CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY

Solvency Capital Requirement

Kartesia Senior Opportunities Strategy

MARCH 2024

For professional investors only

Marketing communication.
Please refer to the prospectus of the fund and to the Key Information Document (KID) before making any final investment decisions.

About the author.

Fabrice Sauzeau

Deputy Head of
Pension & Insurance Relations

Fabrice has been Deputy Head of Pension and Insurance Relations since 2022. He joined Candriam in 2012, performing a broad range of financial engineering functions, including tailored investment solutions and liability driven investments for insurers and pension fund clients, and design of innovative investment strategies.

Fabrice began his career in 2009 as an actuary within the financial oversight department of Alstom's pension funds.

Fabrice holds a master's degree in Management from the ESSEC business school and is certified as an actuary from ISUP at the Sorbonne.

This document is provided for information purposes only and was prepared by Candriam.

Candriam has been appointed by Kartesia to distribute the products and strategies managed by Kartesia mentioned in this document in those jurisdictions where it is legally and regulatory permitted.

Candriam is a wholly owned subsidiary of New York Life Investments Company through New York Life Investments Management Holdings, LLC ("NYLIM"). "New York Life Investments" is a service mark used by New York Life Investment Management Holdings LLC and its subsidiary New York Life Investment Management LLC. Both are wholly-owned indirect subsidiaries of New York Life Insurance Company.

This note is aimed at providing an estimate of the Solvency Capital Requirement (SCR) according to the standard formula of Solvency II for the Senior Opportunities strategy developed by Kartesia. It has been prepared by Candriam consistently with how Candriam would interpret it for our clients and investment products. For information, Candriam is a minority shareholder of Kartesia[1].

The strategy consists in arranging primary debt transactions and seize secondary debt opportunities where Kartesia can be a meaningful lender and exert significant influence on companies' decisions. The borrowers are European small and medium-sized companies faced with the withdrawal of traditional lenders from the lending market and therefore with limited available sources of funding. They may generally have leading and defensive competitive positions in their relevant markets or are strong niche players, with cash generative businesses with proven track record, predictable earnings and cash-flows. The strategy is diversified in terms of sectors and geographies.

We first describe the main risks the strategy is exposed to then propose an estimate for the Solvency Capital Requirement of the strategy. We derive our estimates from information provided by Kartesia on the first and second vintages of the Kartesia Senior Opportunities strategy.

We estimate that when most of the capital is drawn, the Solvency Capital Requirement converges to around 6% of the Net Asset Value (NAV)[2] , while it is around 15% of the NAV before the final closing, which compares well with other asset classes, as shown in the table below.

Comparison of different estimated SCR levels, based on the first vintage of the strategy[3]

Instrument	Maturity / stage	Rating	SCR (% of NAV)	SCR (% of underlying market values)	SCR (% of commitment)
Kartesia Senior Opportunities	Around last closing	Unrated	~15%	~10%	~6%
Kartesia Senior Opportunities	At end of reinvestment period	Unrated	~6%	~6%	~6%
Corporate bond	5 years	AA	5.5%	5.5%	5.5%
Corporate bond	5 years	A	7.0%	7.0%	7.0%
Corporate bond	5 years	BBB	12.5%	12.5%	12.5%
Corporate bond	4 years	BB	18%	18%	18%
Corporate bond	3 years	B	22.5%	22.5%	22.5%
Public equities of the EEA			39% +/- 10%	39% +/- 10%	39% +/- 10%

1 Since December 2020, Candriam and its affiliate company New York Life Investments Alternatives acquired a minority stake in Kartesia, a European specialist provider of private capital solutions for small and mid-sized companies.
2 Fair value of the assets (cash and securities) minus liabilities (debt or engagements).
3 Estimated value for the Senior Opportunities Strategy as the results can vary according to exact loan terms, capital drawdowns and use of the equity bridge

1. To what risk is the strategy exposed to in the sense of Solvency II ?

1.1. Interest rate risk

The vast majority of the loans are floating rate and the reset of the coupons is quarterly or biannual. The interest rate risk is therefore limited in absolute terms and the interest rate sensitivity of the strategy is generally lower than 0.5. As the Capital Requirement for interest rate risk also depends on the insurer's liability, we consider this risk negligible for the purpose of Solvency Capital Requirement.

1.2. Spread risk

The loans in which the strategy invests are not rated. Hence all the spread risk is determined by their maturity. Most of the loans have a contractual maturity which does not reflect the expected effective maturity. These loans should be seen as credit facilities that can be redeemed at all time, although a make whole period[4] is generally foreseen. Most of the loans have a contractual maturity between 3 and 7 years, but a shorter expected maturity.

The capital requirement for spread risk for unrated loans in the portfolio is specified by the regulation EU 2015/35, Article 176 §2 and is determined by the formula below

$$SCR_{spread} = 3\% * \mathrm{Min}(\mathrm{Max}(D, 1), 5) + 1.7\% * \mathrm{Max}(D - 5, 0)$$

D being the loan duration. We assume the loan duration is equal to its expected maturity, which has therefore a pivotal role in the overall SCR.

4 a period for which interest is due even in the case of an early redemption

1.3. Currency risk

The borrowers are incorporated in western Europe, including UK. Most of the loans are issued in Euro, but some companies can be willing to borrow in another currency, those located in the UK for their domestic business and all companies willing to do business in the United States for example. The strategy is to hedge the nominal value of the loans with the Equity Bridge Financing and derivatives. The currency risk is therefore limited to a residual amount. The currency risk is calculated as follows

$$SCR_{currency} = 25\% * \sum_{FX} \mathrm{E}_{FX} + 0.4\% * \mathrm{E}_{DKK}$$

E_{FX} being the net exposure to a given currency. Most of the currency exposure is in GBP or USD.

1.4. Equity risk

The strategy could be exposed to a residual equity risk if a borrower defaults and the lender takes over the company. As in this case the equity in portfolio would be unrated, the SCR would be 49% +/- symmetric adjustment.

1.5. Other risks

The concentration risk depends on the share of the total assets of the insurer invested in one single counterparty. As this should be appreciated at insurance company level, we consider this risk negligible for the purpose of Solvency Capital Requirement. This counterparty risk comes from the cash in the fund. As the cash level should be maintained at a low level and as we want to focus on market risks, we consider this risk negligible for the purpose of Solvency Capital Requirement.

2. Solvency Capital Requirement.

2.1. Impact of the Equity Bridge Funding on the SCR

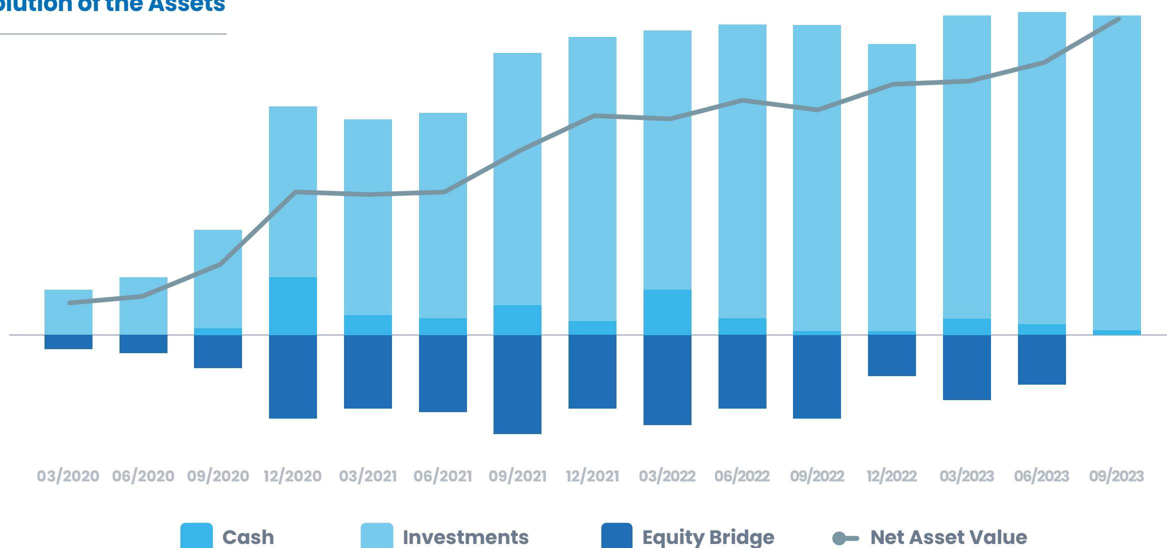
Although the strategy does not use leverage, they can make use of borrowing during the investment period. An "equity bridge financing", secured by the undrawn commitments of the strategy, allows some flexibility in the capital drawdowns. It means that the fund is investing during this period more than the amount drawn down from the investors, but less than the existing commitments.

The Solvency Capital Requirement for market risk on an investment is a value in the investment currency proportional to the risk associated with the financial exposure. It is generally expressed in percentage of the NAV, but could also be expressed in percent of the investors' commitment or in percent of market value of the underlying loans. The three SCR percentages are very close at the end of the investment period but can diverge before that because of the differences between capital called and committed capital, and between capital called and invested value linked to the "equity bridge financing".

2.2. Historical SCR for the first vintage

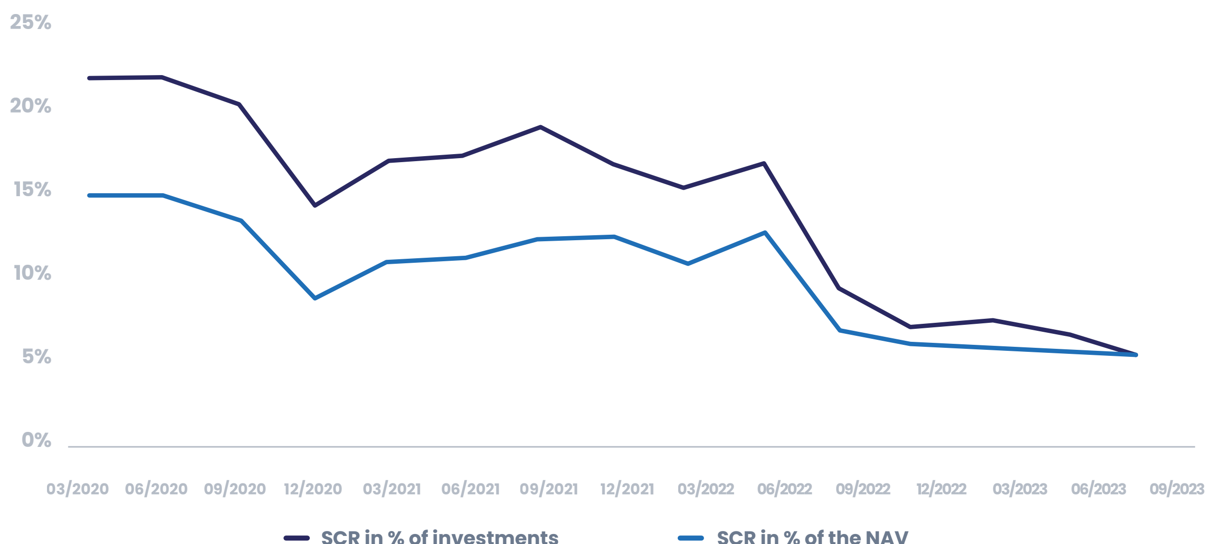
The graph below shows the evolution of the capital requirement for market risk for the first vintage of the strategy. The final closing took place in Q1 2021. We observe that the SCR converges to a low level of around 5-6% when most of the commitments are drawn.

Evolution of the Assets



Source: Kartesia, Candriam

Evolution of the Solvency Capital Requirement



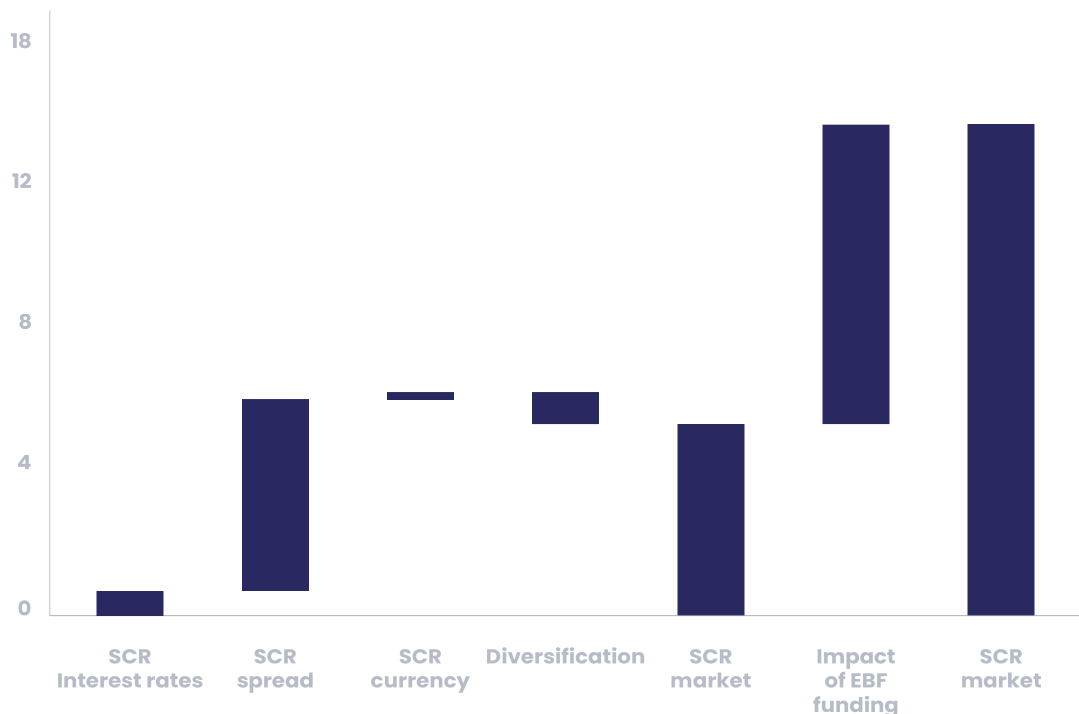
Source: Kartesia, Candriam

From September 2022 onward, Kartesia is using the expected maturity instead of the contractual maturity, which is more relevant to estimate the effective maturity.

2.3. Capital Requirement for market for the second vintage of the strategy

The results are of the same order for the second vintage of the strategy, close to the final closing of the strategy at the time this note is being written. As of end September 2023, the SCR of the second vintage of the strategy would amount to 15.4% of the NAV and 6.0% of the investments. As we can see in the graph below, it is concentrated on spread risk.

SCR by Risk Module of the second vintage of the strategy as of Sept 2023



Source: Kartesia, Candriam

Important Information about Risks.

Performance of Borrowers/ Portfolio Companies

The ability of the Fund to pay amounts payable to the Limited Partners depends upon the general operating performance and debt service capabilities of the borrowers. There can be no assurance that the borrowers will be able to generate the funds necessary to meet their respective payment obligations under the investments. Such non-payment would likely result in a reduction of income to the Fund and a reduction in the value of the loans experiencing nonpayment.

Default Risk

To the extent that a default by a borrower occurs with respect to any investment, it is possible that the Fund incurs a loss of principal or interest in connection with such default. In addition, the Fund may incur additional expenses to the extent it seeks recoveries upon the default of an investment or participates in the restructuring of an investment.

Characteristics of Senior Secured Loans

Senior secured loans are typically at the most senior level of the capital structure. Senior secured loans are generally secured on shares in certain group companies and may also be secured by specific collateral or guarantees, including but not limited to, trademarks, patents, accounts receivable, inventory, equipment, buildings, real estate, franchises and common and preferred stock of the borrower and its subsidiaries although the security granted in respect of some senior secured loans may be limited to share security over the borrower group. In continental Europe security is often limited to shares in certain group companies, accounts receivables, bank account balances and intellectual property rights. This security may well not be perfected. The value of any security granted in respect of any loan obligation may fluctuate over time and there is no guarantee that the value of such security will be sufficient to meet the payment obligations of the borrower. Security provided by borrowers may be highly correlated with the financial status of the borrower (for example, security granted over shares in the borrower or members of the borrower's group) and, should the borrower's financial situation deteriorate, the value of the security may also suffer a similar decline. Senior secured loans usually have shorter terms than more junior obligations and often require mandatory prepayments from excess cash flow, asset dispositions and offerings of debt and equity securities on a priority basis.

Realisation of Investments; Limited Liquidity

The investments made are generally privately negotiated and illiquid and therefore can be difficult or impossible to realise. It may be difficult to achieve a realisation of the Fund's entire portfolio of investments. This may mean that a Compartment is left with one or more credit assets at the end of it term which it is not able to realise or dispose of for a price it would like to achieve (or at all).

Historically, investors in or lenders under European loans have been predominantly commercial banks and investment banks. The range of investors for such loans has broadened to include money

managers, insurance companies, arbitrageurs, hedge funds, distressed investors and mutual funds seeking increased potential total returns and investment managers of trusts or special purpose companies issuing collateralised bond and loan obligations. There can be no assurance that future levels of supply and demand in loan trading will provide a sufficient degree of liquidity in the market. This means that such assets may be subject to greater disposal risk if such assets are sold following enforcement of the security over the portfolio or otherwise.

Defaults and Recoveries

There is limited historical data available as to the levels of defaults and recoveries that may be experienced on credit investments, and no assurance can be given as to the levels of default and recoveries that may apply to any credit instruments invested in, purchased or originated, by the Fund. The types of protection afforded to creditors will therefore vary from investment to investment. Recoveries on a credit investments may also be affected by the different bankruptcy regimes applicable in different jurisdictions and the enforceability of claims against the borrowers thereunder.

Credit Risk

Each Compartment will be exposed to a credit risk for the parties with whom it trades. Investing in debt entails risks related to the borrower's ability and willingness to repay principal and pay interest. Risks applicable to credit investments, in particular, include the possibility that earnings of the borrower may be insufficient to meet its debt service obligations thereunder and the declining creditworthiness and potential for insolvency of the borrower of such loans during periods of rising interest rates and economic downturn. An economic downturn could severely disrupt the market for private credit and adversely affect the value thereof and the ability of the borrower thereunder to repay principal and interest. Credit risk may also arise through a default by one or several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions.

Prepayment Risk

There can be no assurance that investments will remain outstanding for the duration of their expected term. It is possible that there will be an early unscheduled return of principal should the borrower under an investment repay the debt prior to its expected maturity. Investments may be structured with pre-payment penalties whereby an early repayment of principal will incur a fee. However, there is no guarantee that pre-payment fees or other structural features of the investment will prevent its early redemption. In the event of an early pre-payment of principal there is no guarantee that similar investments at that time will yield similar returns.

Restructuring Risk

It is possible that defaults may occur in respect of investments which may consequently be the subject of a restructuring rather than an enforcement process. The workout process and the behaviour of various creditor groups cannot be predicted and as a result the timing of payment due in respect of such Investment could be significantly delayed. There can be no assurance that upon any such restructuring the Fund will continue to receive the same contractual payments of interest at the times and in the amounts that the Fund had prior to such a restructuring, or that the restructuring may not result in all or part of a credit investment in which the Fund has invested being exchanged for an equity entitlement in the borrower or its group.

Risks associated with the Eurozone

The reference currency of certain Compartments is the Euro and the Fund will invest in the debt obligations relating to small to medium sized enterprises. Kartesia shall not be responsible for any economic or financial event relating to the Euro or the Eurozone that may affect the investment objectives and/or performance of the Compartments. Although the Fund expects to primarily invest in Euros, changes in currency exchange rates may adversely affect the value of portfolio investments, interest received by the Fund, gains and losses realised on the sale of portfolio investments and the amount of distributions, if any, to be made by the Partnership . In addition, the Fund will incur costs in converting investment principal and income from one currency to another. Despite certain regulatory measures, concerns persist regarding the growing risk that other Eurozone countries could be subject to an increase in borrowing costs and could face an economic crisis similar to that of Cyprus, Greece, Italy, Ireland, Spain and Portugal, together with the risk that some countries could leave the Eurozone (either voluntarily or involuntarily) and could have a negative impact on the Fund's activities in Europe, as the impact of these events on Europe and the global financial system could be severe. This situation as well as the United Kingdom's decision to leave the European Union have raised a number of uncertainties regarding the stability and overall standing of the European Economic and Monetary Union and may result in changes to the composition of the Eurozone. These potential developments, or market perceptions concerning these and related issues, could adversely affect the value of the Fund's investments.

Economic Risks

Changes in policy with regard to taxation, fiscal and monetary policies, repatriation of profits, changes in economic conditions including, for example, interest rates, rates of inflation, industry conditions, competition, political and diplomatic events and other factors could substantially and adversely affect the Fund's prospects and in particular the Fund's ability to acquire and dispose of investments and other economic regulations are possible, any of which may have an adverse effect on investments. The economies of the countries in which the investments are located may differ favourably or unfavourably from one another with regard to the rate of growth of gross domestic product, the rate of inflation, capital reinvestment, resource self-sufficiency and balance of payments.

Insolvency Regimes

The value of the Fund's investments may be impacted by various laws enacted for the protection of creditors in the jurisdictions of incorporation of the obligors thereunder and, if different, the jurisdictions from which the obligors conduct their business and in which they hold their assets, which may adversely affect such obligors' abilities to make payment on a full or timely basis. Jurisdiction-specific insolvency regimes may negatively impact borrowers' or issuers' ability to make payments to the Fund, or the Fund's recovery in a restructuring or insolvency, which may adversely affect the Fund's business, financial condition and results of operations.

Legal Risks

Laws and regulations in certain jurisdictions, particularly those relating to foreign investment and taxation, may be subject to change or evolving interpretation. Further, situations may arise where legal action is pursued in multiple jurisdictions. As a result of the complex series of legal documents and contracts of some investments, such investments have a potentially greater risk of dispute over interpretation or enforceability of particular terms, than some other investments.

Due Diligence

The due diligence process that the Investment Manager intends to undertake in connection with the Fund's investments may not reveal all facts that may be relevant in connection with a portfolio investment. Before the Fund makes an investment, the Investment Manager will conduct due diligence on behalf of the Fund that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. The objective of the due diligence process will be to identify attractive investment opportunities based on the facts and circumstances surrounding an investment. When conducting the due diligence, the Investment Manager will be expected to evaluate a number of important business, financial, tax, accounting, environmental and legal issues. When conducting such due diligence, the Investment Manager, will be required to rely on resources available to it, including information provided by the target of the investment and, in some cases, third party investigations. The due diligence process may be subjective with respect to newly organised companies or other entities for which only limited information is available. Accordingly, there can be no assurance that the due diligence process carried out with respect to any investment opportunity will reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. There can also be no assurance that such an investigation will result in an investment being successful.

Currency Disclaimer

All amounts specified in this document are denominated in Euros. Any recipient who is resident in a country whose national currency is not the Euros should note that any returns on their investments or costs associated with purchasing, holding, converting or selling units in the Fund or otherwise related to the investment in the Fund may increase or decrease as a result of currency fluctuations between the Euros and such national currency.

Tax Disclaimer

The future performance of the Fund and an investor's return from its investment in the Fund may be subject to taxation and the specific tax treatment of an investor's return will vary depending on investor’s individual circumstances. Investors should also be aware that the tax treatment of the future performance of the Fund and any returns may be subject to change potentially with retrospective effect (for example due to changes in applicable laws).

Key Risks Disclaimer

Capital is at risk and any investment in the Fund will involve significant risks, including risk of loss of the entire investment. There can be no assurance that the Fund will achieve its objectives or avoid significant losses. The strategy of the Fund does not guarantee a profit or ensure protection against losses.

Disclaimer

CANDRIAM IMPORTANT INFORMATION

This information is produced and provided by Candriam (Serenity Bloc B - 19-21 route d'Arlon – L 8009 Strassen – G.D. Luxembourg, hereafter "Candriam"), as duly distributor of the products and strategies included in this document.

This document is provided for information purposes only and it does not constitute or form part of any offer to issue or sell, or any solicitation of any offer to subscribe for or purchase, any securities or investment products in any jurisdiction in which such offer or solicitation would be unlawful under the local applicable laws and accordingly should not be construed as such.

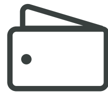
This document is proprietary and is submitted for use by the recipient. The information and data contained in this presentation may not be divulged to any person or entity or reproduced, disseminated or disclosed, in whole or in part, except to your officers, directors, employees and agents for use in connection with evaluation of a partnership, as required by applicable law or regulatory authorities.

The information contained herein has been prepared to assist interested parties in making their own evaluation and does not purport to be all-inclusive or to contain all of the information. The recipient of this presentation should perform its own independent investigation and analysis. This presentation and the information that it contains are not a substitute for the recipient's independent evaluation and analysis.

As of the date hereof, Candriam believes that the information provided in this document is reliable but does not guarantee its accuracy or completeness. Errors and omissions cannot be excluded a priori. Certain information contained herein may have been obtained from published and non-published third-party sources. Candriam does not make any representation or warranty as to the accuracy or completeness of such information and Candriam shall not have any liability for any representations (expressed or implied) contained in, or for any omissions from, this presentation or any other written or oral communications transmitted to the recipient in the course of the recipient's evaluation. Except as otherwise indicated herein, the information contained herein is based on matters as they exist as of the date of preparation of this presentation, and is subject to change, completion, or amendment without notice.

Candriam cannot be liable for any direct or indirect losses as a result of the use of this document.

Past performance is not a guide to future performance and the value of investments and the income derived from those investments can go down as well as up. Future returns are not guaranteed, and a loss of principal may occur.



€144 B

AUM at end June 2023*

+600

Experienced and committed professionals

+ 25 years

Leading the way in sustainable investing

This is a marketing communication. This document is provided for information purposes only and does not constitute an offer to buy or sell financial instruments, nor does it represent an investment recommendation or confirm any kind of transaction. Although Candriam selects carefully the data and sources within this document, errors or omissions cannot be excluded a priori. Candriam cannot be held liable for any direct or indirect losses as a result of the use of this document. The intellectual property rights of Candriam must be respected at all times, contents of this document may not be reproduced without prior written approval.

Warning: Past performance of a given financial instrument or index or an investment service or strategy, or simulations of past performance, or forecasts of future performance does not predict future returns. Gross performances may be impacted by commissions, fees and other expenses. Performances expressed in a currency other than that of the investor's country of residence are subject to exchange rate fluctuations, with a negative or positive impact on gains. If the present document refers to a specific tax treatment, such information depends on the individual situation of each investor and may change.

The risk of loss of the principal is borne by the investor.

*As of 30/06/2023, Candriam changed the Assets Under Management (AUM) calculation methodology, and AUM now includes certain assets, such as non-discretionary AUM, external fund selection, overlay services, including ESG screening services, [advisory consulting] services, white labeling services, and model portfolio delivery services that do not qualify as Regulatory Assets Under Management, as defined in the SEC's Form ADV. AUM is reported in USD. AUM not denominated in USD is converted at the spot rate as of 30/06/2023.

CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY

KARTESIA