finance. He started his career in Morgan Stanley's Fixed Income division in New York and came to Europe in 2000 with JPMorgan Chase in order to develop the European leveraged buyout market. Mr. Vasilache moved to the buy-side in 2003, and prior to joining Chenavari he developed and ran the €1.1bn European Leveraged Credit Fund at AIM, an affiliate of Cerberus Capital. Prior to that, Mr. Vasilache was the senior leveraged credit analyst at Elgin Capital, where he was one of the founders of the Dalradian CLO programme which consisted of four CLOs totalling €1.4bn. Mr. Vasilache is a graduate of Wesleyan University and has an MBA from Harvard Business School.

Chenavari – Investment process

Once an investment opportunity has been identified and a potential transaction (or transactions) sourced, the investment process is a combination of quantitative and qualitative analysis which relies on fundamental credit analysis, structuring and modelling (which includes stress testing) the transaction and, in the case of private deals, negotiating the terms. For publicly-traded instruments, one aim of this analysis is to determine the value of the underlying assets versus the market. Each transaction entered into requires the approval of each member of the investment committee as well as the Chief Compliance Officer.

Before investment and for each position, as part of the investment thesis, the investment committee defines a base case for performance, given the expected market conditions. Chenavari then models the impact on performance resulting from outlier, low-probability moves in parameters such as default and recovery rates. The aim of this modelling is to identify at what point the deal breaks, that is, becomes unprofitable, and to determine the probability of this happening. This is an important input into the decision making process. Once invested, the timing and amounts of cash received are carefully monitored and the managers receive regular performance statistics on the pool of credits backing the transaction.

Figure 8: Investment process flow chart

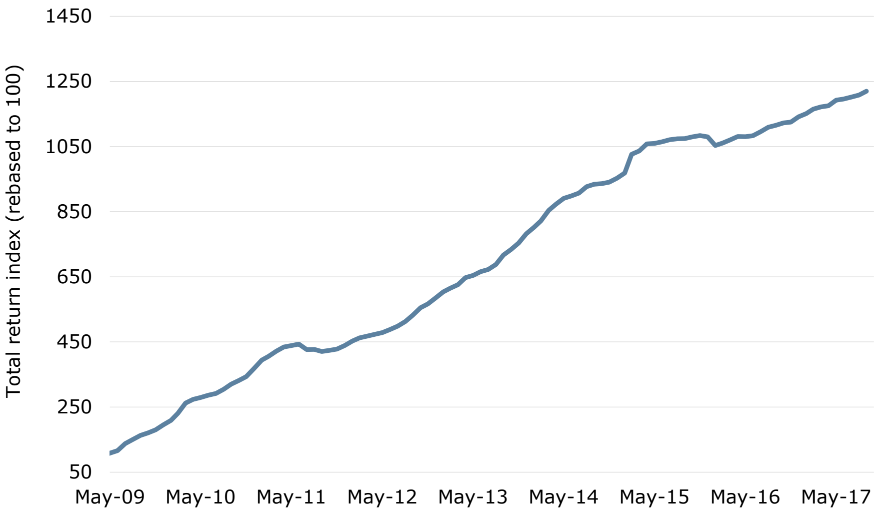


Source: Chenavari.

Chenavari – Track record

The European ABS strategy was launched in June 2009 with the inception of the open-ended fund, Toro Capital I, and between then and April 2015, when certain of the assets were transferred to TORO, it generated an annualised total NAV return of 47.9%. The NAV returns over the final seven months of 2009 and all of 2010 were 80.1% and 90.6%, respectively. These exceptional returns resulted from the severe dislocation in European ABS markets after the global financial crisis in 2008. There is no European ABS index with which the track record can be compared.

Figure 9: Toro Capital I and Chenavari Toro Income performance



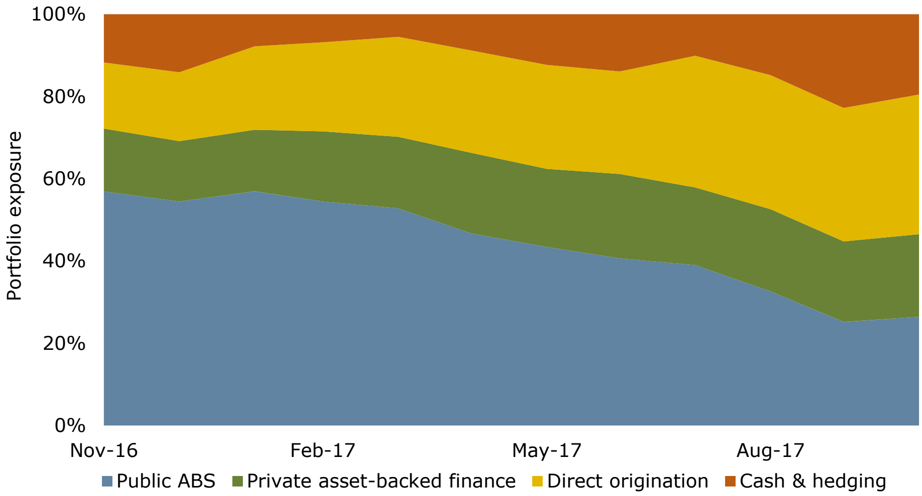
Source: Fidante Capital, Company, Chenavari. To 31 October 2017. Includes the performance of TORO since its IPO in May 2015.

3. Company assets and performance

Exposures

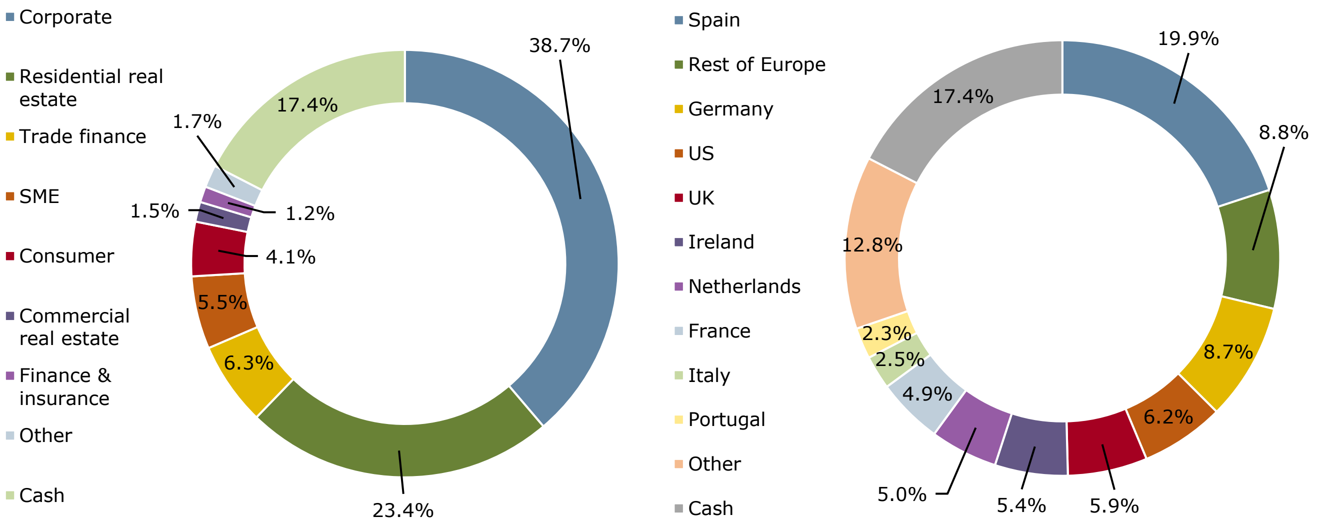
At launch, TORO's portfolio predominantly comprised secondary market, public ABS investments (c. 70% of the portfolio, mainly CDO of ABS, CLO and RMBS) and cash (c. 30%). The intention was to reduce the exposure to public ABS over time and move progressively into the two other strategies, with their greater focus on originated transactions. As at the end of October 2017, public ABS was just over a quarter of the portfolio. The predominant risk types over the last 12 months have been corporate loans (c. 34% on average) and residential real estate loans (c. 24% on average). The Spanish exposure, which encompasses the second and third largest investments in the portfolio as at 31 October 2017, was the largest country weighting and has been roughly constant over the last 12 months (c. 20% on average). Cash has been around 10% of the risk over the last 12 months and was just more than 17% at the end of October 2017, pending deployment into the pipeline opportunities. The target is to keep cash at 5% to 10% of the portfolio.

Figure 10: Strategy exposure evolution over the last 12 months



Source: Fidante Capital, Company, Chenavari. To 31 October 2017.

Figure 11: Risk type and geographical exposure



Source: Fidante Capital, Company. As at 31 October 2017.

Top five positions

Taken together, the five largest positions represent around 47% of TORO's NAV and are therefore likely to be significant contributors to performance.

Figure 12: Top five positions

	Position size (% NAV)	Strategy	Underlying risk	Seniority
Taurus	23.0	Direct origination	Corporate	Subordinate
SpRED	9.2	Direct origination	Residential real estate	Senior
Project WIND	7.4	Private asset-backed finance	Residential real estate and SME	Subordinate
Drybulk	4.9	Private asset-backed finance	Trade finance	Senior
CLO warehouse	2.8	Private asset-backed finance	Corporate	Subordinate

Source: Fidante Capital, Company. As at 31 October 2017.

Taurus – The combined exposure to three CLOs managed by Chenavari, with investments made through Taurus, the originator. The underlying senior secured loan collateral is of high quality. More details of TORO CLO 4 in Section 5 ("Case studies"). The blended gross IRR expected on this investment is 18%.

SpRED - Senior secured financing provided to a Spanish residential real estate developer. Gross IRR of 22.2% and equity multiple of 1.55x targeted. More details in Section 5 ("Case studies").

Project WIND – Spanish non-performing loans portfolio acquired in September 2015. Comprises two sub-portfolios, MAST (primarily residential loans) and FIN (primarily SME loans). The position was marked down by 20% in Q4 2016 and Q3 2017. The current mark implies a low teens IRR on the revised business plan.

Drybulk – TORO has entered into a partnership with a high quality and highly experienced ship-owner, providing senior secured financing to acquire dry bulk vessels. Characteristics of financing: a) current LTV 62%; b) 25% equity, covered by the ship-owner's balance sheet; c) tenor of four years. There is strong asset coverage associated with this position, due to the demolition value of the vessels and the 25% subordination. A recent oversupply of dry bulk vessels has led to historically low prices. Target gross IRR is 18%, including a preferred coupon of 6%.

CLO warehouse – An accumulation of senior secured loans before the planned launch of a CLO, managed by a high quality third party CLO manager. TORO has invested in a 4x to 6.3x leveraged junior stake. A number of positive attributes include: a) limited costs and no management fees charged by the collateral manager; b) shorter-term risk, with lower leverage, than CLO equity; c) option to roll into the equity the CLO once launched; d) veto right over underlying collateral; and e) potential upside with the payment of a warehouse fee. The gross IRR expected on this investment is 14%.

Figure 13: Taurus CLO exposure

	Equity stake (%)	Priced	Status	Size (€,m)	Last payment annualised (%)
TORO CLO 2	55.6	Aug-16	Fully invested	363	19.1
TORO CLO 3	50.5	Mar-17	Being ramped	365	13.1
TORO CLO 4	57.4	Jun-17	Refinancing of TORO CLO 1; being ramped	408	11.9

Source: Fidante Capital, Chenavari. As at 31 October 2017. TORO CLO 3 and TORO CLO 4 expected to be fully invested by the end of 2017. The annualised payments include the management fee rebates.

Performance

TORO's NAV total return since launch to the end of October 2017 was 17.7%, which equates to an annualised NAV total return of 6.7%. Monthly NAV returns have been positive in each of the 30 months since the IPO, except for three. The most severe negative performance came in January and February 2016 (together down 2.8%) when there were significant markdowns in the prices of assets within the public ABS portfolio in response to a global wave of risk aversion (concerns over the slowdown in Chinese economic growth and increasing tensions in the Middle East). These losing months contributed to the annualised NAV total return since launch being less than the target. Performance has picked up in 2017 and the annualised NAV total return for the first ten months of 2017 was 10.2%, despite an average cash level of around 10%.

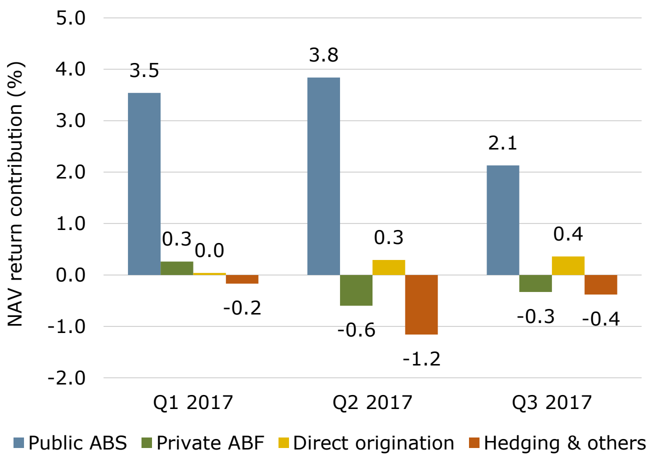
Figure 14: TORO monthly NAV total return (%; €)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual return
2015					2.06	0.14	0.45	0.63	0.28	0.02	0.52	0.34	**4.53**
2016	-0.34	-2.44	0.69	0.92	0.95	-0.04	0.29	1.13	1.23	0.54	0.67	0.24	**3.85**
2017	1.41	0.88	1.21	0.56	0.30	1.49	0.28	0.50	0.51	0.98			**8.44**

Source: Fidante Capital, Company.

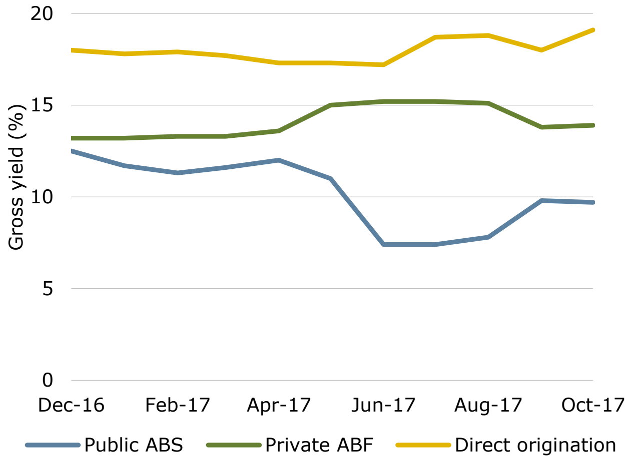
The main driver of performance in the first three quarters of 2017 has been the public ABS strategy (this holds true for the entire period since the IPO). Generally, returns within the public ABS segment of the portfolio have come from carry, price appreciation and trading gains. Across the three main strategies in 2017, gross yields have been around 10% for public ABS, just under 15% for private asset-backed finance, and between 15-20% for direct origination.

Figure 15: Quarterly NAV return contributions in 2017



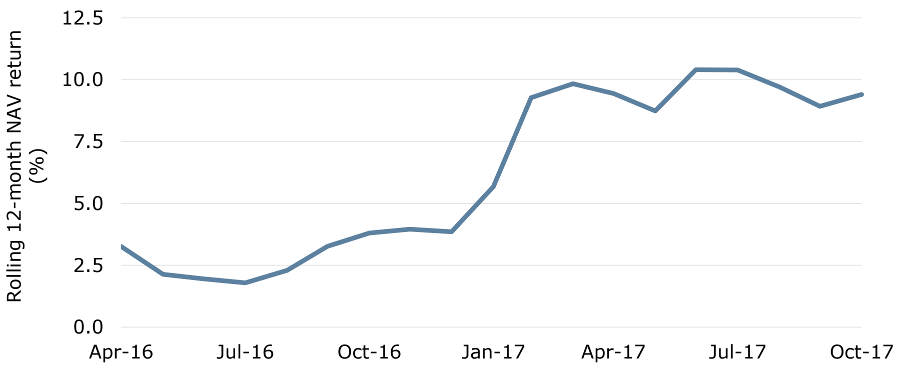
Source: Fidante Capital, Chenavari.

Figure 16: 2017 gross yields by strategy



Source: Fidante Capital, Company, Chenavari. To 31 October 2017.

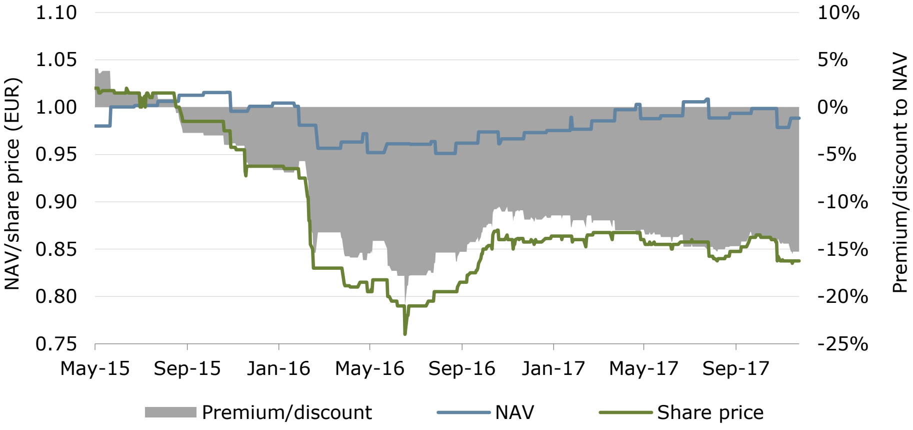
Figure 17: Rolling 12-month total NAV return



Source: Fidante Capital, Company. To 31 October 2017.

The TORO shares have traded at a discount to NAV for most of the period since IPO, spiking to a maximum discount of nearly 20% in June 2016. In line with its discount management policy, TORO started buying back shares in October 2016, and between then and April 2017 it repurchased €32.9m (£28.2m) of shares. The discount narrowed, to just wider than 10% at its narrowest, but has since drifted wider, to stand at just more than 15% as at 1 December 2017.

Figure 18: TORO share price premium/discount to NAV



Source: Fidante Capital, Company, Bloomberg. From 8 May 2015 to 1 December 2017. Premium/discount is for the share price with respect to the most recent NAV (adjusted for dividends).

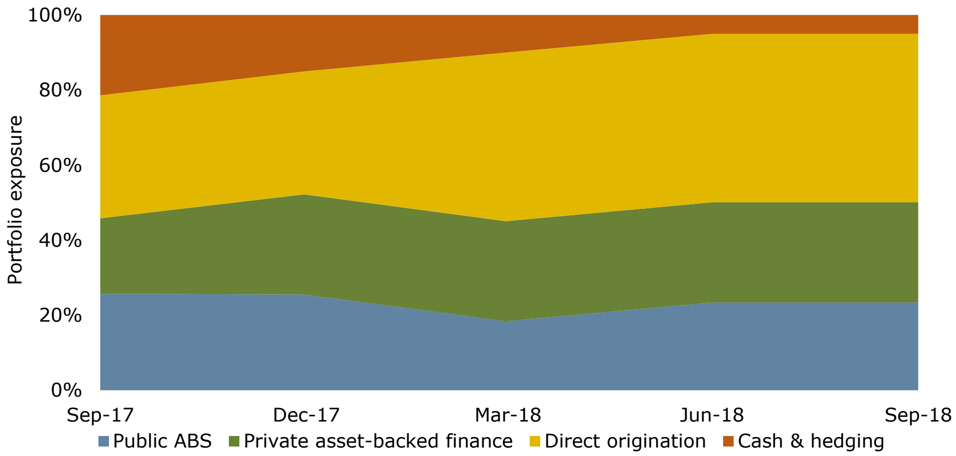
Pipeline

Chenavari are working on several investment opportunities in the private asset-backed finance and direct origination strategies on behalf of TORO. These include additional allocations to existing investments, such as the Spanish real estate development financing strategy (SpRED) and the Irish buy-to-let mortgage loans transaction. In addition, TORO's investment in the CLO warehouse (the fifth largest position as at 31 October 2017, described above) may evolve into a further CLO equity investment. It is envisaged that this may be the first of a number of such transactions.

Expected exposure and performance evolution

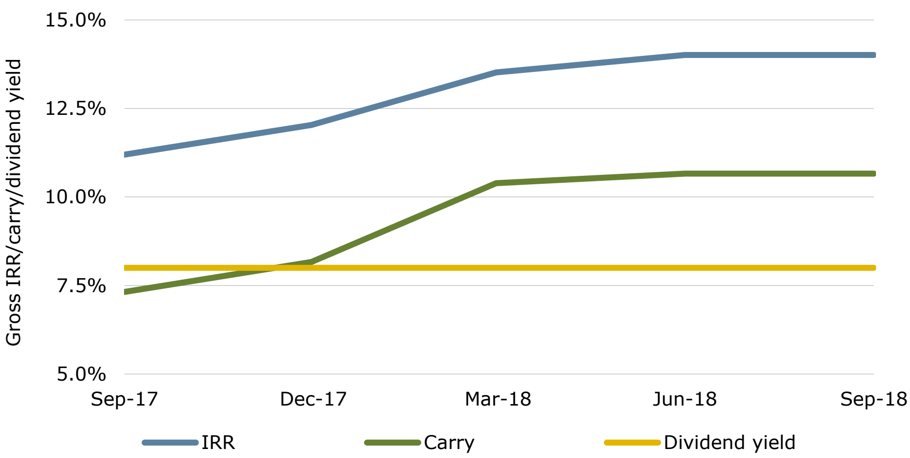
Based on the pipeline of transactions, Chenavari have estimated the future strategy exposures and yields for the TORO portfolio (looking forward from 30 September 2017). The exposure to "cash & others" is expected to decline 21.4% to around 5.0% by June 2018. The exposure to private asset-backed finance is expected to increase by more than six percentage points to 27%, while the direct origination exposure will move from 32.8% to 45%. This move into higher yielding strategies will have the effect of increasing the portfolio carry from 7.3% to over 10% by the middle of next year and 11% by 30 September 2018. The portfolio gross IRR will correspondingly move from 11.2% to 14% over the 12-month period. Accordingly, our expectation for the medium-term annualised total NAV return is 10-12%, after including the effects of the ongoing charges of 1.4% and the 15% performance fee.

Figure 19: Expected strategy exposure evolution



Source: Fidante Capital, Chenavari. 12 months from 30 September 2017.

Figure 20: Expected gross IRR and carry evolution



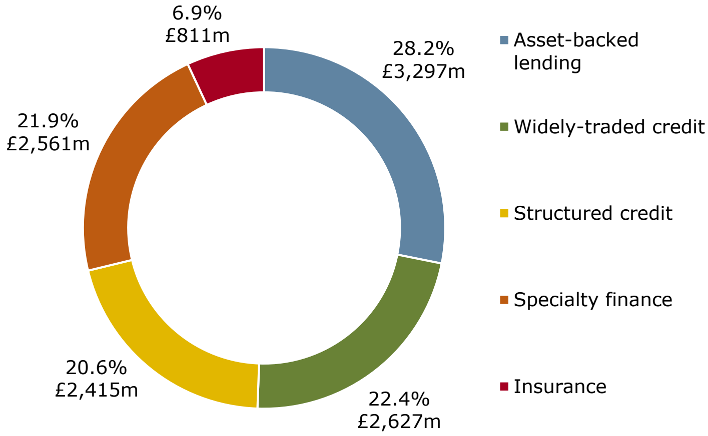
Source: Fidante Capital, Chenavari. 12 months from 30 September 2017. The dividend yield shown is based on the issue price (€1.00 per share).

4. Peer group comparison

Listed structured credit investment companies

Our listed credit/lending investment company universe had an aggregate market cap of £11.3bn as at the close on 1 December 2017, across 39 companies and five sectors. We believe that TORO belongs within the structured credit sector, which comprises ten companies and constitutes 21.5% of the market cap of the listed credit/lending investment company universe.

Figure 21: Market composition for listed credit/lending investment companies



Source: Fidante Capital, companies. Market capitalisations as at 1 December 2017.

Figure 22: Listed structured credit peers

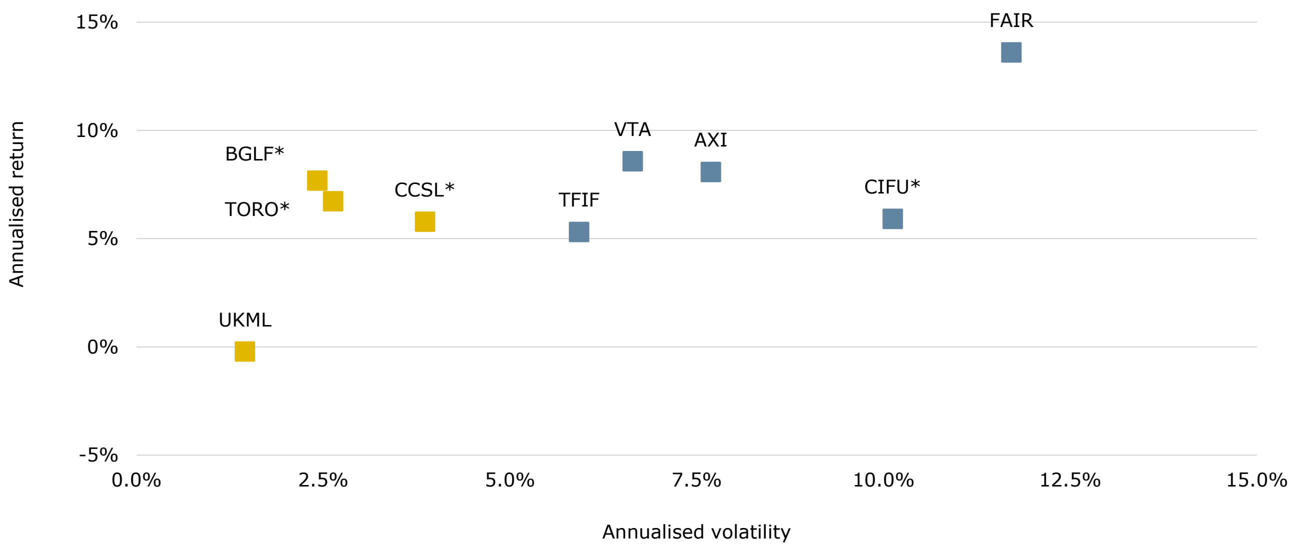
Name	Launch	Size (NAV)	Strategy	Target return	Dividend yield	Premium /(discount)
Axiom Eur. Financial Debt	Nov-15	£63m	European reg cap transactions	10%	5.9%	(1.0%)
Blackstone/GSO Loan Financing*	Jul-14	£337m	European and US-compliant CLO origination	Mid-teens	10.1%	5.1%
Carador Income*	Apr-06	£300m	CLOs (income and mezzanine)	Low double digit	13.5%	(5.4%)
Chenavari Capital Solutions*	Oct-13	£95m	European reg cap transactions	12% or more	7.5%	(0.9%)
Chenavari Toro Income*	May-15	£283m	European ABS and other structured credit	10-12%**	9.6%	(15.3%)
EJF Investments	Apr-17	£81m	Structured credit, including risk retention and ABS	8-10%	5.5%	1.6%
Fair Oaks Income	Jun-14	£342m	US and European CLOs	12-14%	12.9%	5.3%
TwentyFour Income	Mar-13	£463m	European ABS (CLOs and real estate)	6-9%	5.8%	2.4%
UK Mortgages	Jul-15	£217m	Diversified portfolio of UK mortgages	7-10%	6.6%	4.8%
Volta Finance	Dec-06	£266m	Structured credit multi-strategy	Not stated	9.0%	(14.2%)

Source: Fidante Capital, companies. As at 1 December 2017. Target return is the total net return including dividends. Net asset size is aggregated across separate share classes for Carador Income and Fair Oaks Income. Dividend yields are based on latest closing share price and last dividend annualised (Axiom European Financial Debt, Blackstone/GSO Loan Financing, UK Mortgages and Volta Finance), 12-month historical (Carador Income, Chenavari Capital Solutions, Fair Oaks Income and TwentyFour Income), adjusted (Chenavari Toro Income) and target (EJF Investments). Premium/discount is for the mid share price as at close on 1 December 2017 relative to the latest reported NAV as at 4 December 2017. Dividend yield and premium/discount is for the Fair Oaks Income 2017 shares, the Volta Finance shares listed on Euronext Amsterdam, and the Carador Income ordinary shares. ** For Chenavari Toro Income, this is the projected medium-term annualised total NAV return; companies are not obliged to update their target returns so the given target returns across the peers may not be comparable.

While there are overlaps between TORO and most of the nine other companies in that sector, TORO is amongst the most diverse in terms of the types of investments it makes, from tranches of RMBS, CMBS, CLOs and CLO warehouses, to pools of mortgage loans, to private corporate and consumer loans, and trade finance. Blackstone/GSO Loan Financing* focuses exclusively on the origination and warehousing of senior secured loans, and managing CLOs investing in those loans, via an originator, to satisfy Blackstone/GSO's risk retention requirements. Chenavari Capital Solutions* and Axiom European Financial Debt were also established in order to benefit from regulatory changes in the last few years (specifically, regulatory capital release transactions and securities designed to improve banks' capital ratios). Volta Finance and EJF Investments also engage in regulatory-driven investments as part of their wider investment remits within structured credit. Carador Income* and Fair Oaks Income invest in the equity and debt of externally-managed CLOs. Of the ten structured credit companies, TORO, Blackstone/GSO Loan Financing, Chenavari Capital Solutions, EJF Investments and UK Mortgages originate at least some of the deals in which they invest, while the other companies are more focussed on the trading of existing credits.

During the period since TORO's launch, those companies which have been classified as originators have generated NAV returns with lower volatility than those companies which trade existing securities. These performance characteristics reflect the relative illiquidity of the assets held and consequently the relative importance of non-market pricing, together with the longer-term holding periods. It should be noted that TORO has generated amongst the best risk-adjusted returns over the period.

Figure 23: Annualised NAV return and volatility – 30 April 2015 to 31 October 2017

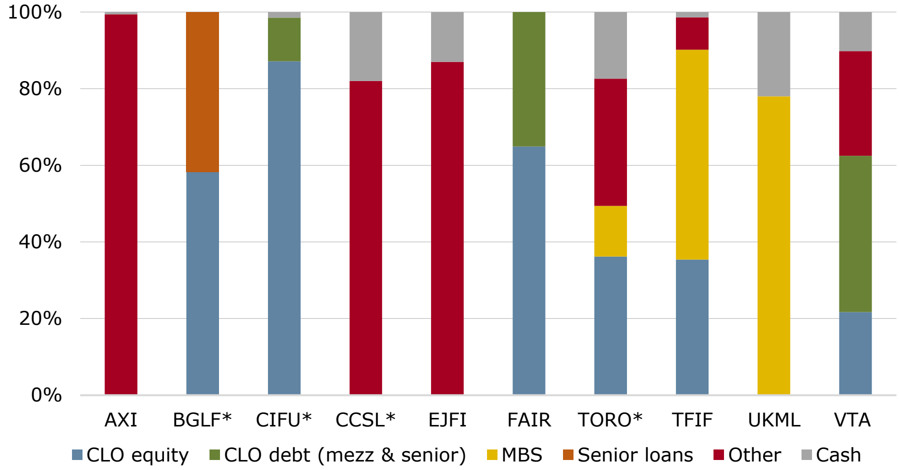


Source: Fidante Capital, companies. Axiom European Financial Debt (AXI), Blackstone/GSO Loan Financing (BGLF), Carador Income (CIFU), Chenavari Capital Solutions (CCSL), Fair Oaks Income (FAIR), Toro (TORO), TwentyFour Income (TFIF), UK Mortgages (UKML) and Volta Finance (VTA). AXI, CCSL, TFIF and UKML in GBP; CIFU and FAIR in USD; BGLF and VTA in EUR. AXI from November 2015, and UKML from July 2015. Blue markers indicate those companies which engage in trading existing structured credits, while yellow markers indicate those companies which engage in origination. EJF Investments only listed in April 2017 and so has been excluded from this analysis; to 31 October 2017, EJFI Investments has generated an NAV total return of 12.18%.

Exposures and structures

As has been noted, TORO is well-diversified by asset type. Another company in the peer group which is similarly diversified is Volta Finance, for which the investments include CLO equity and debt, CLO warehouses and reg cap transactions. Carador Income, Fair Oaks Income and Blackstone/GSO Loan Financing each have significant exposure to CLO equity, while TwentyFour Income and UK Mortgages both have sizeable allocations to mortgage-linked assets. Axiom European Financial Debt and Chenavari Capital Solutions are predominantly exposed to reg cap transactions. EJF Investments' investments include direct loans to law firms and an insurer, the equity of a risk retention CDO and discounted CDO securities.

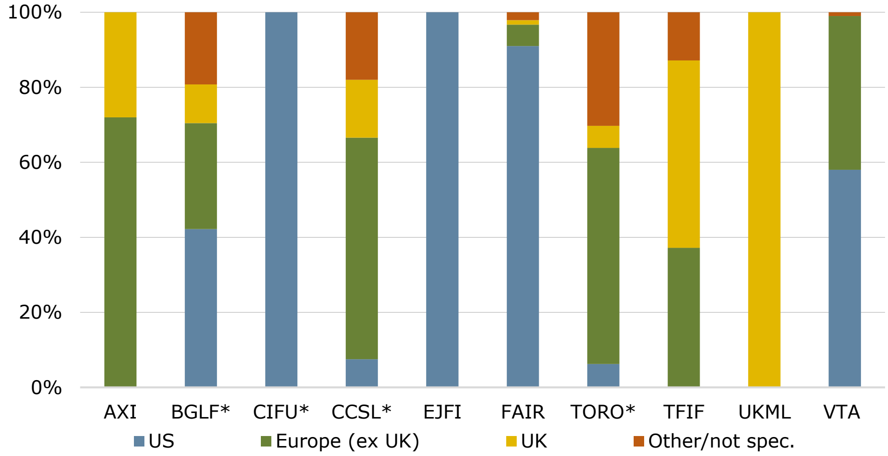
Figure 24: Portfolio exposures by asset type



Source: Fidante Capital, companies. Axiom European Financial Debt (AXI), Blackstone/GSO Loan Financing (BGLF), Carador Income (CIFU), Chenavari Capital Solutions (CCSL), EJF Investments (EJFI), Fair Oaks Income (FAIR), Toro (TORO), TwentyFour Income (TFIF), UK Mortgages (UKML) and Volta Finance (VTA). As at 31 October 2017 except for CCSL and UKML, which are both as at 30 September 2017. For TORO, half the public ABS strategy is assumed to be invested in CLO and half in MBS securities. For FAIR, the exposures are given for Master Fund II. The cash position for BGLF (-14.8%) is not shown; cash is not reported for FAIR.

In terms of underlying geographical exposures, the majority of the companies, including TORO, are biased towards Europe, the exceptions being Carador Income, EJF Investments and Fair Oaks Income, which are either exclusively or predominantly invested in the US. Volta Finance also has a majority exposure to the US. UK Mortgages is focussed solely on UK assets.

Figure 25: Portfolio exposures by geography



Source: Fidante Capital, companies. Axiom European Financial Debt (AXI), Blackstone/GSO Loan Financing (BGLF), Carador Income (CIFU), Chenavari Capital Solutions (CCSL), EJF Investments (EJFI), Fair Oaks Income (FAIR), Toro (TORO), TwentyFour Income (TFIF), UK Mortgages (UKML) and Volta Finance (VTA). As at 31 October 2017 except for CCSL and UKML, which are both as at 30 September 2017.

Figure 26: Structures and terms

	Axiom Eur. Financial Debt	Blackstone/GSO Loan Financing*	Carador Income*	Chenavari Capital Solutions*
Listing	LSE (Specialist Fund Market)	LSE (Specialist Fund Market); CISE	LSE (Main Market)	LSE (Specialist Fund Market)
Launch	Nov-15	Jul-14	Apr-06	Oct-13
Domicile	Guernsey	Jersey	Ireland	Guernsey
Share class	GBP	EUR	USD	GBP
Investment manager/adviser	Axiom Alternative Investments	Blackstone/GSO	Blackstone/GSO	Chenavari Investment Managers (Guernsey)
Dividends	Quarterly	Quarterly	Quarterly	Quarterly
FX hedging	Hedged to GBP	Hedges to EUR	Hedges to USD	Hedges to GBP
Annual management fee	1% of NAV (if NAV < £250m)	Nil at company level; underlying CLO management fee of 0.5% of gross assets, of which 20%/100% for horizontal/vertical strips rebated to the company	1.5% of NAV (no fee on primary investments in GSO managed CLOs)	1% of NAV
Performance fee	15% of gains over a 7% p.a. cumulative return, compounded annually (with HWM)	Nil at company level; underlying CLO performance fee of 20% over 7% hurdle	13% over the greater of 12-month LIBOR+2% and 6%	20% over 7.5% per annum hurdle with 50% catch up, payable on realised returns to shareholders
Discount management/life	Buybacks considered if discount > 7.5% for more than 90 consecutive calendar days. Continuation vote every seventh AGM	Buybacks if > 7.5% discount over rolling 6m (at directors discretion)	Repurchase opportunity every 2.5 years (at director's discretion, to be approved by shareholders); starting in 2017, five-yearly repurchase opportunity if shares have traded at an average discount in excess of 5% over the 12 months to April in the relevant year (at directors' discretion); ten-yearly continuation vote from 2022	Buybacks considered if average discount > 7.5% for three consecutive months. Investment period ended on 31-Dec-16; now in realisation period during which unencumbered cash will be returned to shareholders
Board	William Scott (chairman), John Renouf, Max Hilton	Charlotte Valeur (chairman), Steven Wilderspin, Gary Clark, Heather MacCallum	Werner Schwanberg (chairman), Fergus Sheridan, Adrian Waters, Edward D'Alelio (not independent), Nicholas Moss	Rob King (chairman), Rene Mouchotte (not independent) and Iain Stokes

	Chenavari Toro Income*	EJF Investments	Fair Oaks Income
Listing	LSE (Specialist Fund Market)	LSE (Specialist Fund Market)	LSE (Specialist Fund Market)
Launch	May-15	Apr-17	Jun-14
Domicile	Guernsey	Jersey	Guernsey
Share class	EUR	GBP	USD
Investment manager	Chenavari Investment Managers (Guernsey)	EJF Investments Manager	Fair Oaks Capital
Dividends	Quarterly	Quarterly	Monthly
FX hedging	Active hedging/risk	Hedges to GBP	Hedges to USD
Annual management fee	1% of NAV	1% of NAV	1% of NAV
Performance fee	15% of gains (with HWM)	10% over the higher of 8% IRR and HWM	15% over 7% IRR
Discount management/life	Surplus cash used for share repurchases if discount > 7.5% over 6m rolling period	Will consider buybacks to address any imbalance between the supply and demand of shares in the market. Continuation vote every five years after admission	Will consider buybacks if >5% discount. Continuation vote by Jun-24 (the planned end date of Master Fund II, which has an investment period to Jun-19, with two potential one-year extensions) and every two years subsequently
Board	Frederic Hervouet (chairman), John Whittle, Roberto Silvotti (not independent)	Joanna Dentskevich (chairman), Alan Dunphy, Nick Watkins, Neal J. Wilson (not independent)	Prof. Claudio Albanese (chairman), Jonathan (Jon) Bridel, Nigel Ward

	TwentyFour Income	UK Mortgages	Volta Finance
Listing	LSE (Main Market)	LSE (Specialist Fund Market)	LSE (Main Market); Euronext Amsterdam
Launch	Mar-13	Jul-15	Dec-06
Domicile	Guernsey	Guernsey	Guernsey
Share class	GBP	GBP	EUR
Investment manager	TwentyFour Asset Management	TwentyFour Asset Management	AXA IM (Paris)
Dividends	Quarterly (larger final)	Quarterly	Semi-annual
FX hedging	Aim to hedge to GBP	May hedge to GBP	Hedges some USD exposure
Annual management fee	0.75% on lower of market cap or NAV	0.75% on lower of market cap or NAV	1.5% of GAV
Performance fee	None	None	See footnote[1]
Discount management/life	Buybacks considered if discount > 5%. Realisation opportunity every 3 years after Mar-16. Continuation vote if dividend target is not met in any reporting period	Buybacks considered if discount > 5%. Realisation opportunity if dividend is less than 6pps in any financial year, and every five years after the fifth AGM	None
Board	Trevor Ash (chairman), Ian Burns, Richard Burwood, Jeannette (Jan) Etherden	Christopher Waldron (chairman), Richard Burrows, Paul le Page, Helen Green	Paul Meader (chairman), Stephen Le Page, Atosa Moinin, Paul Varotsis, Graham Harrison

Source: Fidante Capital, companies. Directors are independent unless indicated otherwise. [1]The lesser of: a) 15% or 20% (if cumulative dividends paid are below or above the capital raised since the IPO) of the amount by which the NAV increase over the latest semi-annual period exceeds the greater of (i) 8% annualised of the cumulative capital raised and (ii) 10% annualised of the NAV at the beginning of the semi-annual period, and b) 15% or 20% of the cumulative amount over the most recent six semi-annual periods by which the NAV increase exceeds the greater of (i) 8% annualised of the cumulative capital raised and (ii) 8% annualised of the average NAV as at the beginning of each of the most recent six semi-annual periods.

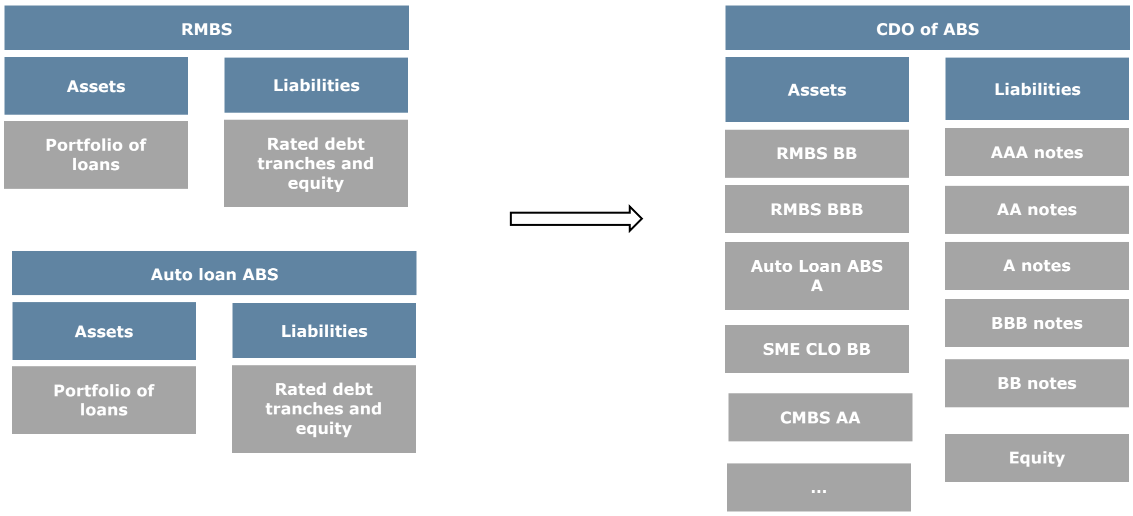
5. Case studies

Public ABS - CDO of ABS

Investment case

- The liabilities (tranches) of the CDO trade in the market, typically at large discounts to the value of the underlying portfolio, due to their complexity, non-standardisation and lack of price transparency).
- Chenavari are experienced in analysing these bonds, modelling the cash flows and valuing the underlying portfolios. Their aim in making these investments is to realise the discount between the acquisition price and the underlying portfolio.

Figure 27: Structure of a CDO of ABS



Source: Fidante Capital.

Figure 28: HOEF III A – actual TORO investment

	Comment
Description	Senior tranche of European CDO of ABS managed by Collineo.
Entry	Chenavari acquired 100% of HEOF III A in Q2 2015 at 73.6% of the cash price.
Position size	This was the largest position in TORO at the end of August 2017 (8.4% of NAV).
Investment plan	Potentially add leverage, boosting the projected gross IRR over 10%. Benefit from the auto-realisation (under a conservative base case scenario, 33% of the cash was expected back by 2017). Enter into discussions with the collateral manager to liquidate the transaction in an orderly manner and realise the discount to NAV, or sell the tranche at close to NAV.
Portfolio characteristics	Launched in 2004, with the re-investment period ending in 2009. At entry, the outstanding static portfolio comprised €290m of assets. Sector breakdown: RMBS 51.0%, CMBS 27.3% and CDO 21.7%. Geographic breakdown (largest exposures): Pan-European (34.3%), Netherlands (19.3%) and Germany (14.5%). 80% of the collateral was trading at less than 80%.
Exit	By Q3 2017, Chenavari had received around 50% of the initial investment back due to faster deleveraging than was originally expected. Chenavari then sold the entire position, to a specific buyer, at close to the NAV and at a significant premium to the mark.
Performance	The gross IRR generated on this senior CDO investment was 8.9% (unlevered).

Source: Fidante Capital, Chenavari.

Private asset-backed finance - Irish residential mortgages

Investment case

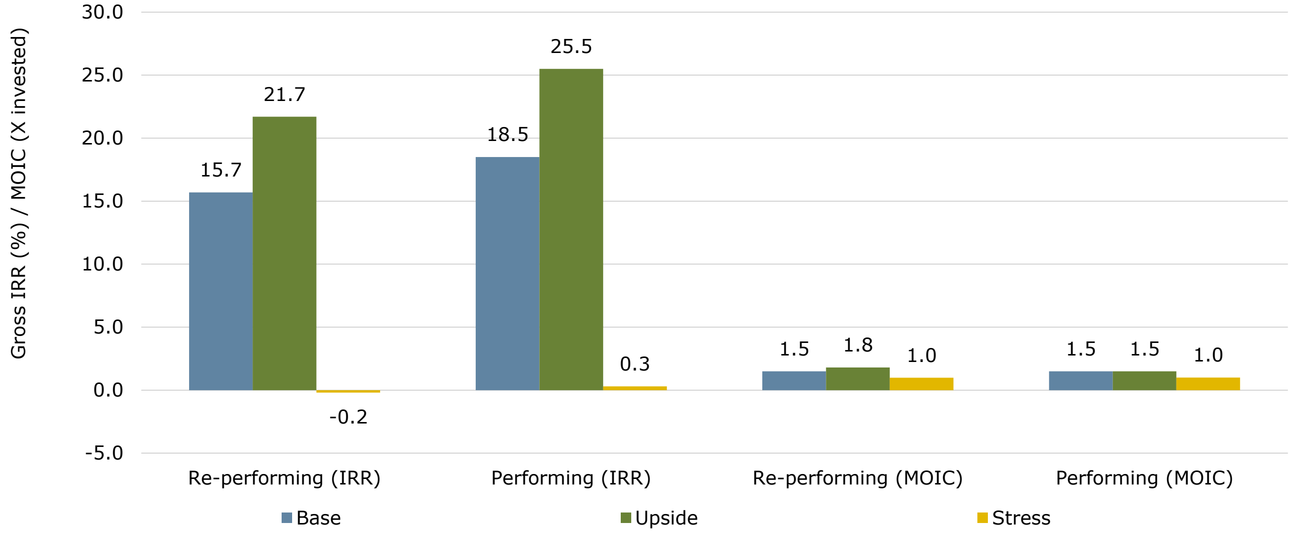
- Investment in Ireland is supported by positive macro fundamentals. For example, it is one of the fastest growing economies in the euro area (the GDP was up 5.8% year-on-year in June 2017) and the unemployment rate has fallen sharply over recent years (was 6.1% in September 2017, down from 15% in 2012).
- With respect to the real estate sector, house prices in Ireland were up 12% year-to-date to September 2017, and rents were up over 7% year-on-year at the end of Q2 2017.
- Together with the attractive financing (though not mortgage lending) that is available from the banks, these observations create a positive environment for mortgage lending in Ireland.

Figure 29: Project Clove – actual TORO investment

	Comment
Description	Portfolios of Irish re-performing and performing residential mortgage loans being sold by banks. Working with an Irish mortgage provider, using their platform and licensing.
Position size	Constituted 3.0% of the TORO portfolio at the end of October 2017.
Investment plan	Aggregate €300-400m of similar mortgage loans. Season the loans over a 2-4 year holding period. The payment performance is anticipated to remain strong over this period and the LTV to decrease as a result of price appreciation and capital repayments.
Portfolio characteristics	Fully amortising loans with c. 5% interest. Average loan size €159,000 (re-performing) and €92,000 (performing). Strong cash flow profile and natural deleveraging. Well-seasoned loans.
Exit	Sale into the Irish banking market or via a securitisation.

Source: Fidante Capital, Chenavari.

Figure 30: Modelled returns (gross)



Source: Fidante Capital, Chenavari. The base, upside and stress cases for re-performing and performing mortgages are derived from a range of reasonable and varying assumptions with respect to a range of variables: default rates, prepayment rates, payment rates, house price growth and exit assumptions.

Direct origination - Irish buy-to-let mortgages

Investment case

- Irish banks have reduced their buy-to-let (BTL) mortgage lending due to their high non-performing loans ratio, recent poor performance of BTL lending means that the capital charges for those banks which do this type of lending are high, and regulatory pressure to support lending on principal dwellings.
- Regulatory tightening on mortgage lending has kept rental yields high.
- Along with the positive impact coming from the improving macro fundamentals in Ireland (see Project Clove, the previous case study), these factors provide an attractive environment for Irish BTL mortgage lending, for which there is a gap in the market.
- TORO currently has few competitors in Irish BTL mortgage lending. TORO will undertake further transactions should this continue.

Figure 31: Project Shamrock – actual TORO investment

	Comment
Description	A self-originated portfolio of Irish BTL mortgages, together with a mortgage provider based in Ireland (the same partner as for Project Clove). More specifically, the investment is in the equity of a mortgage loans origination warehouse.
Position size	Constituted 1.5% of the TORO portfolio at the end of October 2017.
Investment plan	Aggregate a pool of BTL mortgages and hold for a period of 15-18 months. So far, €35m has been lent at a weighted average interest of 5.2%, with a defensive LTV of 56%. Strong pipeline of €55m of loans nearing completion, with a further €30m in the underwriting process. Pool expected to reach c. €200m by the end H1 2018.
Portfolio characteristics	BTL mortgages for properties in the major cities in Ireland. Maximum loan size €1.0m (70% LTV) and €1.25m (65% LTV). Terms from 5-15 years. No previous negative credit events accepted.
Exit	Once a c. €200m pool of BTL mortgages has been aggregated, the assets will be securitised as a RMBS. An originator for mortgage loans to be established (a subsidiary of TORO) through which TORO will retain a 5% stake, to satisfy the risk retention requirements. TORO will earn the excess return of the interest received over the originator's funding costs, and attractive returns on the retained investments, together with management fee rebates.

Source: Fidante Capital, Chenavari.

Modelled returns

- Base case gross IRR 15.7%
- Upside case gross IRR 25.4%
- Stress case gross IRR 7.1%

Due to the recent spread tightening on Irish RMBS (AAA spreads are around 40% tighter now than they were at the start of 2017), Chenavari are suggesting a return at the higher end of the projected c. 15-25% range defined by the base and upside cases.

Direct origination - Spanish real estate development

Investment case:

- Real estate prices in Spain were up 5.6% year-on-year at the end of Q2 2017, and in Barcelona they were up 9.3%. The number of houses sold in July 2017 was up 16.8% from July 2016. Spain is experiencing strong GDP growth and unemployment is below 20% for the first time in six years.
- The type of financing provided by TORO is small scale in nature and so not attractive to other institutional investors such as the large Spanish real estate developers. Lack of bank financing for local operators.
- TORO focusses on off-market medium-sized projects in niche areas where there is un-met demand for mid-market residential properties. This further supports this lending strategy, helping to ensure that there is limited competition.

Figure 32: SpRED – actual TORO investment

	Comment
Description	Senior secured financing provided to a Spanish residential real estate developer, with which TORO has built a strong relationship.
Position size	Constituted 9.2% of the TORO portfolio at the end of October 2017.
Investment plan	Earn the coupon paid by the real estate developer. Profit share mechanism in place as part of the transaction, with financing secured on the underlying assets. Construction costs underwritten by the real estate developer.
Portfolio characteristics	Loans made so far have financed seven acquisitions, six in Barcelona and one in Gerona, with a total development cost of €60m.
Exit	Sale of developed real estate assets.

Source: Fidante Capital, Chenavari.

Figure 33: Modelled returns – gross IRR and equity multiple sensitivity

		Construction cost multiple				
		1.0x	1.1x	1.2x	1.5x	2.0x
Exit price discount	0%	22.2%/1.55x	20.0%/1.48x	17.8%/1.41x	11.3%/1.24x	-0.1%/1.00x
	5%	18.7%/1.46x	16.5%/1.39x	14.3%/1.33x	7.7%/1.16x	-4.2%/0.92x
	10%	15.1%/1.36x	12.9%/1.30x	10.7%/1.24x	3.9%/1.08x	-8.3%/0.85x
	15%	11.5%/1.27x	9.2%/1.21x	6.9%/1.15x	-0.1%/1.00x	-12.6%/0.78x
	20%	7.7%/1.18x	5.4%/1.12x	3.1%/1.07x	-4.3%/0.91x	-17.0%/0.71x
	25%	3.7%/1.08x	1.4%/1.03x	-1.0%/0.98x	-8.8%/0.83x	-21.6%/0.64x

Source: Fidante Capital, Chenavari. The green-shaded cells represent those scenarios under which the investment would not break even.

The expected gross IRR and equity multiples for this transaction would be around 22% and 1.6x if there were to be no discount on sales and construction costs did not exceed budgeted levels. The investment would still be profitable for a wide range of negative sales price and construction cost outcomes. Progress is in accordance with the business plan and off-plan sales on the largest project have reached 20%.

Direct origination - CLOs

Investment case:

- Widely-syndicated senior secured loans, which have floating-rate coupons, are an attractive access route to exposure to the senior credit risk of predominately sponsor-backed private companies. CLOs are managed structures that use term-matched financing to leverage the returns from a portfolio of widely-syndicated loans. CLOs were able to demonstrate their resilience in the last financial crisis.
- The introduction of risk retention rules for CLO issuers (implemented in Europe in 2011) created a need for originators to retain exposure to the CLO transactions they originate. TORO is able to comply with the risk retention requirements through its investment in CLOs via its originator subsidiary, Taurus.

Figure 34: TORO CLO 4 – actual TORO investment

	Comment
Description	This investment is a 57.4% stake in the equity of TORO CLO 4, a refinancing of a previously-existing CLO, TORO CLO 1, managed by Chenavari. Position established in order to comply with the 5% risk retention requirement. TORO CLO 4 priced in June 2017 and was upsized from €308m (for TORO CLO 1) to €410m. Expected to be fully ramped by the end of 2017.
Position size	Constituted 6.3% of the TORO portfolio at the end of October 2017.
Investment plan	TORO receives a 100% rebate on the 50bps management fees pro rata to the investment in the equity, which provides an additional forecasted growth return on the investment of 7.2% over and above the typical return generated by European CLO equity investments (c. 13%).
Portfolio	Diversified portfolio of European senior secured loans.
Exit	As TORO has a controlling stake, it can call (liquidate, refinance or re-price) the CLO at its discretion at the end of the no-call period (typically 2 years)

Source: Fidante Capital, Chenavari.

Modelled returns

- Base case — gross yield c. 21.0%
- Breakeven — annualised default rate of 5.5%
- 2003-2015 credit cycle — gross yield c. 12.3%

The investment would become unprofitable should the annualised default rate exceed 5.5%. Averaging over the 2003 to 2015 credit cycle, during which there were notable spikes in default rates (for example, 2008 and 2009), the gross yield for this position would have been over 12%.

Glossary

Below we list the main terms associated with the investment strategy pursued by TORO.

ABS	Asset-backed securities are bonds or notes backed by financial assets within a single sector, such as residential and commercial mortgages, SME loans and UK auto loans.
CDO of ABS	A CDO of ABS is a re-securitisation of existing loan securitisations (ABS) which provides exposure to a range of different sectors, such as residential and commercial mortgages, SME loans and UK auto loans.
Collateralised Loan Obligation	Actively managed and leveraged portfolios of senior secured loans which issue equity and debt securities, with varying risk/return profiles (by tranche), to investors. Also known as a CLO.
CLO 1.0/2.0	A way of classifying outstanding pre-crisis and post-crisis CLOs. New CLO issuance volumes were very low during 2009-2011; CLO 2.0 deals emerged during the recovery in 2012 and were more conservatively structured.
CLO no-call period	Following the CLO ramp-up there is a period (typically around two years for CLO 2.0 transactions) during which the CLO cannot be called, that is: a) liquidated, with the proceeds paid to investors, b) refinanced or c) re-priced.
CLO debt	Debt tranches of the CLO capital structure. Tranches rated AAA-A are referred to as senior, while BBB-B-rated tranches are referred to as mezzanine. Each tranche has varying claims on the cash flows from the loan portfolio and receives contracted payments (the amount being related to the risk).
CLO equity	Equity tranche of the CLO capital structure. These securities bear first loss risk and receive the residual cash after the CLO debt tranches have been paid. Also referred to as CLO income notes.
CLO refinancing	After expiry of the no-call period, equity investors in CLOs can refinance the CLO security in which they are invested, for example, in order to receive the benefit from lower market interest rates. The CLO income notes being refinanced are redeemed and new notes, with lower associated interest rates, are issued.
CLO warehouse	Portfolio of senior secured loans established and built up, with leverage applied, intended for potential securitisation prior to the issuance of a CLO.
CRD IV	A package of reforms to the EU's capital requirements regime for credit institutions and investment firms. The main role of CRD IV was to implement the key Basel III (and also non-Basel III) reforms in the EU.
Mortgage-backed security	Also known as MBS. Securities which are backed by the cash flows coming from real estate mortgage loans. Comes in two varieties: residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS).
Originator	CLO securities can be held within a separate entity (from the CLO manager) called an originator, in order to help ensure compliance with the EU's risk retention regulations. Some originators are managed by entities which are not affiliated with the CLO managers, such as independent boards and managers.
Risk retention regulations	Regulations introduced in the EU (in 2011; mandated by CRD IV) and the US (in 2015 for RMBS, 2016 for CLOs and other assets; mandated by the Dodd-Frank Act) to help ensure that the interests of originators/sponsors of securitisations are better aligned with those of investors ("skin in the game").
Senior secured loan	Short-term debt obligations made by banks to sub-investment grade corporations, syndicated and sold to investors. Senior in the capital structure and secured by the corporate's assets, the investors earn a spread over the base rate.

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