

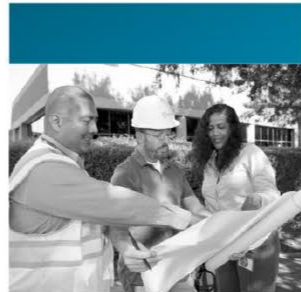


European Credit – Survey Update

May 2025



Proudly serving those who serve
San Bernardino communities.



Agenda

1. **Background**
2. **Current Exposure**
3. **Why European Credit?**
4. **Survey Results**
5. **Manager Research Process**
6. **Next Steps**



San Bernardino County Employees'
Retirement Association

Background

Asset allocation to International Credit is 11% and split between three managers:

- SBCERA NAV as of 12/31/2024: \$15.89 billion
 - International Credit Allocation: \$1.20 billion or 7.5%
 - BSP Alcentra: \$851.5 million or 5.45%
 - Marathon: \$249 million or 1.57%
 - Polus: \$92.6 million or 0.58%

In February 2024, SBCERA started a process to better understand the European credit landscape by issuing a survey. The goal, to identify the best risk-adjusted investment opportunities in European credit via strategic partnerships.

Current Exposure

Total European Credit Exposure: \$1,052.13 million

- **CLO Strategies: \$640.8 million or 60.9%**
- **Special Situation/Distressed: \$265.6 million or 25.2%**
- **Asset Backed Lending: \$78.6 million or 7.5%**
- **Risk Transfer: \$37.0 million or 3.5%**
- **Commercial Real Estate Equity: \$30.2 million or 2.9%**
- **Other: \$0.7 million or 0.01%**

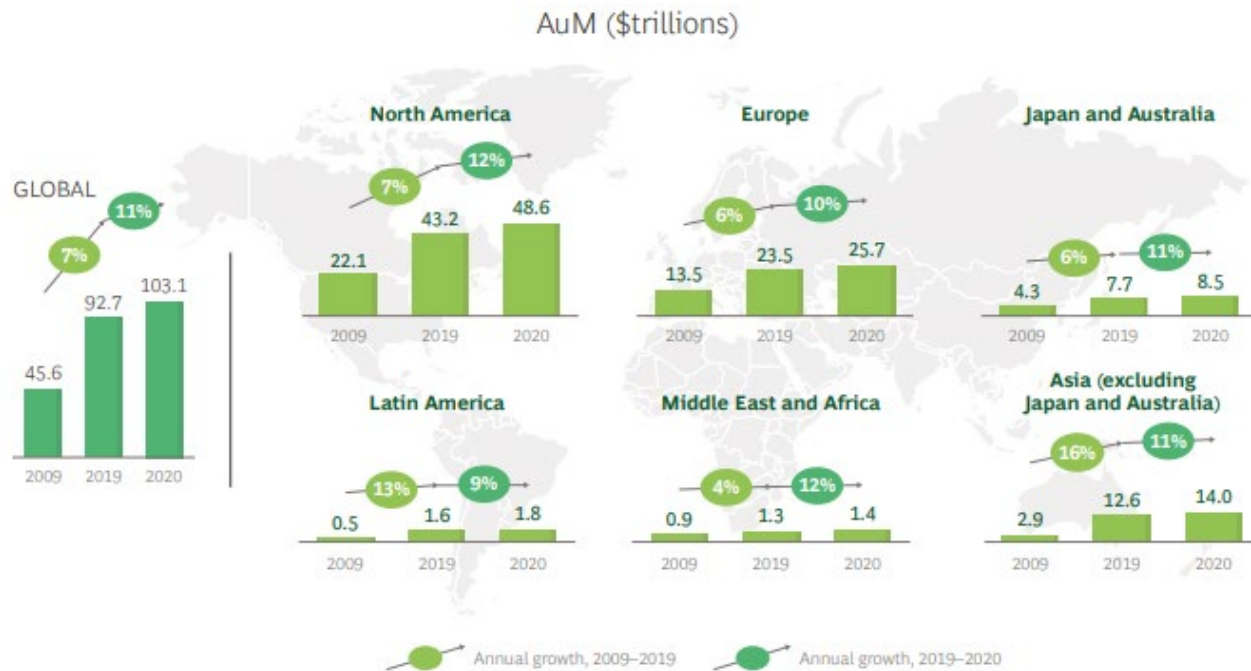
Why European Credit?

Strategic asset allocation to International Credit is 11%

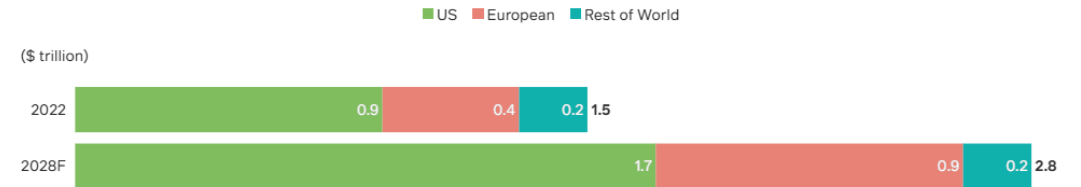
1. Is it an established market?
2. Relative Value / Total Portfolio Approach:
 - Is the additional risk accretive to the portfolio?
 - Do we have uncorrelated source of investment opportunity?
3. Access:
 - Is the asset manager universe well developed?
 - Are investment strategies congruent with a strategic allocation?

SBCERA's exposure to European credit is dominated by CLO investments.

Why European Credit?



Global Private Credit AUM



Source: M&G Investments, Preqin, as of 2023

Assets under management in Europe
(EUR trillions, percent)

Source: European Fund & Asset Management Association, Facts and Figures – December 2024

European capital markets are a large and diverse investment universe.

Why European Credit?



Annualised Performance (EUR Hedged)	European Leveraged Loans	US Leveraged Loans	Differential
Last 1 year	10.82%	10.34%	+0.48%
Last 3 years	4.51%	4.04%	+0.47%
Last 5 years	4.13%	3.41%	+0.72%
Last 10 years	3.74%	2.84%	+0.90%

Source: European Loans: Credit Suisse Western European Leveraged Loan Index, US Loans: Credit Suisse Leveraged Loan Index as of March 2024

Higher quality credit market in Europe

Characteristics	European private credit	US private credit
Interest cover ¹	4.0 – 4.5 x	3.5 – 4.0 x
Default rates ²	1.1%	1.6%
Recovery rates (3-year average) ³	75%	67%

¹ Natixis, 'Why Private Debt, June 2003-post GFC data'.

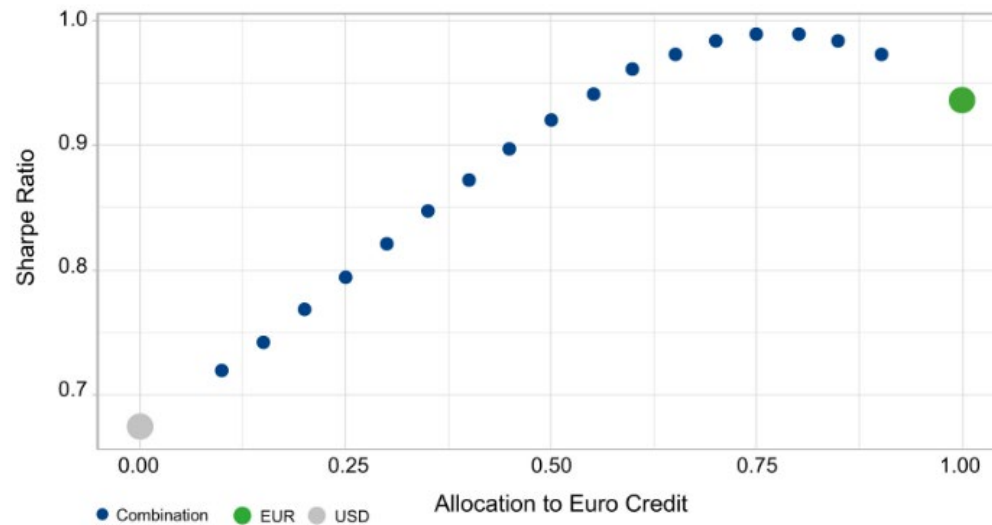
² LCD ELLI and US LLI 5-year default rates as at April 2024.

³ S&P Default, Transition, and Recovery, December 2023.

European Credit has shown persistence in outperformance with lower defaults vs. US Credit.

Why European Credit?

Sharpe Ratio by allocation to EUR. EUR and USD IG Credit, total returns (2002-2025)



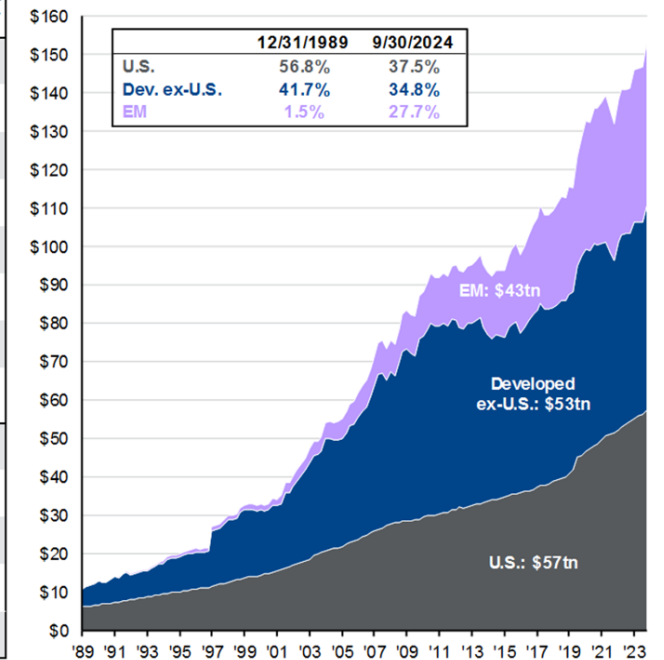
Source: GCP, ICE BofA Merrill Lynch. 28.02.2025 Monthly USD-hedged total returns from 2002 to 2025 for COA0 (US IG Corporate) and ER00 (EUR IG Corporate) Indices are used.

Aggregates	Yield		2025 Return			Correlation to U.S. 10yr
	3/31/2025	12/31/2024	Local	USD	Duration	
U.S.	4.60%	4.91%	2.78%	2.78%	6.1 years	0.93
Gbl. ex-U.S.	2.97%	2.85%	-	2.51%	6.8	0.70
Japan	1.55%	1.26%	-2.39%	2.59%	8.8	0.69
Germany	2.83%	2.70%	-1.27%	3.00%	6.1	0.66
UK	4.65%	4.66%	0.34%	3.41%	7.6	0.60
Italy	3.23%	3.11%	-0.65%	3.64%	6.1	0.53
China	1.87%	1.64%	-0.64%	0.01%	6.1	0.51
Sector						
Euro Corp.	3.31%	3.18%	-0.01%	4.31%	4.4 years	0.46
Euro HY	6.32%	6.03%	0.54%	4.88%	3.1	0.06
EMD(USD)	7.77%	7.86%	-	2.24%	6.0	0.40
EMD(LCL)	6.30%	6.39%	2.15%	4.31%	5.3	0.30
EM Corp.	6.41%	6.56%	-	2.42%	5.0	0.31

Source: JPM Guide to the Markets, 2Q 2025

Global bond market

USD trillions



Lower correlations across markets allows for active deployment opportunities.

Why European Credit?

Number of asset management companies ¹

Country	2023	Country	2023
Austria	20	Lithuania	18
Belgium	65	Luxembourg	224
Bulgaria	30	Malta	89
Croatia	24	Netherlands	138
Cyprus	220	Norway	30
Czech Republic	30	Poland	58
Denmark	60	Portugal	72
Estonia	12	Romania	24
Finland	16	Slovakia	12
France	700	Slovenia	5
Germany	451	Spain	117
Greece	30	Sweden	88
Hungary	23	Switzerland	350
Ireland	372	Turkey	69
Italy	241	United Kingdom	1,000
Latvia	13	Europe	4,620
Liechtenstein	19	EU	3,152

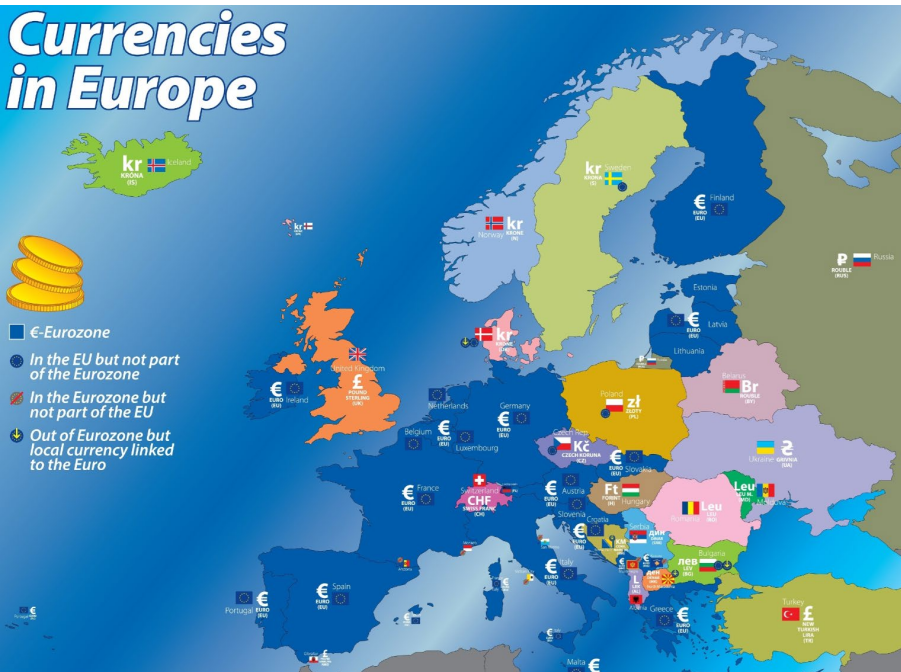
¹ The figures give the number of management companies registered in the countries concerned, except for Austria, Czech Republic, Hungary and Romania, where the figures refer to the members of the national trade association. For the United Kingdom, the number is estimated.

Source: European Fund & Asset Management Association, Facts and Figures – December 2024

Europe represents a large universe of asset managers.

Why European Credit?

Currencies in Europe



25 Official Currencies



44 Countries



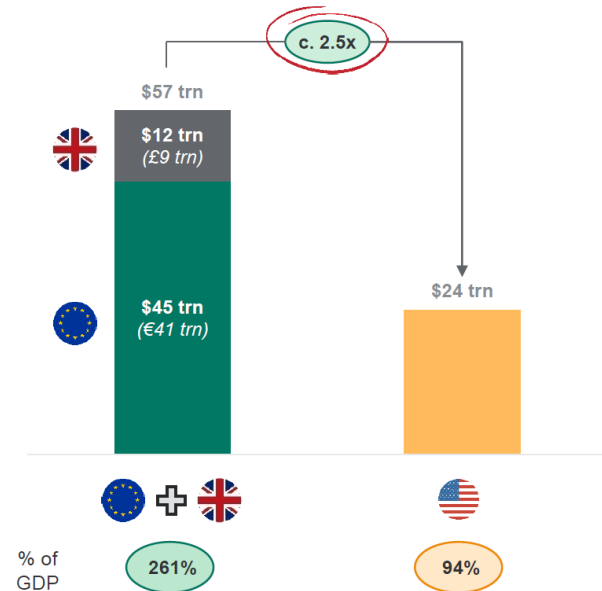
6 Major Legal Jurisdictions

Europe is complex – complexity creates an inefficient market leading to more opportunities.

Why European Credit?

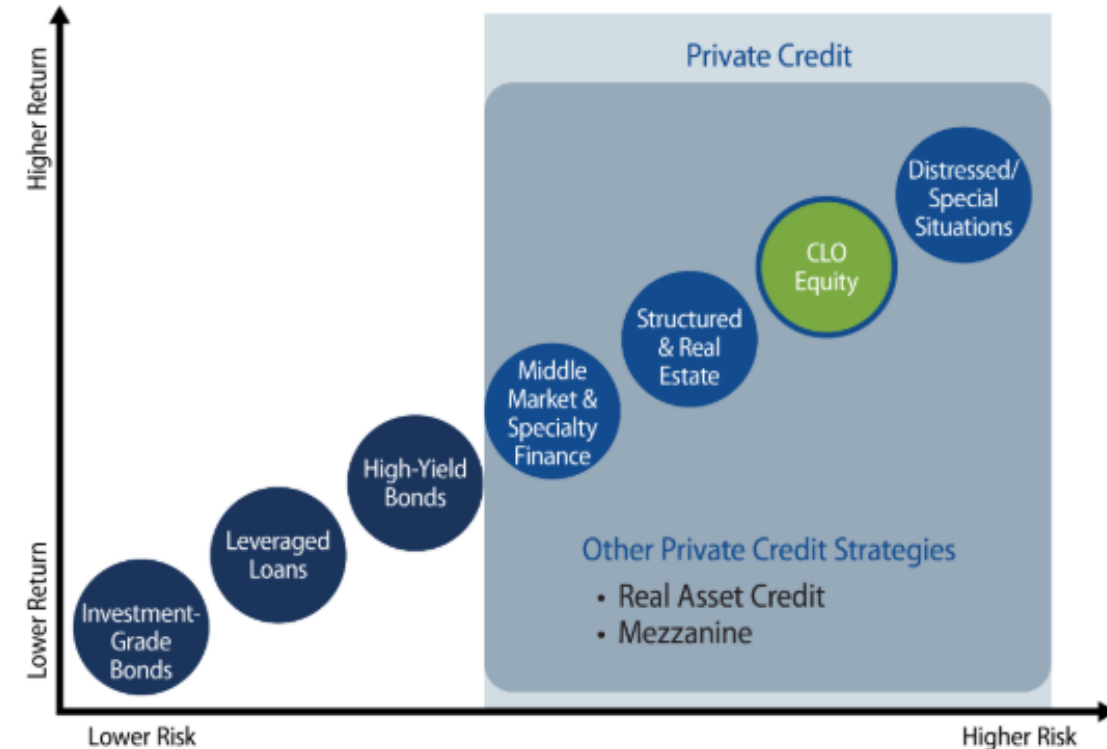
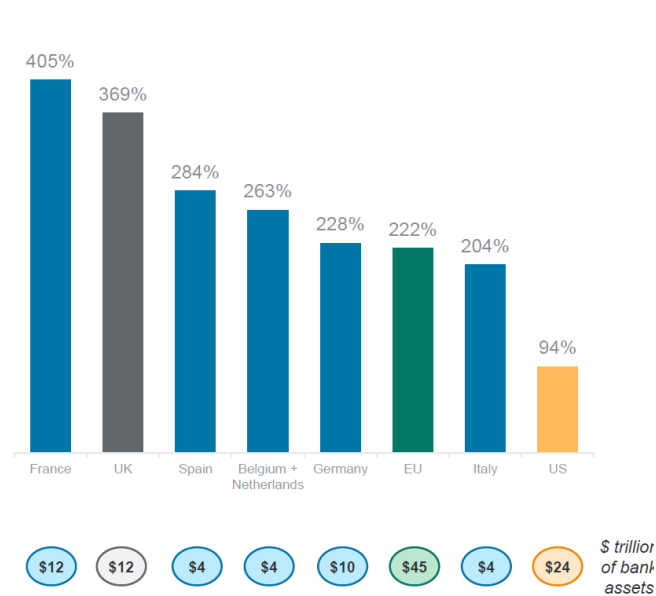
European banking assets represent a far higher % of GDP than the US

USD Trillion ; Bank Assets under FED / ECB / BOE supervision⁽¹⁾⁽²⁾



The main European regions have a higher "Bank Assets to GDP" ratio than the US

% ; 2023 Bank Assets to GDP by country



Notes: (1) US: The FRED of St. Louis covers 4,681 commercial US banks ; EU: EBA / ECB cover the largest 122 banks + 2,089 additional "less significant institutions" For Europe, the remaining 3,052 smaller banks are not supervised by the ECB due to their smaller size but they are regulated by their states (source: EBF ; 2009 data for 2007 chart); (2) Exchange rate applied: 1.10 for EUR / USD and 1.25 for GBP / USD

Sources: EBA, FDIC, FRED St. Louis, EBF (European Banking Federation), BoE

Evolving European Credit market offers multiple investment strategies.

Survey Results

- **SBCERA received 62 responses to our Global Credit Survey.**
 - **2 for Asia and Latin America (1 each)**
 - **21 for US Credit**
 - **32 for European Credit**
 - **7 for Developed Market Credit (US + Europe)**

Manager Research Process

39 Respondents ➡ 20 Semi-finalist ➡ 10 Deep-Dive ➡ 4 Finalist

- SBCERA Focus: current income, macro agnostic, strategic partner.
- Investment Strategy – Areas of Expertise.
- Expertise – Depth of Team, Underwriting, Structuring, & Workout.
- Market Access – Sourcing, Behavior, & Reputation.
- Persistence – Performance, & Market Cycle Tested.
- Firm – Tenure, Size, Culture, & Leadership.
- Partnership – Ability & Willingness.

Manager Research Process

39 Respondents  20 Semi-finalist

1st Cut – Managers that simply did not meet SBCERA’s criteria:

- Asset managers focused on distressed debt strategies – a strategy with returns largely from price change vs. SBCERA’s focus on current yield.
- Single strategy focused managers.
- Large managers with limited discernable advantage.
- Resources dedicated to European credit efforts:
 - Limited team size & market participant vs. leader.

Manager Research Process

20 Semi-finalist  10 Deep Dive

Multiple Video Conference Meetings with 20 Semi-Finalist in Fall 2024

2nd Cut – Focus was on strategy and fit with SBCERA initiatives:

- **Willingness to work with SBCERA**
- **Reputation: Track record/growth/market access issues**
- **Mix of investment strategies**
 - **Higher percentage of strategies dependent on binary factors:**
Stressed/distressed credit, Bank Risk Transfer, Litigation Finance.

Manager Research Process

10 Deep Dive  4 Finalist

On-campus meetings with managers in January 2024

Final Cut – Bottom-up focus on strategy and manager strengths:

- Focus on investment strategies that are “all weather” and match SBCERA’s core philosophy: income focused return generation.
- Manager expertise and ability to be a significant market participant.
- Depth of manager bench – mitigate key man risk.

Manager Research Process

Finalist 4 Managers Firm Characteristics:

AUM: €4 billion - €540 billion

Firm Size: 50 - 1100 professionals

Firm Age: 3 years - 35 years

Target Returns: > 10% Net

Strategies:

Asset-Backed Lending

Capital Solutions – Bridge Financing, Hybrid Structures

CLOs – Primary, Secondary, Risk Retention, & Warehousing

Credit Hedge Fund – Long/Short, Opportunistic, All Weather

High Yield Bonds

Mezzanine Lending

NAV Financing

Real Estate Lending

Senior Direct Lending – lower middle market, middle market, large-cap

Structured Credit – ABS, CMBS, RMBS, SRT, NPL, RPL

Next Steps

1. Pursue Contract Negotiations.
2. Finalize Term-sheet.
3. Present to SBCERA Board for mandate approval.
4. Complete Operational Due Diligence.
5. Finalize MCA Contract.

Anticipated Completion: Q3 2025

THANK YOU!

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