Manulife | CQS
Investment Management

# Significant Risk Transfer ("SRT")

## *Q&A*



**Jason Walker**
Co-Chief Investment Officer
Manulife | CQS Investment Management



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## What are SRT transactions and why do they matter?

SRT transactions are an area within alternative credit that's been garnering investor interest in the past few years. We highlight why we believe it warrants investor attention.



## SRT transactions—a slow-burn market springs to life

Numbers rarely lie. The global market for SRT transactions has grown significantly in recent years. What started as a niche strategy by the European top-tier or champion banks is now going global. In the past year alone, our analysis suggests that the market has expanded by roughly 25%,[1] a relatively conservative figure considering that others have put it closer to the 30% mark.[2] But what are SRT transactions, and why are they gaining investor interest?

## What are SRT transactions?

The roots of SRT transactions can be traced back to the 2007/2008 global financial crisis (GFC). Financial regulators worldwide trained their sights firmly on bank capital in the aftermath, and regulations on capital requirements were tightened to help ensure that history didn't repeat itself.

In practice, this meant that banks needed to set aside a bigger portion of their capital to cover unexpected losses. The flip side to that, however, is that banks now have less capital to deploy to finance their profit-generating activities that also play an important role in supporting economic growth (e.g., financing business loans).

These conditions led to the creation of SRT transactions. They're essentially a tool that banks use to help manage their capital more efficiently in a manner that's consistent with regulatory requirements while simultaneously enabling them to make more loans.



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The market for SRT transactions has traditionally been dominated by European banks,[2] but interest in the United States has risen rapidly since the U.S. Federal Reserve clarified its views on these transactions and identified banks[3] that could take part in these transactions.

"An important characteristic of these transactions is the diversified nature of the loans that are typically included in these deals."

## Why should credit investors pay attention to SRT transactions?

In our view, SRT transactions represent an opportunity for investors to access high-quality loans on a bank's balance sheet that have the ability to generate high, stable income. Data also shows that the asset class experienced low default rates[1] and has consistently demonstrated low correlation to the broader credit market.[1] Crucially, it could also be viewed as a potential portfolio diversifier.

An important characteristic of these transactions is the diversified nature of the loans that are typically included in these deals. The typical transaction tends to feature a wide number of borrowers spread across different sectors and geographic regions. This helps to ensure that any potential losses in individual loans referenced in these transactions may be mitigated.

These transactions are also likely to include business loans made to unlisted companies; it's an efficient way for investors to get exposure to a part of the real economy that they wouldn't normally have access to.

## How do SRT transactions work?

At its simplest, these transactions enable banks to transfer the risks on a portfolio of loans to investors in a manner that enables the banks to obtain SRT. Generally speaking, here's how it works:

**1** When a group of investors—financial firms, including investment managers specializing in these deals—enters a SRT transaction with a bank, they agree to provide credit protection to a portion of the bank's loan portfolio.

**2** The bank keeps the loans referenced in the transaction on its balance sheet and compensates these investors on a regular basis, typically quarterly, depending on the terms of the agreement.

**3** The bank obtains capital relief (i.e., a lower amount of capital it has to set aside to cover unexpected losses) and is able to make more loans, potentially boosting profitability and return on equity.

The loans referenced in these transactions tend to be predominantly investment grade; however, yields offered on these transactions (currently 10%–13%)[1] tend to be higher relative to equivalently rated assets listed in the market. This is because the yields on offer in these transactions tend to be based on the savings the bank is able to make (from a cost-of-capital perspective) as a result of these transactions rather than the interest on the loans referenced in the portfolio.

Bank SRT transactions can be structured three ways:

**1** On a bilateral basis between a bank and a single investor

**2** As a small club transaction, which involves a small group of investors (typically between 3 and 5)

**3** On a syndicated basis

In our view, a bilateral or club transaction may be more advantageous for investors in these deals because they're better able to help shape the structure of the transaction, which influences its risk profile and, of course, pricing.

## What are the challenges and risks associated with these transactions?

We think the bank regulatory capital market is poised for ongoing growth. In particular, it's been interesting to see U.S. banks include a broader range of sectors in their deals, a development that could enhance these transactions' reputation as a potential portfolio diversification tool.

"Every transaction is different, and details will need to be examined at a very granular level."

Growth, however, can be a double-edged sword. As new entrants join the market, both in terms of banks trying to free up capital and investors who are keen to tap into the yields on offer, the quality of these transactions becomes even more critical.

In practice, this means spending more time on due diligence, studying the structure of the transaction, looking into the fundamentals of the loans referenced, and having a thorough understanding of the level of risk mitigation investors may expect should events not pan out as hoped.

Every transaction is different, and details will need to be examined at a very granular level. In our view, this is a development that investors should keep an eye on. A growing market may bring about more opportunities, but not all of them will be suitable.

Beyond that, investors should also bear in mind that these transactions may be seen as a form of credit investment. As such, the usual risks associated with credit investing—from interest rate risk to credit risk to mark-to-market risks—will also apply.


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## Risks commonly associated with credit investing

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| **Credit risk** | The possibility that a borrower may fail to repay a loan |
| **Inflation risk** | Inflation could erode the anticipated returns from a credit investment |
| **Interest rate risk** | Changes in interest rates may affect the value of a credit instrument |
| **Liquidity risk** | A credit instrument may be difficult to sell within a short period of time without a significant price discount, leading to financial losses |
| **Mark-to-market risk** | The recorded value of assets held in a portfolio (e.g., real estate, debt instruments) doesn't reflect market value |

**1** Source: MCQS, as of June 2026.

That said, SRT transactions are a form of structured credit, meaning there are opportunities for banks to incorporate features into these deals to create a buffer and help protect investors against tail risks, or the chance that an investment performs much worse than anticipated, leading to significant losses. As such, having the ability to conduct due diligence properly is critical.

## An opportunity for experienced investors

The act of investing is often informed by two concepts: economic arbitrage, which relates to taking advantage of price differences in different markets, and risk arbitrage, which has to do with profiting from the spread between an asset's current market value and its anticipated future value. SRT transactions don't fall into either of those categories.

Rather, these transactions create investment opportunities by providing banks with a means to improve their capital ratios and aid shareholder value creation, thereby giving experienced investors the chance to embed what we view as an attractive income component into their portfolio. They also provide access to a diversified pool of predominantly investment-grade-rated loans that some investors aren't normally able to tap into.

Having been on a slow burn since its inception, there are good reasons why this market's beginning to gain traction. In our view, it's certainly a market that experienced credit investors should watch closely.

**1** Structured Credit Investor, Manulife | CQS Investment Management, as of 3/31/25. SRT sector growth measured over the last three years.

**2** "One of the Hottest Trades On Wall Street, an Etymological Study," bloomberg.com, 6/27/24.

**3** "Credit FAQ: How Are North American Banks Using Significant Risk Transfers?" S&P Global, 11/12/24.

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