VPC Specialty Lending

(LSE: VSL LN)

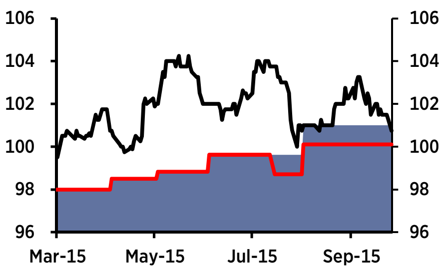
Price / NAV	**100.8 / 100.0**
Premium & range (%)	0.8 (0.3 to 6.9)
Yield historic / est* (%)	0.9 / 8.0
Market cap (£m, ords + C shares**)	382

Objective: an attractive total return consisting of dividend income and capital growth through a diverse portfolio of online lending platforms, asset classes, credit bands and geographies (primarily US, UK and Europe)

Target dividend	8% of the issue price
Target net returns	In excess of 10% p.a.
Listing / Domicile	Main Market / UK
Company launch	17 March 2015
Investment Manager	Victory Park Capital
Key individuals	Brendan Carroll, Gordon Watson
Ann Management Fee	1% of net assets
Perf fee	15% of NAV returns with HWM
Gearing (look-through, Jun 2015)	2.3% of NAV; target 75-100%, max 150%
Currency hedge	Non-GBP exposure hedged
NAV frequency	Monthly
Dividends paid	Mar, Jun, Sep, Dec
Continuation	2020 AGM and every 5yrs after

GBP TR %	3m	6m	Since launch
NAV	0.8	1.5	1.5
Price	-0.7	0.6	1.9

VSL Price ( ), NAV ( ), NAV + Dividends ( )



Source: Bloomberg, VSL. Data as of 22 October 2015

* estimate based on the Company's target yield of 8p

****market cap: £202m ordinary shares (VSL LN), £181m C Share (VSLC LN)**

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Veterans in a nascent sector

VPC Specialty Lending ("VSL") is run by one of the largest players in the direct lending space. Victory Park Capital's ("VPC") extensive expertise and relationships and private equity background are big advantages in a sector which is fragmented and where accessing the market is difficult and this is demonstrated by its strong 7 year+ investment track record.

Nascent asset class, bank disintermediation, both lender and borrower better off

Peer-to-peer ("P2P") lending, where investors lend directly to borrowers via online platforms, is a rapidly growing market and one which has vast room for expansion. The main competitive advantage over traditional lenders is the lower cost base – lower operational and regulatory costs can be passed on to borrowers (who can borrow at lower rates) and to investors (who can achieve better investment returns).

6%-8% dividend, total returns in excess of 10% p.a., two investment models

VSL targets a dividend of 8% (on the issue price) and a total return in excess of 10%, primarily by making two types of investments (see next paragraph).

Direct and indirect exposure to loans: Marketplace Model vs. Balance Sheet Model

Under the "Marketplace model" platform-originated loans are owned directly. These loans are expected to deliver returns of 6%-10% p.a. and 11%-18% p.a. if levered (target is 65%-75% LTV). Under the "Balance Sheet model" credit lines yielding 11%-16% p.a. are advanced to platforms to fund loans. The credit lines are secured against the loans funded plus an equity buffer put up by the platform. Therefore the Company is only exposed to losses in the underlying portfolio to the extent that losses exceed the buffer, which in VPC deals is set at a multiple of the expected level of portfolio losses.

Experienced and well connected management team, strong track record

VPC has been involved in the online lending sector since 2009, its key investment professionals having an average investing experience of over 15 years. The team have to date invested over $3.7bn in the sector, achieving a gross annualised return in excess of 22% (17% net of fees as per Company fee structure). VPC has been deploying capital via existing platform agreements at an average monthly rate of US$120m+.

Key metrics, 31 August 2015 (further £183m raised via C share on 30 September 2015)

Ordinary shares net assets	£200.0m
Gearing	2.3% of NAV (target 75-100%, max 150%)
No of platform capacity agreements	17 (ranging in term from 3 to 5 years)
No of individual underlying loans	Not disclosed, but hundreds of thousands
Weighted avg maturity of loans	Not disclosed, but at loan level max is 5 years
Equity or equity options (% NAV)	In 9 platforms (2% of NAV)
Investment type breakdown	60% Marketplace loans, 25% Balance sheet, 12% Cash, 2% equity
Borrower breakdown	72% Consumer, 28% SME
Geographical breakdown	80% US, 19% UK, 1% Other

Source: VPC Specialty Lending Investments PLC

To watch: deployment, re-investments, defaults, cash cover

It is early days for the direct lending sector and we look forward to more portfolio disclosure and detailed performance attribution as track records are being built. In particular, we would closely watch default levels compared to expectations, gearing levels, dividend cover, and the evolving re-investment opportunities.

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Portfolio composition

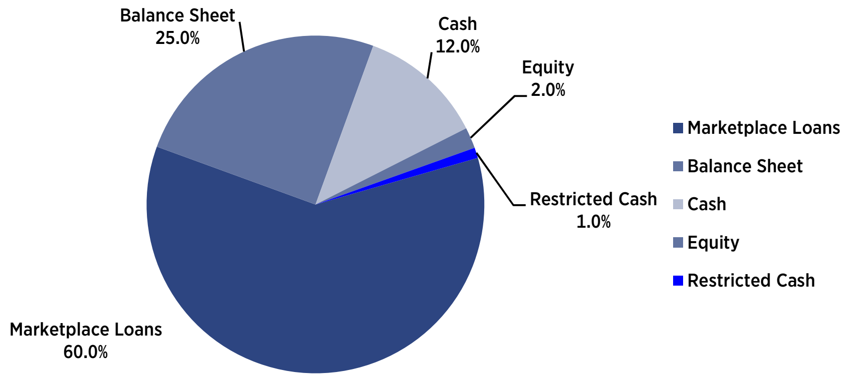
As of 31 August 2015 the Company held investments diversified across 17 platforms (see the following two pages for details).

The managers aim to have a portfolio evenly split between Balance Sheet and Marketplace loans

Equity securities cannot exceed 10% of gross assets

The underlying portfolio comprises hundreds of thousands of individual loans ranging from $200 to more than $1,000,000 and terms from one week to 60 months

Portfolio breakdown by type of loan, 31 August 2015

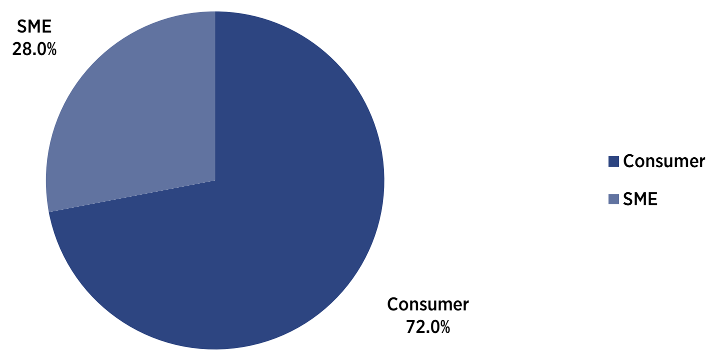


Source: VPC Specialty Lending Investments PLC

The managers aim to have a portfolio evenly split between SME and Consumer loans

The portfolio holds a wide range of asset classes, including small business loans, merchant cash advances, prime/near-prime/sub-prime consumers, unsecured/secured debt and legal settlement finance

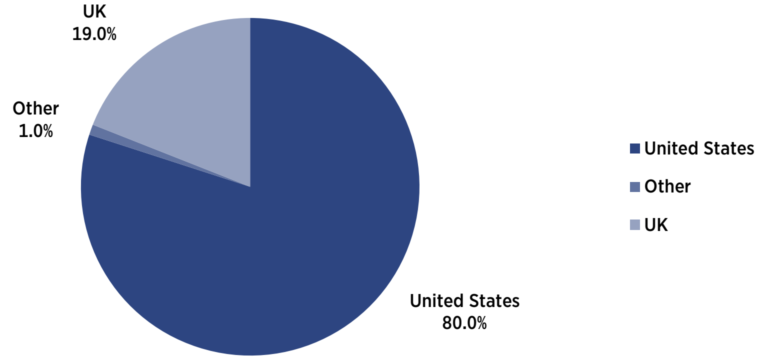
Portfolio breakdown by borrower type, 31 August 2015



Source: VPC Specialty Lending Investments PLC

The managers aim to have a portfolio evenly split between US and other geographies (largely UK)

Portfolio breakdown by geographical exposure, 31 August 2015



Source: VPC Specialty Lending Investments PLC

Portfolio platforms descriptions

Investment	Business Description
ADF APPLIED DATA FINANCE	Applied Data Finance, LLC ("ADF") provides credit to sub-prime and near-prime consumers in select states across the US. Financings are in the form of instalment loans. Through its brand Personify Financial, ADF expects the average loan size to be approximately US$3,500 with an average term of 37 months. ADF employs risk based pricing with APRs ranging between 24% and 66%. ADF is headquartered in San Diego, California, with offices in New York and IT and call centre support in Chennai, India.
assetz CAPITAL	Assetz Capital Limited ("Assetz") operates a peer-to-peer lending platform that underwrites loans to SMEs in the UK. The average loan size is US$600,000 with an average term of 32 months and an interest rate of 10 per cent. to 17%. Its main revenue sources are its origination fee to borrowers of 2% to 4% and its service fee to borrowers of 1%. Assetz issues loans that are typically secured by a first lien on the company's assets as well as director guarantees. Assetz was founded in 2012 and is based in Stockport, UK.
AVANT	Avant Credit Corporation ("Avant") provides short-term financing to "near-prime" (i.e. FICO scores between 600 and 700) and prime consumer borrowers in select states across the US and the UK. Financings are in the form of instalment loans. The average loan is approximately US$8,200 with an average duration of 47 months. APR on Avant's portfolio can range from 9.95% to 35.95%. Avant was founded in 2013 and is headquartered in Chicago, Illinois.
BEHALF	Behalf, Inc. ("Behalf") provides short term working capital loans to small businesses to help bridge the cash flow gap between when they have to pay a vendor for a purchase – typically within 30 days – and the time it takes to generate revenue from that purchase. To cover the gap, Behalf will pay the vendor's invoice of up to US$10,000 per purchase, and the small business will pay Behalf back over time. The average loan is US$1,200 with an average duration of approximately three months. Behalf was founded in 2011.
borro	Borro Group Holdings Limited ("Borro") provides consumer loans to UK and US based consumers secured by high-end personal assets, such as watches, jewelry and diamonds, fine art and antiques, prestige and classic cars and fine wine. Borro underwrites its loans to the borrower at a loan-to-value ratio of approximately 65% on average and maintains possession of the borrower's collateral until loan repayment. Average loan size is US$17,300, with an average loan term of six months. APRs range between 48% to 52% annually. Borro is headquartered in London and also has an office in New York, US.
E/evate	Elevate Credit Inc. ("Elelvate") provides unsecured short-term financing to individual "near prime" and "sub-prime" borrowers. It currently provides US instalment loans, UK instalment loans and employer lines of credit. The average loan is US$2,450 with an average duration of 17 months. Elevate is headquartered in Fort Worth, Texas, US and originates from a spin-off of Think Finance in May 2014.
FAST TRAK LEGAL FUNDING	Fast Legal Funding, LLC ("FastTrak") provides individuals involved in pending lawsuits in the US ("Claimants") access to financing in exchange for a claim interest ("CI") in their pending legal claim. Each CI is underwritten whereby advances are capped at 15% of estimated settlement value, with the average CI being approximately US$13,600. CIs return 43% to 60% effective annual yields either through fixed monthly use fees (3% to 4% per month) or a fixed-dollar return schedule. The average duration of a CI is approximately 18 months. The company was founded in 2009 and is headquartered in New York, US.
Funding Circle Better for business, better for investors, better all round.	Funding Circle USA, Inc. and Funding Circle Limited (together,"FundingCircle") operates a crowdfunding lending platform that underwrites loans to small businesses in the UK and the US. The average loan size is US$120,000 with an average term of 44 months and a coupon rate of 5.49% to20.99%. Its main revenue sources are its origination fee to borrowers of around 3%. And its service fee to investors of 1%. Funding Circle is headquartered in London with US operations headquartered in San Francisco, California.
Kreditech DIGITAL LENDING	Kreditech Holdings SSL GmbH ("Kreditech") is an online direct lender to under-banked individuals in certain European countries. It bridges the disconnection between consumers and banks, using proprietary credit scoring utilising 10,000 data points from big data and based on 2-4 scoring models per country and product category. The average loan size is US$1,200 with an average loan term of 10 months. Kreditech was founded in 2012 and is headquartered in Hamburg, Germany.
LendUp	LendUp Global, Inc. ("LendUp") is an online direct lender to sub-prime borrowers (i.e. FICO score below 600) that seeks to offer a "borrower friendly" to typical payday loans. LendUp uses publically available onlinedata, such as socialnetworks, to assess which applicants will be a good credit risk, and rewards customers with lower interest rates for repaying their loan on time and for taking credit education courses. Average loan size is US$272 with an average loan term of one month. APRs can be as high as 247%. LendUp was founded in 2011 and is headquartered in San Francisco, California.
Momentum	Momentum Funding, LLC ("Momentum") provides individuals involved in pending personal injury lawsuits immediate access to financing in exchange for an interest in their legal claim. Average interest size is US$2,900 with anaverage duration of 18 months. Momentum was founded in 2015, by Michael Perkin after leaving his previous company, Oasis Legal Finance, one of the largest plaintiff funders in the US, which Ms Perkin co-founded in 2002.

OnDeck Capital,Inc. ("OnDeck") is a provider of capital to SMEs across the US. The average loan is US$50,000 with a term ranging from 6–18 months. OnDeck was founded in 2007 and is headquartered in NewYork, US, with regional offices in Arlington, Virginia and Denver, Colorado.

Prosper Marketplace, Inc. ("Prosper") operates as a peer-to-peer online lending marketplace that enables borrowers to borrow money and investors to purchase borrower notes, the proceeds of which facilitate the funding of loans made to borrowers. Borrowers then make monthly principal and interest payments, which are transferred to investors through the Platform. Average loan size is US$14,000 with an average loan term of 43 months. Prosper was launched in 2006 and was the first peer-to-peer marketplace lending platform in the US. It is based in San Francisco, California.

Renovo Financial ("Renovo") is a rapidly growing specialty finance business designed to capitalise on the significant market opportunity in providing capital to residential real estate investors. Renovo's clients are experienced rehab investors and project managers, whose goals are to redevelop properties to buy, fix and flip for a short-term profit or buy, fix and hold as part of a long-term portfolio. Renovo believes its high-touch service, expert advice and speed, combined with flexible and innovative loan products allows its borrowers to commit to and undertake projects with confidence. Renovo typically funds small to mid-sized projects up to US$2m. Renovo was founded in 2011.

Square Inc. ("Square") is a technology company that provides merchant cash advances to small businesses across the US that use the Square Reader, a mobile payment card-reading device. Square advances up to 10% of annual card sales to merchants, charging a fee of 15% to 14% of the initial amount funded, and collects 3% to 13% of each card payment until an equal amount of card receivables is transferred to Square. The average loan size is US$5,500 with an average term of nine months. Square was founded in 2009, is based in San Francisco, California and has operations in the US, Canada and Japan.

The Credit Junction ("Credit Junction") is a technology-enabled, online lending platform focused on providing working capital and supply chain financing solutions to small and mid-sized businesses, with an emphasis on the industrial and manufacturing sectors. It employs an asset-based lending credit evaluation model, and by doing so, can offer businesses US$250,000 to US$2 million in capital availability. By coupling technology and data intelligence with traditional asset-based lending metrics, Credit Junction can better assess the health of a small business, as well as give those businesses a more transparent and user-friendly experience. Average loan size is US$550,000 with a term of between six and 36 months. Credit Junction was founded in 2014.

Upstart Holdings, Inc. ("Upstart") is a platform that goes beyond the FICO score to finance people based on signals of their potential, including schools attended, area of study, academic performance and work history. Upstart's proprietary underwriting model identifies borrowers despite limited credit and employment experience. Upstart's revenue is generated by origination fees averaging 5% which it reimburses to the investor if the underlying loan defaults. Upstart was founded in 2012 and is based in Palo Alto, California.

Source: VPC Specialty Lending Investments PLC

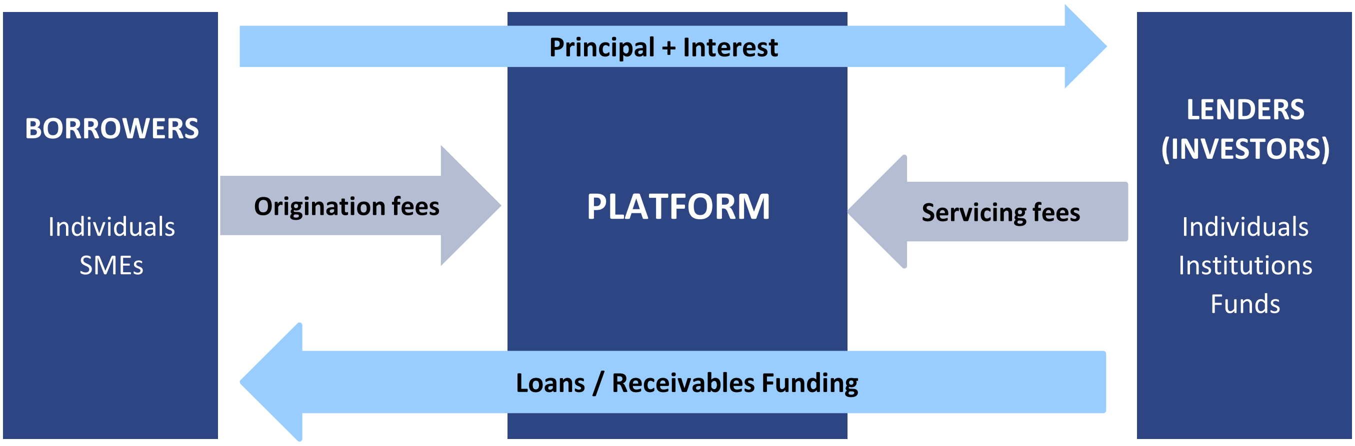
Platform models

VPC invests via the two primary structures for providing debt capital to platforms, known as the **"Balance Sheet Model"** and the **"P2P" or "Marketplace Model".**

The P2P / Marketplace model

- The loans are originated by the platform and sold, generally at par, to retail and institutional investors, in whole or in part (so the **lenders own the loans**)
- The lenders can be institutional, but also retail investors
- The lenders, as they own the loans outright, bear the entire default risk of the loans, although credit enhancements (such as first loss protection and repayment of origination fees on any defaulted loans) may be available
- The lenders can use leverage to enhance their returns from the loans by securitising or borrowing against portfolios of loans
- The lenders usually enter into agreements with the platform to service the loans, but retain the right to replace the platform as service provider if certain events (e.g. bankruptcy of the platform) were to occur. Furthermore, a number of platforms and lenders have in place back-up servicing agreements with third parties who would be able to service the underlying loans of a platform in the event of the bankruptcy of the platform.
- For investments made under this model, VPC currently targets:
  - Gross **unlevered annualised returns of 6% to 10%**
  - Gross **levered annualised returns of 11% to 18%**
- The platform's revenues consist of **loan origination fees charged to borrowers** (typically 2%-5%) and **servicing fees charged to lenders** (typically 1%)
- VPC only purchase whole loans from the platforms and thereby retain control.

The P2P / Marketplace Model - illustration



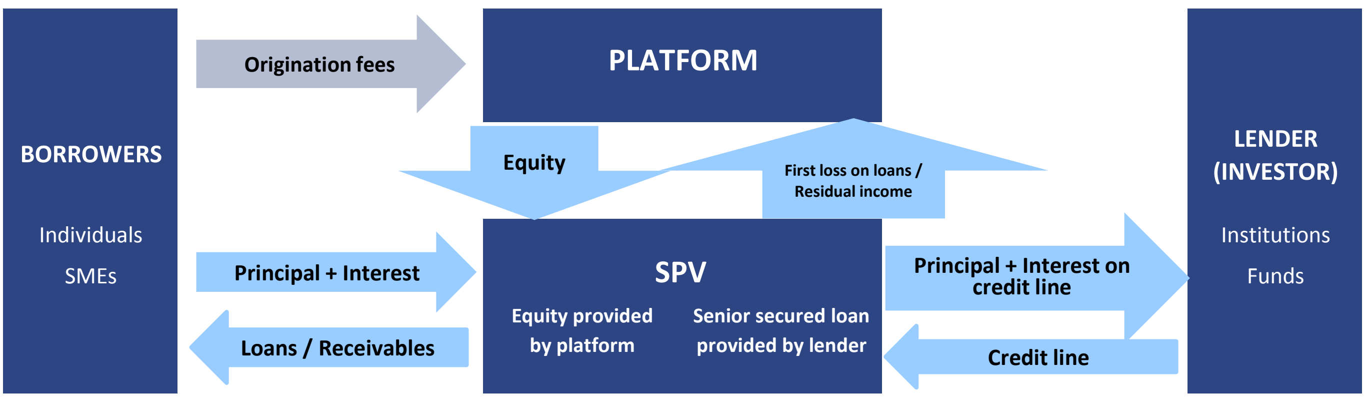
Source: Cantor Fitzgerald Europe Investment Companies Research

Examples of "Marketplace" platforms

The Balance Sheet model

- The loans are originated and retained by the platform (i.e. they are retained on the platform's balance sheet)
- The platform funds the loans using a combination credit facilities and its own equity
- Investors/lenders (in this case all institutional) get **indirect exposure to the loans** originated by the platform by extending credit lines to the platform, typically in the form of senior secured credit facilities (these are generally floating rate with 2-4 year maturities)
- Each individual credit line is only used to fund loans that meet the criteria specified by the lender. These loans are then held as collateral in a special purpose vehicle ("SPV") controlled by VPC, with all income and principal payments from the loans being used to service the payments due under the credit line agreement. Furthermore, the platform contributes an equity tranche to the SPV which acts as a first loss absorber for any portfolio losses. The lender therefore is only exposed to the default risk of the underlying loans to the extent that losses exceed the equity cushion plus any profits accumulated in the SPV. For the credit lines put in place by VPC the **cushion is generally set at a multiple of the expected level of defaults** from the loan portfolio that is being funded. In addition, the platform may provide the lender with other guarantees, including stock pledges over the issued share capital. The lender may also be granted equity or warrants in the platform as part of its agreement to provide financing.
- The platform has two sources of revenues under this model:
  - > origination fees charged to borrowers
  - > the profit made on the loan book, consisting of the interest received on the loans less the financing cost of the credit lines less portfolio defaults/losses
- For investments made under this model, VPC currently targets **unlevered returns of 11% to 16%** and does not seek to lever these returns. VPC says the reason it is currently able to achieve such high rates on these seemingly relatively low risk senior secured loans is because it offers these credit lines at an early stage of a platform's development.

The Balance Sheet Model - illustration



Source: Cantor Fitzgerald Europe Investment Companies Research

Examples of "Balance Sheet" platforms

borro Kreditech DIGITAL LENDING LendUp AVANT

Types of investments

The concept of connecting borrowers and lenders via platforms is being applied to an increasing range of products. However, the most developed offerings currently are in the areas of consumer debt, SME debt and corporate invoice receivables, with leading platforms in each of these areas seeing significant growth in recent years.

Direct investments

Consumer loans

The global P2P consumer loan business is a multi-billion dollar industry that matches retail borrower members with retail and institutional capital at rates that are competitive with those offered by traditional banks. As at 30 April 2015, total consumer credit outstanding in the US stood at US$3.38tn (Source: US Federal Reserve) and the EU market size for outstanding consumer debt was €566bn (Source: European Central Bank).

The cost effective origination model operated by platforms allows certain consumers to borrow money at interest rates at which banks would generally not be able to cover their cost base. For example, in the US, certain consumer borrowers have the opportunity to obtain small loans of up to 5 year terms at interest rates below 6% p.a. For lenders, consumer platforms offer net returns of 5% to 10% p.a., depending on the risk profile of their loan selection.

SME loans

The platforms operating in this asset class focus on connecting institutional and retail capital to SMEs requiring debt finance. Generally, SMEs that are accepted as borrower members are established businesses.

As at February 2015, the outstanding balance of loans to SMEs in the UK was £168bn (Source: Bank of England). The emergence of P2P SME loan platforms in the UK, such as Funding Circle (UK), allows creditworthy SMEs to borrow money on-line at interest rates as low as 6% p.a. For lenders, the Funding Circle (UK) SME platform offers the majority of investors net returns of 3.5% to 9% p.a.

Corporate invoice receivables

Invoice financing has emerged as a lending asset class whereby a platform advances funds against invoice receivables. This form of financing allows businesses seeking working capital to get advances on cash due from their customers.

From a borrower member's perspective, this form of short-term (typically 30 to 180 days) financing provides for a low cost way for the business to receive capital instead of an often more restrictive and/or more expensive banking facility. In many cases, SMEs which sell goods or services to blue chip companies can receive advances against their invoices via P2P platforms for an annualised discount factor of 8% to 20% of the face value of the invoice.

Indirect investments

Indirect investments may include investments in platforms (or in structures set up by platforms) through the provision of credit facilities, equity or other instruments.

The risks

Platform-originated loans are generally held to maturity, so the upside is known at the time of acquisition: at best the lender gets paid the interest due and their principal back. The downside however depends on a number of factors, as detailed below.

Risks to the invested portfolio

Defaults/losses

For lending under the **Marketplace model** (see page 5 for more details) the Company owns the loans and therefore is **directly exposed to any defaults/losses** in the portfolio. The Company's target returns are based on an expected level of defaults/losses; as a result, the risk here is that actual losses exceed those estimated. This may be due to market factors (i.e. an increase in defaults across the market) or portfolio specific factors (i.e. platform poor credit selection).

For lending under the **Balance Sheet model** (see page 6 for more details), the Company is **indirectly exposed to losses** arising from defaults among the loans funded. The Company lends to the platform secured against a portfolio of loans originated by the platform, as well as an equity buffer put up by the platform. Therefore the Company is only exposed to losses in the underlying portfolio **to the extent that losses exceed the buffer,** which in VPC deals is **set at 3x-4x the expected level of portfolio losses.**

Gearing

Under the Marketplace model, any **losses will be amplified** if gearing is employed (current gearing is 2.3% of NAV, target is 75%-100%). Additionally, if defaults exceed certain levels, covenants may be breached.

The Company does not intend to gear investments made under the Balance Sheet model.

Platform going under

Under the Marketplace model, as loans are owned by the Company and not by the platform, a platform entering insolvency should not affect these investments. However, as generally the platforms are also the servicers of the loans, the key here is to quickly put in place a new loan servicing provider. VPC has in place back-up servicing agreements.

Under the Balance Sheet model, if a platform enters insolvency and defaults on the payments due under the credit line, the Company takes control of the portfolio of loans that forms the collateral and the Company is directly exposed to any defaults/losses that exceed the first loss cushion. Also, the lender may have other guarantees in place, including stock pledges over the issued share capital.

Investments into platform **equity** will be directly affected and at worst become worthless.

Fraud

Fraud, at platform level, can take many forms, but we would expect the manager's due diligence process to minimise this risk

Reinvestment risk

The loans the Company invests in have relatively short maturities (the maximum at loan level is 5 years). Balance sheet loans benefit from signficant pre-payment penalties and "make whole provisions", which mitigates reinvestment risk. Marketplace loans can generally be repaid with little or no notice without a penalty and therefore are exposed to reinvestment risk.

Ability to secure capacity

While the amount of money borrowed via platforms is growing rapidly, the competition among platforms and lenders is also increasing. Being able to secure long-term capacity deals with platforms is therefore essential to mitigating reinvestment risk. VPC has strong relationships in the sector, having invested or committed c.$3.7bn in the sector since 2010 and is currently deploying, on average, in excess of $120m per month into exisiting platform capacity.

Available rates/credits no longer attractive

This is dependent mostly on market conditions, although the manager's ability to secure/structure attractive deals is also important. VPC's marketplace agreements include provisions that allow it to discontinue purchases if expected net returns are below agreed levels

Ability to secure future borrowings at economical rates

If the Company is unable to **secure gearing on attractive terms**, it may be unable to deliver its target return and dividend. This is dependent mostly on market conditions and does not affect Balance sheet loans, although the manager's ability to secure/structure attractive deals is also important.

Changes to regulation

Changes in regulation may impact the growth and dynamics of the sector and the returns that can be achieved.

Source: Cantor Fitzgerald Europe Investment Companies Research

The market opportunity

Peer-to-peer ("P2P") lending, where investors are lending to borrowers via online platforms that act as intermediaries, is a business model that emerged in 2005, enabled by advances in financial technology.

Bank disintermediation story, disruptive business model

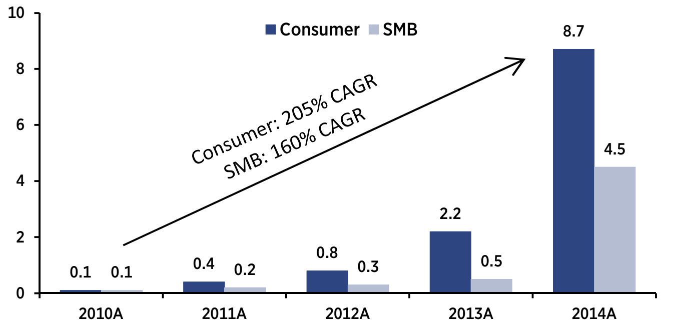
The model has great advantages over traditional lending models:

- Significantly lower operating and regulatory costs which facilitate **lower rates for borrowers** and **higher investment returns for investors/lenders,** as cost savings are being passed on
- Credit decisions tailored to the individual borrower, rather than being a binary assessment of whether a borrower falls or not within some large pre-determined lending categories
- Increasing use of data outside that provided by the borrower and the credit reference agencies
- Greater flexibility to innovate
- Flexibility to access market segments underserved by traditional lenders
- Quicker lending decisions and Improved user experience (easy online application process and funding tracking for borrowers, easy to use tools facilitating investors' lending decisions and the monitoring of their portfolios)

Vast market, low levels of penetration, rapid growth

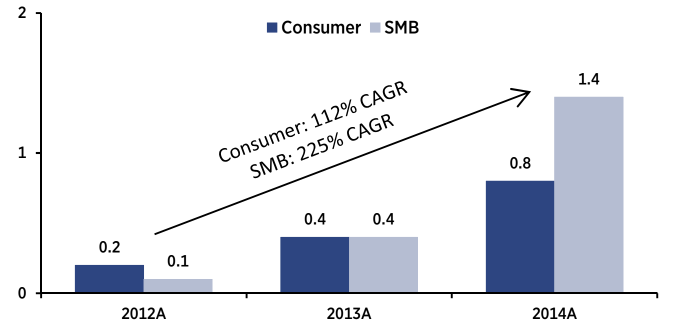
While the amounts lent via platforms have grown exponentially over the last few years, in absolute terms, these loans still represent a small fraction (c.1%) of all outstanding consumer and SME loans.

US online loans outstanding ($bn)



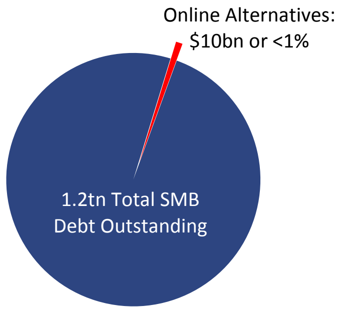
Source: VPC estimates

UK online originations (€bn)



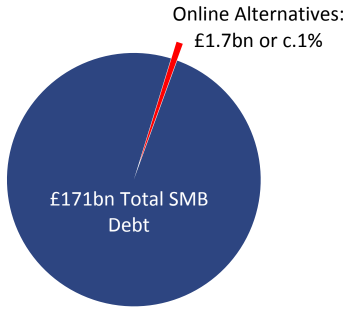
Source: VPC Specialty Lending Investments PLC (Universtity of Cambridge: The European Alternative Finance Benchmarking Report, February 2015

US SMB Debt Outstanding



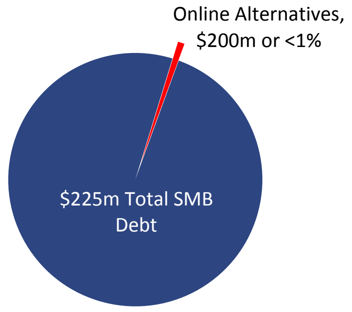
Source: VPC Specialty Lending Investments PLC (Harvard Business School "The State of Small Business Lending", September 2014)

UK SMB Loan Market



Source: VPC Specialty Lending Investments PLC (Bank of England, September 2014

Australia SMB Loan Market



Source: VPC Specialty Lending Investments PLC (Australian Small Business Key Statistics and Analysys 2012)

Investment strategy and process

The Investment Manager employs a comprehensive and disciplined investment process. The "**Deal team**" working on a typical investment involves at least one of the Investment Manager's management committee members, one principal or vice president and an associate as well as operational professionals.

All transactions must be approved by the **Investment Committee** prior to execution. This currently comprises Richard Levy, Brendan Carroll and Gordon Watson.

The investment process comprises four phases:

1. Sourcing & Screening

The Investment Manager typically sources investment opportunities through its **extensive relationships with intermediaries** (brokers, legal and accounting firms), industry channels (consultants, investment banks, operating executives) and venture capital firms. The Investment Manager also benefits from **reverse enquiries** from companies given its experience and reputation in the specialty lending space.

The Investment Manager looks for opportunities that generate an **attractive yield** with **collateral and structural protection** and look to **maximise the potential for upside** through equity and/or other deal enhancements.

2. Pre-investment due diligence and underwriting

The review of a potential investment begins with **initial meetings with the platform**'s management team to gain an understanding of the business.

If of interest, the Deal Team then prepares a memorandum summarising the investment opportunity, risks, preliminary structure and pricing and the comprehensive plan for further due diligence.

If the Investment Committee approves the memorandum, the Deal Team delivers indicative terms to the prospective platform. It is required that each potential **platform agree to certain terms and conditions before proceeding with further due diligence**. These terms typically include:

(i) the proposed investment structure;
(ii) key economic terms such as interest rates, fees and equity component, if any;
(iii) coverage of due diligence costs; and
(iv) financial covenants such as minimum returns and collateral coverage.

Once terms have been agreed, the Investment Manager engages in a **multi-stage due diligence process** to review the platform's viability from a commercial, financial and operational perspective. This process includes onsite due diligence by Deal Team members as well as due diligence by recognised third-party firms to augment the Investment Manager's own findings. The goal is to assess the platform's ability to do business in the markets in which it operates for the foreseeable future, the soundness of its financial planning and its ability to manage regulatory and business risks.

For both Balance Sheet Model and Marketplace Model investments the Deal Team **evaluates the platform's underwriting criteria and performance**. They obtain a full listing of the platform's loans made to date, as well as its underwriting standards and default history.

In addition, a **review of the systems and infrastructure** is carried out to assess their robustness as well as the platform's ability to manage operational risks. For Balance Sheet Model investments, a **comprehensive background check on the platform's senior management** is also carried out.

Once due diligence is complete, a memorandum is prepared by the Deal Team and presented to the VPC Investment Committee describing the opportunity, risks, agreed structure, pricing and covenants. A financial model is prepared illustrating the prospective return scenarios, including the base case, as well as expectations regarding upside and downside potential.

If a proposed investment is approved by the VPC Investment Committee, the Deal Team moves ahead with execution.

3. Portfolio construction

All aspects of portfolio construction are driven by assessing the balance of expected returns with inherent risks and the aim is to ensure that the transaction size and underlying exposures are consistent with the Company's investment policy and targeted net returns and diversification across platforms, asset classes, currencies, investment structures and geographies.

The Company may also seek to make strategic investments in the equity of platforms where the Investment Manager believes they exhibit the potential to capture significant market share and there is significant potential valuation upside. In addition, in some cases, the Investment Manager may seek to obtain warrants or debt instruments convertible into equity of the platform. The Investment Manager will undertake an extensive due diligence process prior to the acquisition of any equity stake in a platform.

4. Monitoring and risk management

The Investment Manager applies a rigorous, disciplined and hands-on approach to post-investment monitoring and actively assesses portfolio risk and performance. Each platform provides certain pre-agreed reports, which may include monthly financials, budgets and financial projections and covenant compliance certification.

Members of the Deal Team maintain internal financial models which are used to monitor and evaluate the investments. They frequently interact with the platforms and typically perform the following monitoring functions where appropriate:

(i) monitoring the platform's cash and bank accounts;
(ii) reviewing borrowing base certificates;
(iii) periodic onsite due diligence;
(iv) verifying financial covenants and
(v) reviewing the financial reporting package.

If the Investment Manager determines that a Platform has breached a covenant or it believes one may be breached, it may designate VPC employees or third party experts to examine the platform and underlying business and will address any critical issues.

The Deal Team also carries out portfolio level analysis such as stress tests and scenario analysis to understand and mitigate the impact of specific risk factors on performance. Stress tests are based on scaling of the expected portfolio loss rates and factoring in any mitigants such as first loss protection and over-collateralisation. The Investment Manager uses long-term historical time-series as well as platform specific data to calculate its stress severities.

In the Balance Sheet Model, any losses are first borne by the platform and in the case of deterioration of loan quality the Investment Manager can require additional collateral to be posted or for a lower loan to debt value to be provided.

In the Marketplace Model, the first dollar loss is suffered by the SPV, but in some cases the Investment Manager may be able to negotiate certain credit enhancement features, such as first loss protection on any defaulted loans or repayment of origination or service fees.

The Investment Manager. Track record.

The Company's investment manager is **Victory Park Capital Advisors** ("VPC"). VPC is a US-based privately held registered investment advisor dedicated to alternative investing through the management of investment vehicles.

Founded in 2007 by Richard Levy and Brendan Carroll

- **Senior management team has worked together since 2005** and have performance track records through multiple credit cycles
- Based in Chicago with additional resources in Los Angeles, New York, London and San Francisco, comprising **40 employees**
- Top-tier Executive Board comprised of prominent investment and industry professionals

Experienced investor in Specialty Finance Companies

- VPC has made approximately **$3.7bn of investments and commitments** across various specialty finance platforms (as of 31 July 2015)
- Extensive experience lending to **small and medium-sized businesses** across a diversified range of industries, **subprime, near-prime and prime consumers, secured and unsecured debt, legal finance**
- Extensive knowledge of sector participants as well as complex regulatory requirements needed to operate within the industry
- Experience in both direct lending and purchasing whole loans
- Proven ability to add value across its platforms

Extensive Sourcing Network

- VPC has executed transactions **partnering with more than 35 leading financial sponsors** in the sector

Strong investment track record

Since December 2007, VPC has achieved an **overall gross IRR of 22%*** (17% net of fees as per the Company's fee structure) on investments made under the same strategy as that employed by the Company.

*past performance is not necessarily indicative of future results

Key individuals

Richard Levy, Chief Executive Office and Founder

Richard Levy is the CEO and founder of VPC. He oversees the firm's investment and operational activities. He is also the chairman of the firm's management and investment committees. He serves as chairman of the board of directors of Victory Park portfolio companies, EMS Holdings I, Inc., Enteris Biopharma, Inc., Mediterranean Cuisine Holding Company, LLC, Surefire Industries USA LLC, VPC Fuller Brush Operating Corp. (The Fuller Brush Company) and VPC Pizza Operating Corp. (Giordano's). He is also a member of the board of directors of VPC portfolio companies, Mi Pueblo Food Center, Silver Airways Corp and YR Holdings, LLC. Previously, he served as head of the Small Cap Structured Products Group and co-head of the Solutions Group at Magnetar Capital. He also co-founded and served as managing partner at Crestview Capital Partners. He received a B.A. in political science from The Ohio State University, an MBA from the Illinois Institute of Technology's Stuart School of Business and a J.D. from Chicago-Kent College of Law. He is a member of the Illinois bar (inactive). He is also chairman of the board of non-profit, Gardeneers and an active board member of non-profits College Bound Opportunities and Camp Kesem.

Brendan Carroll, Senior Partner and Co-Founder

Brendan Carroll is a senior partner at VPC, which he co-founded in 2007. He is responsible for sourcing, evaluating and executing private debt and equity investment opportunities, including assisting portfolio companies with strategic initiatives. Mr. Carroll also manages the co-investment process, fundraising and investor relations. He is a member of the firm's management and investment Committees. He serves as member of the board of directors of Victory Park portfolio companies, EMS Holdings I, Inc., Enteris Biopharma, Inc. and VPC Pizza Operating Corp. (Giordano's). Previously, as a member of the Solutions Group at Magnetar Capital, he specialized in direct financings to lower middle market companies. He has held various investment banking positions at William Blair and Company and Robertson Stephens, specialising in corporate finance and mergers and acquisitions. Mr. Carroll has also worked in various capacities for former U.S. Senator Joseph Lieberman (I-CT). Mr. Carroll received a B.A. with honors in government from Georgetown University and an MBA from Harvard Business School. He speaks frequently on debt and private equity investing issues and has served as a guest lecturer and panellist at the University of Chicago's Booth Global School of Business, Northwestern University's Kellogg School of Management and Harvard Business School. Mr. Carroll is also a member of the Board of Regents at Georgetown University, the Finance Council of the Archdiocese of Chicago, the Board of Trustees at National Louis University, and Loyola Press.

Gordon Watson, Principal

Gordon Watson joined VPC in 2014 and is a principal. He is primarily responsible for sourcing, analysing, executing and management of direct private debt and equity investments in the specialty finance sector. He also actively works on making investments in public debt securities in middle market companies where VPC can actively influence positive outcomes. Previously, he was a portfolio manager focused on distressed debt at GLG Partners, a London based 25bn multi-strategy hedge fund that concentrates on a diverse range of alternative investments. He joined GLG when it purchased Ore Hill Partners, a credit focused hedge fund where he was a partner. He received a B.A. in political science from Colgate University and an MBA from Columbia University.

The Board of Directors

The Company's Board is comprised of four non-executive directors, all of whom are independent of the Investment Manager.

Andrew Adcock (Chairman)

Andrew Adcock was the Managing Partner of Brompton Asset Management LLP from January 2010 until July 2011. Prior to this, he was joint head of corporate broking at Citigroup before becoming Vice Chairman in June 2007. He was previously an Equity Partner at Lazard LLP and the Managing Director of De Zoete & Bevan Ltd. Andrew Adcock has over 30 years of experience in the City and is currently a Non-Executive Chairman of Majedie Investments plc, a Non-Executive Director of Majedie Portfolio Management Limited, Kleinwort Benson Bank Limited, F&C Global Smaller Companies plc and JP Morgan European Investments Plc, and is a Non-Executive Director and the Chairman of the Remuneration Committee of Foxton Group plc. He is also the chairman of the Samuel Courtauld Trust and a Director of the Courtauld Institute of Art.

Clive Peggram

Clive Peggram is currently CEO of Apex2100, a performance facility based in France. He has over 30 years of experience in financial derivatives, hedge funds and private equity. He was previously Deputy Group CEO of Financial Risk Management, a $10bn institutionally focused hedge fund of fund manager. Following the sale of FRM to the Man Group, he became Chief of Staff responsible for the integration of the two businesses. He was also CEO of FRM's hedge fund seeding business, FRM Capital Advisors, which he was hired to establish in 2006. He is also an experienced private equity investor. Prior to joining FRM, he was a co-founder of Comvest Limited, a private equity fund focussed on providing capital to early stage companies. Between 1988 and 1998 he was a Managing Director at Banque AIG, where he established its investment management business. Previously he worked in a number of different roles, gaining considerable experience of the developing derivative markets at Swiss Bank Corporation. He is Chairman of an Italian focused private equity fund established in 2000 and an Independent partner of Cairn Loan Investments LLP which was established in 2014.

Elizabeth Passey

Elizabeth Passey is a Senior Adviser to J Stern & Co Private Bank and a Member of the UK Board of the Big Lottery Fund. She is a past Managing Director of Morgan Stanley, past Chairman of the Board of Morgan Stanley International Foundation, as well as a past Managing Director of Investec Asset Management. She is a Member of Court of the University of Greenwich and a Trustee of the Asia Scotland Initiative.

Kevin Ingram

Kevin Ingram was an Audit Partner with PricewaterhouseCoopers LLP for 20 years until the end of 2009. He specialised in the audit of financial service businesses and the audit of investment products including Investment Trusts, Open-ended funds, Hedge funds and Private equity funds. He headed PricewaterhouseCoopers' UK Investment Funds audit practice from 2000 to 2007. He is the Chairman of the Board of Aberdeen UK Tracker Trust plc and was the Chairman of the Audit Committee of that Trust from March 2010 until he was appointed Chairman of the Board in April 2013. He is a Chartered Accountant and member of the Institute of Chartered of Accountants in England and Wales. He is also a member of the Audit Committee of the Westminster Catholic Diocesan Trust.

About the Company

VPC Specialty Lending Investments PLC is a UK domiciled closed-end investment company listed on the Main Market of the London Stock Exchange on 17 March 2015. To date the Company has raised £383m via two issues of equity. A further 317m shares can be issued under the most recent prospectus.

VPC equity raisings, 23 October 2015

Date	£m raised	Issue type	Notes
17 March 2015	200.0	Initial fund raise	IPO price 100p
30 Sep 2015	183.0	C share*	Ticker is VSLC LN
Total	383.0		

*C Shares get converted to ordinary shares once over 90% of proceeds have been invested. The VPC managers estimate the funds will be deployed to this extent within 6 months.

Source: VPC Specialty Lending Investments PLC

Investment objective

The Company's investment objective is to generate an attractive total return for shareholders consisting of dividend income and capital growth through investments in specialty lending opportunities.

Dividend policy and target returns

The Company intends to distribute at least 85% of its distributable income earned in each financial year by way of dividends.

The Company is targeting a **net dividend yield of 8.0%** and a **net total return in excess of 10.0% p.a.**

The Company intends to pay dividends on a **quarterly** basis with dividends declared in February, May, August and November in each year and paid within one month of being declared.

The Company declared its first dividend on 13 August 2015 of 0.9p which was paid on 3 September 2015, in respect of the period from 17 March 2015 to 30 June 2015.

Investment Policy

The Company intends to achieve its investment objective by investing in opportunities in the **specialty lending market through platforms** and other lending related opportunities.

The Investment Manager, in order to achieve the investment objective of the Company, utilises two primary structures for providing debt capital to platforms, known as the **"Balance Sheet Model"** and the **"P2P" or "Marketplace Model"** (please see pages 5 and 6 for descriptions).

The Company may invest directly or indirectly into available opportunities, including by making investments in, or acquiring interests held by, third party funds (including those managed by the Investment Manager or its affiliates).

Direct investments

Direct investments may include debt instruments originated by platforms such as:

- consumer loans
- SME loans
- advances against corporate trade receivables and/or purchases of corporate trade receivables

Such debt instruments may be subordinated in nature, or may be second lien, mezzanine or unsecured loans.

Indirect investments

Indirect investments may include investments in platforms (or in structures set up by platforms) through the provision of **credit facilities, equity** or other instruments.

Investment restrictions

The Company will invest across various platforms, asset classes, geographies (primarily US and Europe) and credit bands in order to create a **diversified portfolio** and thereby seek to mitigate concentration risks.

The following investment limits and restrictions are in place to ensure that diversification of the Company's portfolio is maintained and that concentration risk is limited.

Platform restrictions

The Company **does not intend to invest more than 20%** of its gross assets in debt instruments originated by, and/or credit facilities and equity instruments **in any single platform,** calculated at the time of investment.

All such aggregate exposure to any single platform (including investments via an SPV) will always be subject to an **absolute maximum of 25%** of the Company's gross assets, calculated at the time of investment.

Asset class restrictions

The Company does not intend to acquire debt instruments for a term longer than **5 years.**

Max 60% in funds, max 20% in a single fund

The Company will **not invest more than 20%** of its gross assets, at the time of investment, via **any single investment fund** investing in debt instruments and credit facilities. In any event, the Company **will not invest, in aggregate, more than 60%** of its gross assets, at the time of investment, in such investment funds.

Max 10% in other listed closed-ended funds

The Company **will not invest more than 10%** of its gross assets, at the time of investment, **in other listed closed-ended investment funds**, whether managed by the Investment Manager or not, except that this restriction shall not apply to investments in listed closed-ended investment funds which themselves have stated investment policies to invest no more than 15% of their gross assets in other listed closed-ended investment funds.

Max 0.25% / 0.5% in single loans, max 5% in single trade receivables

The following restrictions apply, as a percentage of gross assets and on a look-through basis and in each case at the time of investment by the Company:

- Maximum 0.25% in any single consumer loan
- Maximum 5.0% in any single SME loan
- Maximum 5.0% in any single trade receivable asset

Max 10% in platform equity

The Company may also invest, in aggregate, at the time of investment, **up to 10%** of its gross assets in **the listed or unlisted securities** (including **equity** and **convertible securities** or any **warrants**) **issued by one or more platforms** or specialty lending entities.

The Investment Manager

The Company's investment manager is Victory Park Capital Advisors ("VPC"). VPC is a privately held registered investment advisor dedicated to alternative investing through the management of investment vehicles. For more details and key individuals see page 13.

Investment strategy and process

See pages 10 & 11.

Fees

1% of NAV annual management fee

The Investment Manager is entitled to a management fee at the rate of 1/12 of 1.0% per month of Net Asset Value, payable monthly in arrears.

In instances of new share issuance (including the IPO), until the date on which 90% of the net proceeds of an issue have been invested or committed for investment, the management fee is payable only on the invested part of the portfolio.

Performance fee of 15% of NAV gains

The Investment Manager is entitled to a performance fee equal to 15% of gains in the Adjusted Net Asset Value, calculated on a yearly basis and subject to a High Water Mark.

"Adjusted Net Value" means the Net Asset Value adjusted:

- for any increases or decreases in NAV arising from issues or repurchases of shares
- by adding back the aggregate amount of any dividends or distributions
- before deduction for any accrued performance fees

No double charging of fees

The Investment Manager does not charge a management fee or performance fee twice. The value of investments where a fee is charged by the Investment Manager or any of its affiliates is therefore excluded from the NAV calculation for the purposes of determining the fee payable.

Administrator fees

The Administrator is entitled to a fee ranging from 0.04% to 0.07% of the NAV of the Company per annum.

Borrowing policy

Borrowings may be employed at the level of the Company and at the level of any investee entity.

The Company may establish SPVs in connection with obtaining leverage against any of its assets or in connection with the securitisation of its loans

The aggregate leverage of the Company and any investee entity (on a look-through basis, including borrowing through securitisation using SPVs) is not permitted to exceed 1.5 times its Net Asset Value.

Hedging policy

The Company intends to implement a hedging strategy that seeks to mitigate currency exposure fluctuations between GBP and any other currency in which the Company's assets may be denominated, in particular USD and EUR.

Net Asset Value

The Net Asset Value (cum-income and ex. income) is calculated by the Administrator on the basis of information provided by the Investment Manager on a monthly basis.

Valuation of loans and receivables

All loans and receivables will be valued at acquisition based on the initial advance amount inclusive of any fees paid to the platforms or, at the purchase consideration paid, if acquired from a third party.

Thereafter, where loans are to be held to maturity they will be valued at amortized cost using the Effective Interest Rate ("EIR") method. The EIR method spreads the expected net income from a loan over its expected life. The EIR is the rate of interest which, at inception, exactly discounts the future cash payments and receipts from the loan to the initial carrying amount.

Where loans are held at fair value the Investment Manager will use a discounted cash flow analysis to calculate the present value of the future expected loss adjusted cash flows at a market discount rate based on observable inputs for similar investments.

Adjustment for impairments

Loans advanced will be objectively assessed by the Investment Manager for indications of impairment during and at the end of each reporting period. Evidence of impairment includes:

1. indications that the borrower is experiencing significant financial difficulty;
2. default or delinquency in interest or principal payments; or
3. debt being restructured to reduce the burden on the borrower.

Loans advanced will be further assessed for impairment on a collective basis even if they are assessed not to be impaired individually. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the loans carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The resultant provisions are deducted from the appropriate loan carrying amount.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Investment Manager to reduce any differences between loss estimates and actual loss experience.

Unlisted equity valuation

Investments in unlisted equities will be valued at fair value as determined by the Investment Manager relative to comparable instruments.

Discount management

The Directors have the authority to make market purchases of up to 14.99% of the ordinary shares in issue.

Shares can be repurchased only at prices below the prevailing NAV per share, which should have the effect of increasing the NAV share for remaining shareholders.

The maximum price (exclusive of expenses) which may be paid for a share must not be more than the higher of:

1) 5% above the average of the mid-market share price the five business days before the purchase is made, or
2) the higher of the price of the last independent trade and the highest current independent bid for the shares

Repurchased shares can be held in treasury and re-issued at a price equal or higher than the Net Asset Value per share at the time of their re-issuance.

Premium management

In the event that the ordinary shares trade at a premium to NAV, the Company may issue new shares. The Directors currently have **authority to issue a further 317m ordinary shares** pursuant to the share issuance programme referred to in the IPO prospectus published on 26 February 2015.

Company life & continuation votes

The Company has no fixed life but a continuation vote will take place at the annual general meeting to be held in 2020 and, if passed, every five years thereafter.

Significant shareholders

VSL large shareholders (>3%), September 2015

	Shareholder	%
1	Woodford Investment Management	19.5
2	Newton Investment Management	10.0
3	Premier Fund Managers	9.8
4	City Financial Investment Company Ltd	5.1
5	PartnerRe Asset Management Corporation	5.0
	Total	49.4

Source: VPC Specialty Lending

Important dates

Financial year end:	31 December
Dividends declared:	February, May, August, November
Continuation votes:	2020 and every 5 years thereafter

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A draft of this research note has been shown to the company following which factual amendments have been made.

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