S&P Global Ratings

Research

New Issue: Verto Capital I Compartment A

Primary Credit Analyst:
Sandra Fronteau, Paris (33) 1-44-20-6716; Sandra.Fronteau@spglobal.com

Table Of Contents

New Issue: Verto Capital I Compartment A

Ratings Detail

Ratings assigned

Program	Rating*	Program limit (bil. € equivalent)	Type of conduit
European CP	A-1 (sf)	Up to 10.0§	Investments-backed
U.S. CP	A-1 (sf)	Up to 10.0§	Investments-backed

*Our ratings address timely interest and ultimate principal. §Euro CP and U.S. CP combined. CP--Commercial paper.

Program participants

Issuer (Luxembourg)	Verto Capital I Compartment A
Co-issuer (Delaware)	Verto Capital I–A LLC
Management company	ADG Verto Capital Management S.à.r.l.
Arranger	Barclays Bank PLC
ECP dealers	Barclays, J.P. Morgan Securities PLC, J.P. Morgan SE
U.S CP placement agents	JP Morgan Securities LLC and Barclays Capital Inc.
U.K. issuing and paying agent/custodian	The Bank of New York Mellon, London branch
Irish registrar/transfer agent/portfolio administrator	The Bank of New York Mellon SA/NV, Dublin branch
U.S. depositary	The Bank of New York Mellon
U.K. collateral manager	The Bank of New York Mellon, SA/NV, London branch
Trustee	Waystone Corporate Services (IE) Limited
Corporate administrator	Centaur Fund Services (Luxembourg) S.A.
Risk manager and administrative agent	ADG Verto Advisers LLP
U.S. managing agent	Global Securitization Services LLC
Series counterparty (swap/repo/lending counterparty)	An entity rated at least 'A-1'

ECP--European commercial paper.

Supporting ratings

Institution/role	Ratings
Series counterparty	RCR* (AA-/A-1+)
The Bank of New York Mellon, as parent of the custodian§	AA-/Stable/A-1+

*RCR--Resolution counterparty rating. §We applied our criteria, "Assessing Bank Branch Creditworthiness," published Oct. 14, 2013.

Program key features

Notes to be issued	ECP notes up to a maturity of 364 days and U.S. CP notes up to a maturity of 397 days
Program type	Investments-backed CP program
Maximum program limit (bil. €, or equivalent in alternative currencies)	10
Investments	Entry into investment contracts with a series counterparty rated at least 'A-1'
Credit support	No additional credit support as the counterparties must be in line with the rating on the conduit

Program key features (cont.)	
Liquidity support	An NCO test at issue date and daily thereafter ensures that any liabilities can be met on time

ECP--European commercial paper. NCO--Net cash outflow.

Environmental, Social, And Governance

The credit quality of the underlying assets is not material to our rating analysis, so there generally are no material environmental, social, and governance (ESG) credit factors at the asset level. Support providers in commercial paper (CP) conduits are typically highly rated financial institutions, and our assessment of their creditworthiness incorporates any material ESG credit factors. In our view, exposure to ESG factors in this transaction is limited to the factors related to the support provider. Refer to our U.S. and Canadian, EMEA, Asia-Pacific, and Latin American bank ESG industry report cards for further information.

Rating Rationale

We assigned our 'A-1 (sf)' ratings to Verto Capital I Compartment A's European CP and U.S. CP because:

- The series counterparty to any investment contracts (securities finance contracts [SFCs] such as, repurchase agreements, securities lending contracts, or total return swap contracts [TRS]) is rated at least 'A-1'.
- No additional program-wide credit enhancement is required because there is only one series counterparty exposure with the minimum required rating.
- Verto Capital I Compartment A operates under a defined asset and liability management investment policy and uses a daily net cash outflow (NCO) test to ensure that over any given time horizon, the issuer's liabilities, consisting of senior expenses and CP payments, do not exceed the income available to the issuer (investment portfolio and other income). This structural source of liquidity eliminates the need for an external liquidity provider.
- This is a matched funding program, with all CP liabilities (principal and interest) being matched in amount and duration to the SFCs.
- We consider that the program's payment structure ensures that CP noteholders will receive full repayment of principal and timely payment of interest, if applicable, on the due date.
- We believe that ADG Verto Capital Management S.à.r.l., as management company; ADG Verto Advisers LLP as risk manager and administrative agent; The Bank of New York Mellon SA/NV, Dublin branch, as the portfolio administrator; and The Bank of New York Mellon as U.S. depositary, have the expertise and capacity to manage and monitor the issuer's assets and liabilities in line with the transaction documents.
- Verto Capital I Compartment A is a Luxembourg securitization fund, which is bankruptcy-remote by law.

We weak-link our ratings on Verto Capital I Compartment A's CP to the rating on the series counterparty, which is required to have a short-term rating of at least 'A-1'.

Under each investment contract, the economic risks of the subject security is allocated to the series counterparty. In exchange, the counterparty pays predefined amounts to the program. Consequently, the CP noteholders are exposed to the counterparty risk of the series counterparty.

Transaction Overview

Verto Capital I Compartment A is a Luxembourg unregulated securitization fund, governed by the Securitisation Act 2004, incorporated to issue CP collateralized by investment contracts. It issues CP in various major currencies on the European CP market. The issuer's assets, liabilities, and obligations may be segregated into separate compartments, in line with the Securitisation Act 2004. The assets of each compartment are only available to satisfy the issuer's obligations under that compartment.

Verto Capital I Compartment A is the second standalone, single CP compartment managed by ADG Verto Advisers LLP and ADG Verto Capital Management S.à.r.l. (acting through the ADG Verto Advisers LLP entity as risk manager). The compartment is a standalone CP program and there is no cross-collateralization of CP. The compartment is designed to be a unique repo/TRS/lending counterparty.

Verto Capital I Compartment A uses the notes' issuance proceeds to enter investment contracts, such as reverse repurchase agreements, securities lending agreements and TRSs.

The Co-issuer, Verto Capital I-A LLC, is a Delaware limited liability company created for the sole purpose of co-issuing U.S. CP notes with the issuer.

Historically, repo/TRS/lending CP backed programs like Verto Capital I Compartment A's CP have been bought by:

- U.S. and European money market funds;
- Fixed-income mutual funds;
- Société d'investissement à capital variable (SICAVs; an EU version of open-ended U.S. mutual funds);
- Large U.S. and European institutional cash investors;
- Securities lending reinvestment pools;
- Large corporate treasuries;
- Sovereign wealth funds, municipalities, and local government investment pools; and
- Insurance companies and pension funds.

From an investor's perspective, purchasing CP from this type of CP program provides the economic benefits of repo agreements or TRSs in the form of a tradeable short-term security, as opposed to a non-tradable, over-the-counter contract. Moreover, less infrastructure and expertise are required to trade in CP than in repo or TRS products. As a result, the expertise of the investment manager is primarily used to invest in various types of SFCs.

Verto Capital I Compartment A's investment approach is to take part in asset trades funded by corresponding CP issuance of an equal or longer maturity. The strategy seeks to ensure that the conduit always has sufficient liquidity. The conduit uses a positive carry/positive spread strategy, whereby it holds two positions, one of which generates an incoming cash flow that is greater than the payments due on the other. As management company, ADG Verto Capital

Management S.à.r.l. aims to issue CP only if the spread between assets and liabilities is economically viable on a portfolio basis.

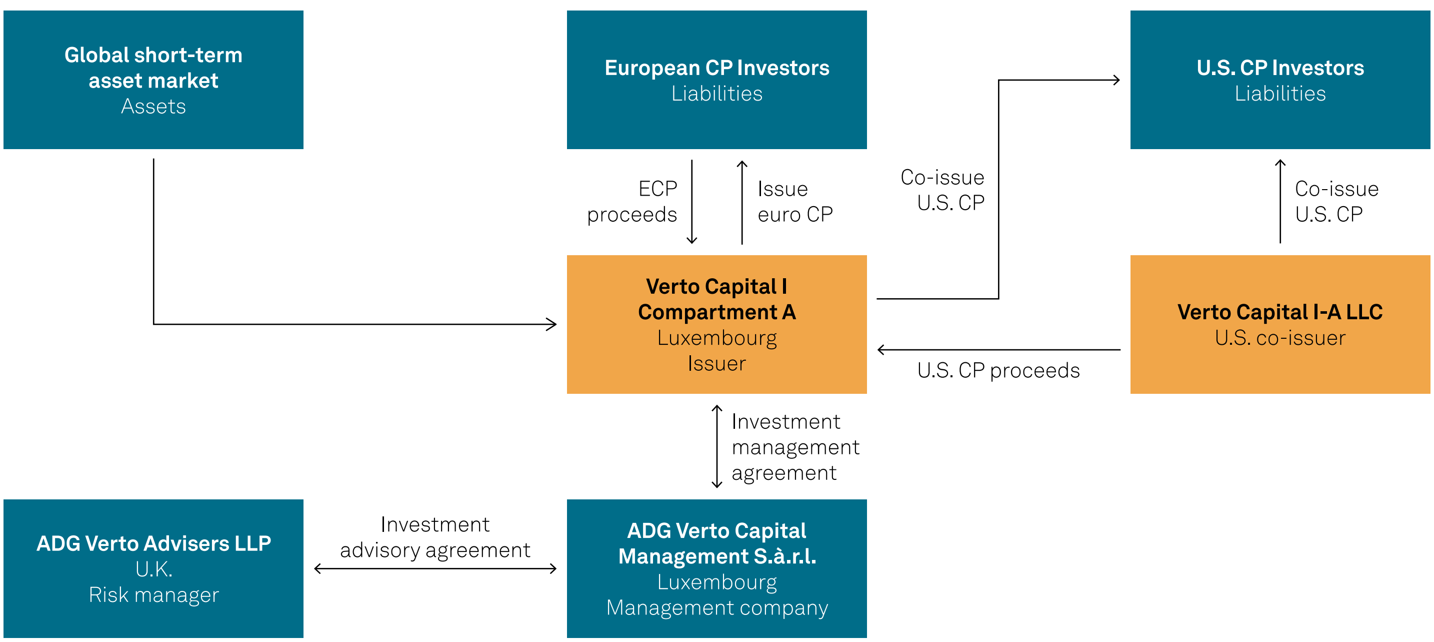
ADG Verto Capital Management S.à.r.l. works with ADG Verto Advisers LLP, the risk manager and administrative agent (together referred to as ADG Verto). ADG Verto, the portfolio administrator, The Bank of New York Mellon SA/NV, Dublin branch, and the U.S. depositary, The Bank of New York Mellon, perform all management functions regarding the acquisition, administration, funding, and administrative functions on Verto Capital I Compartment A's behalf (see chart 1).

The Bank of New York Mellon SA/NV, Dublin branch and The Bank of New York Mellon are the portfolio administrator and U.S. depositary, and are responsible for the performance of administrative functions on the issuer's behalf, including cash management, transaction record-keeping, and reporting and portfolio surveillance services.

The maximum aggregate nominal amount of CP outstanding cannot exceed €10 billion (or equivalent in alternative currencies). Debt is offered at a variety of maturities of up to 364 days for the ECP program, and 397 days for the U.S CP program.

Chart 1

Verto Capital I Compartment A structure



CP--Commercial paper. Source: S&P Global Ratings.

Credit Risk

With the proceeds of the issued CP, Verto Capital I Compartment A has entered an investment contract which includes SFCs such as repurchase agreements, securities lending agreements, and TRSs, which are used to manage the portfolio's risks.

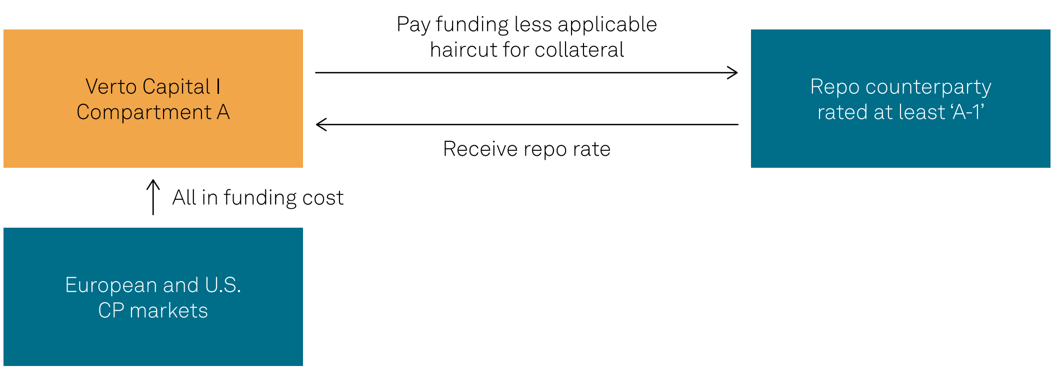
Since each investment contract the issuer enters into transforms all of the risks of the subject security into the counterparty risk of the investment contract counterparty, our ratings on the CP are weak-linked to the rating on the series counterparty.

Reverse repo agreements and repo agreements

Under a reverse repo contract, Verto Capital I Compartment A invests the CP issuance proceeds to purchase securities from a repo counterparty (the series counterparty). The series counterparty in return promises to repurchase the securities for an agreed price at, or before, the maturity of the corresponding CP.

Chart 2

Verto Capital I Compartment A repo example



CP--Commercial paper. Source: S&P Global Ratings.

As an 'A-1' rated compartment, Verto Capital I Compartment A may enter into repo agreements at an agreed price with the series counterparty rated at least 'A-1' (see chart 2).

Unrated or lower-rated investments may be acquired under reverse repo agreements or other SFCs with the series counterparty. Collateral pledged under a repo or SFC is marked to market. In the event of a collateral shortfall, the repo counterparty must post additional collateral. If the counterparty fails to do so, the repo agreement may be terminated. The underlying collateral supporting the repo agreement is a mix between fixed income (domestic and euro bonds), equity instruments, and credit claims. Collateral valuation haircuts are applied according to the credit quality of the series counterparty and how liquid (or illiquid) the underlying collateral is. To determine our ratings on Verto Capital I Compartment A's CP, we rely on the rating on the series counterparty, and not on the underlying credit quality of the collateral that backs the repo and other SFCs.

TRSs

Verto Capital I Compartment A can also enter TRS agreements based on an underlying asset. Under the documentation, the series counterparty must be rated at least 'A-1', so that the full economic risk of the reference asset is transferred back to the counterparty. Verto Capital I Compartment A receives funding costs, plus a margin, from the counterparty (see chart 3). All such TRSs are linked to portfolio acquisitions--Verto Capital I Compartment A will purchase the reference asset at the time it executes the TRS to create a financing transaction and closes out at maturity to terminate in the same manner.

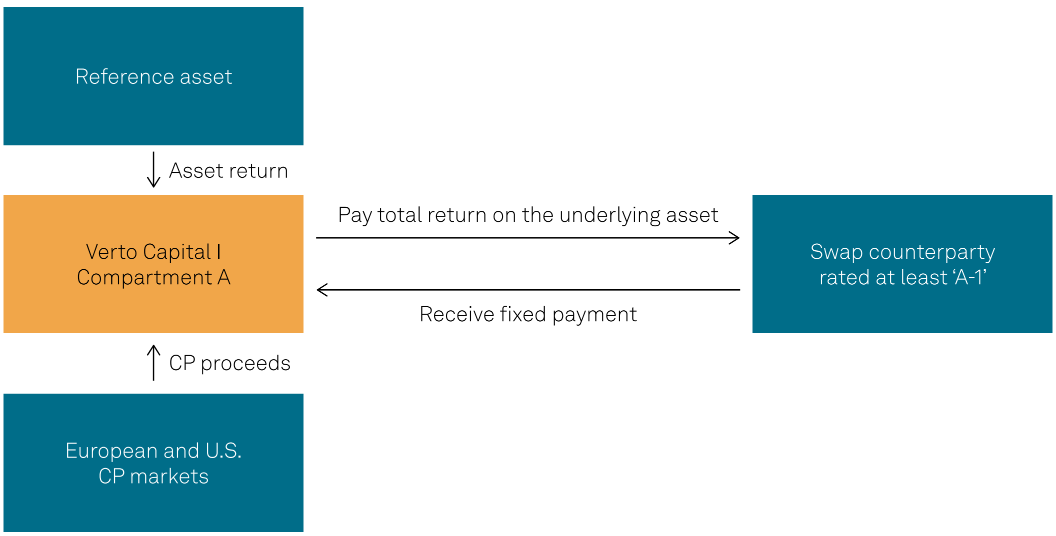
Securities lending

Verto Capital I Compartment A can also enter into securities lending agreements with the series counterparty.

Chart 3

Verto Capital I Compartment A return swap example

With portfolio acquisition



CP--Commercial paper. Source: S&P Global Ratings.

Table 1 summarizes the characteristics of each type of main contract. In each instance, the subject security's economic risks and benefits are allocated to the series counterparty, in exchange for a predefined payment from the series counterparty.

Table 1

Types of contracts

Contract type	Owner/purchaser of subject security	Beneficiary/bearer of subject security's economic returns/risks	Beneficiary/bearer of predefined payments/series counterparty risk
Reverse repo/total return swap/securities lending	Issuer	Series counterparty	Issuer

Each securities finance contract entered into by the issuer shall be fully collateralized (that is, 100% or more), which is in line with our definition of secured liabilities (see "What's Next For Resolution Counterparty Ratings?" published on

March 2, 2020). Therefore, we consider our resolution counterparty rating for the series counterparty, rather than our issuer credit rating (ICR), because investment contracts are collateralized liabilities that, in our opinion, would likely be excluded from a bail-in by the relevant resolution authority.

Custody arrangements

The issuer has entered into a global custody agreement with The Bank of New York Mellon, London branch. The custodian holds investments for the benefit of the issuer. In addition, the issuer has to date, engaged the services of The Bank of New York Mellon to act as tri-party agents for repurchase and securities lending agreements with the series counterparty. If the rating on the custodian falls below 'A-1', the entity must be replaced within 30 days. The issuer may also enter into other custody agreements, provided the same criteria are maintained.

Counterparty Risk

Counterparty risk in this program arises from exposure to the custodian that also acts as account bank provider, or the possibility that the series counterparty to an investment contract is unable or unwilling to honor its obligations under the agreement.

The minimum rating requirement and replacement framework for the bank account provider in the transaction documents are consistent with our current counterparty criteria (see "Counterparty Risk Framework Methodology And Assumptions," March 8, 2019).

Other counterparty risks are mitigated by the requirement that the series counterparty to an investment contract with the issuer must be rated at least 'A-1', which is consistent with the ratings on the CP.

We assigned our ratings on Verto Capital I Compartment A's CP based on the series counterparty having a short-term rating of 'A-1', according to our weak-link approach (see "Assessing Credit Quality By The Weakest Link," published on Feb. 13, 2012).

Under each investment contract, the economic risks of the subject security are allocated to the series counterparty. In exchange, the counterparty pays predefined amounts to the program. Consequently, the CP noteholders are exposed to the counterparty risk of the series counterparty.

Market Risk

Currency exchange rate risk may arise when the issuer issues CP in one currency and funds assets in a different currency. As per the documentation of Verto Capital I Compartment A, although a reference asset may have a different primary listing currency to the TRS basket, the reference asset will always be purchased or sold in the same currency as the TRS basket. As a result, the currency risk is fully mitigated.

The issuer only issues fixed-rate ECP notes and enters into fixed-rate investment contracts. It can issue fixed or floating-rate U.S. CP notes and the investment contracts' interest rate features mirror that of the related U.S. CP. Therefore, interest rate risk is fully mitigated.

Cash Flow And Payment Structure

CP issuance tests

NCO test. The issuer is required to manage its assets and liabilities daily to maintain sufficient liquidity. The program's daily NCO for any day is defined as:

- Incoming cash flows from the investment portfolio, on the same day; and
- Minus required outgoing cash flows on that day (including senior expenses and CP noteholders' payments in the pre-enforcement priority of payments).

The risk manager runs the NCO test daily. The test period runs from the current day until all outstanding CP has matured. The daily NCO test is passed if, and only if, the daily NCO for each day within the test period is higher than or equal to zero. The compartment cannot issue ECP or U.S CP notes if the NCO test is not passed.

Swap, repo, and lending transaction checks. Before entering into a trade, the risk manager shall verify that the basket assets are eligible assets, and that no position exceeds 4.75% of the shares outstanding of any single company. If these conditions are not satisfied, the compartment cannot enter into a swap, repo, or lending transaction.

Before issuing a series of ECP or U.S. CP notes, the risk manager shall ensure that the timing and cashflows of the transaction meet the issuer's obligations under the relevant series of ECP or U.S. CP notes, and that the maturity of the transactions must match or occur prior to the maturity date of the relevant series of ECP or U.S. CP notes.

No events of defaults

No ECP or U.S CP notes can be issued if an event of default occurs.

Events of default

These include:

- The issuer's failure to pay principal or interest on the CP when due;
- The issuer's failure to perform any of its other obligations under the ECP or U.S CP notes or issue deed; and
- Issuer insolvency.

If an event of default occurs, the program would be wound down. The trustee would be required to realize its lien over the security in the interests of all secured creditors. The trustee will then manage the portfolio to repay all secured obligations from the investment portfolio liquidation or maturity proceeds, in accordance with the priority of payments.

Pre-enforcement priority of payments

The funds available to the issuer consist of:

- Cash on deposit in the operating accounts;
- Proceeds from the issuance of CP;
- Amounts payable to the issuer under the investment contracts;

- Proceeds of the sale or of rights under any investment contracts; and
- Any excess funds in the expense reserve account.

In the event of a shortfall in other funds to pay the first five items in the pre-enforcement priority of payments, funds may be drawn from the expense reserve account.

On each business day, the program administrator allocates and applies or provisions for the payment or retention by the issuer of the following amounts.

Table 2

Pre-enforcement payment priority	
1	Senior fees
2	Swap termination payments related to swap/repo/lending transactions
3	CP interest and principal payments
4	Junior fees

CP--Commercial paper.

Before issuing a series of ECP or U.S CP notes, the risk manager shall confirm that there is at least €120,000 held on a dedicated account to cover for unexpected expenses.

Although the swap termination payments rank senior in the priority of payment, based on our counterparty criteria, this has no impact on our analysis since we weak-link the ratings on the ECP and U.S CP notes with the ICR on the series counterparty.

Legal Risks

Bankruptcy remoteness

As per Luxembourg law, insolvency proceedings are not applicable to a securitization fund. Therefore, Verto Capital I Compartment A is bankruptcy remote by law.

After applying our U.S. legal criteria, we believe that the U.S co-issuer, Verto Capital I-A LLC, a limited liability company located in Delaware, is a bankruptcy-remote entity. Verto Capital I-A LLC is fully owned by GSS Holdings (Verto), Inc., a separate legal entity also located in Delaware, whose only purpose is to own shares in Verto's co-issuers.

Security interests

Verto Capital I Compartment A grants fixed security interests of first priority over all of its assets and other interests (including certain bank accounts and its right under the program documents) to the trustee for the benefit of the secured creditors, including the CP noteholders.

Limited-recourse and non-petition language

Limited-recourse language is included in all program documents to clarify that any recourse of the parties would be limited to the funds available to the compartment, as applied according to the payment priorities.

Setoff risk

Where setoff risk is permitted under any of the master agreement templates reviewed, it is only in the same currency and when the offsetting amounts are due on the same day. As this is equivalent to the incoming and corresponding outgoing cash flows that the issuer would make on that day, this setoff right does not present any concern.

Clawback/preference risk

Securities are purchased in the open market, which mitigates clawback/preference risk. Our rating on the series counterparty mitigates any related clawback/preference risk.

Commingling risk

Payments from the investment contracts are made directly into the cash account, which is held with a custodian or an account bank that is rated at least 'A/A-1'. Replacement requirements for the custodian or an account bank are in line with our current counterparty criteria. This limits the risk of the investment contract cash flows being commingled with the custodian's insolvency estate.

Withholding tax

The investment portfolio criteria do not permit the issuer to enter into investment contracts that might be subject to withholding tax unless there is a gross up obligation for the counterparty or the issuer of the security. Each counterparty under the master templates for reverse repos, securities lending agreements, or TRSs is required to gross up for any withholding tax imposed on payments due to the other counterparty, unless the counterparty could have taken steps to exempt them from such withholding tax, and failed to do so. The program counterparty's obligation to gross up mitigates the risk of withholding tax being imposed on amounts payable to the issuer. The issuer's corresponding obligation to gross up is mitigated by a commitment to file all appropriate forms and obtain withholding tax reduction or exemption forms from the investment contract counterparty before entering into any reverse repo, securities lending, or TRS.

Operational Risk

ADG Verto Capital Management S.à.r.l. (as management company) and ADG Verto Advisers LLP (as risk manager and administrative agent) perform all management functions for the acquisition, administration, and funding on behalf of Verto Capital I Compartment A. ADG Verto Advisers LLP (as risk manager) performs the CP issuance checks, including the daily NCO tests.

The Bank of New York Mellon SA/NV, Dublin branch (as portfolio administrator) and The Bank of New York Mellon (as U.S. depositary) performs administrative functions and program reporting.

We will receive monthly reports from the portfolio administrator to surveil the program. In September 2023, we conducted a satisfactory management review of ADG Verto. We have since had regular contact.

We consider that ADG Verto, The Bank of New York Mellon SA/NV, Dublin branch, and The Bank of New York Mellon have the expertise and capacity needed to manage and monitor the issuer's assets and liabilities in line with the transaction documents.

Surveillance

Verto Capital I Compartment A has committed to taking the necessary action to retain the 'A-1 (sf)' rating on the program.

Because the CP issued by Verto Capital I Compartment A is fully supported by the proceeds received under the investment contracts with the series counterparty, we linked the 'A-1 (sf)' short-term ratings on the CP to the minimum rating requirement in the program documentation. Therefore, if the series counterparty is downgraded below 'A-1', we would lower our rating on the program to reflect that of the series counterparty, unless the management company has taken action to replace the series counterparty. In such cases, we generally seek information from the management company and the portfolio administrator to determine if the risk to the CP either has been, or will be, promptly mitigated. If the action plan is consistent with our criteria, the downgrade of the counterparty may not lead to a rating action on the CP (see "Standard & Poor's Analysis Of ABCP Ratings Following Changes To Ratings On Support Providers," published on Dec. 18, 2008).

S&P Global Ratings monitors its ratings on the counterparties on an ongoing basis.

Related Criteria

- Criteria | Structured Finance | ABCP: Global Asset-Backed Commercial Paper Methodology And Assumptions, March 22, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | Legal: U.S. Structured Finance Asset Isolation And Special-Purpose Entity Criteria, May 15, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Inside Global ABCP: 2024 Update, July 11, 2024
- The Role Of Management Reviews And Surveillance In Rating ABCP Issued By Conduits, March 22, 2024
- 2017 EMEA ABS Scenario And Sensitivity Analysis, July 6, 2017
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- Assessing Credit Quality By The Weakest Link, Feb. 13, 2012
- Analyzing Total Rate Of Return Swaps And Repurchase Agreements In ABCP And Extendible Note Conduits, June 22, 2007