

# VICTORY PARK

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## CAPITAL

### VPC Specialty Lending Investments PLC

#### Fourth Quarter 2016

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#### Quarterly Review

In the fourth quarter of 2016, VPC Speciality Lending Investments PLC ("VSL" or the "Company") delivered a net revenue return of 1.67%, which was offset by a net capital return in the amount of -3.14%, for a net total return of -1.47%.

The notable drivers of performance in the fourth quarter were:

- Continued strong gross income generation from the balance sheet investments, in line with expectations;
- Transaction-related capital losses, related to the sale of the Funding Circle UK (FC) marketplace loan portfolio and the refinancing of the Prosper portfolio; and
- Capital losses due to fair value adjustments of the Avant securitisation residuals.

The performance of the Company's investment portfolio remained sharply polarised in the fourth quarter of 2016, with strong balance sheet investment returns contrasting with weak marketplace returns – even after excluding the transaction costs of the FC loan portfolio sale and other non-recurring items.

Total gross returns<sup>1</sup> during the fourth quarter of 2016 consisted of the following:

- 1.66% for balance sheet investments;
- -2.19% for marketplace loans;
- -0.70% for securitization residuals; and
- -0.33% relating to FX and other capital returns.

The balance sheet portfolio continued to perform in line with expectations, with average annualised levered returns on allocated equity of 14.14%<sup>2</sup> in the fourth quarter of 2016 and 13.87%<sup>2</sup> for 2016 overall. These investments benefit from excess spread and first loss protection, which provides downside protection. The credit metrics on the underlying loans show no signs of stress and we believe that the portfolio will continue to generate attractive risk-adjusted returns with low volatility. Furthermore, the pipeline of available investment opportunities remains strong.

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<sup>1</sup> Consists of both revenue and capital returns of the Company.

<sup>2</sup> This return denotes an average return calculated by dividing the income earned on the balance sheet investments for the period by the average equity invested in balance sheet loans each month in the period.

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By contrast, returns from the marketplace loan portfolio have remained subdued. While the majority of the fourth quarter of 2016 loss was due to the transaction-related costs referred to above, the underlying issues identified in the third quarter of 2016 commentary persist, namely, higher than projected loss curves in certain of the loan portfolios and the adverse seasoning effect under IFRS accounting as the loan portfolio matures without subsequent purchases.

During the fourth quarter of 2016, there has been further progress in the reallocation of capital to balance sheet investments. By the end of the fourth quarter of 2016, balance sheet investments accounted for 51% of NAV up from 47% at the end of the third quarter of 2016 and 22% at the beginning of the year, illustrating the significant capital reallocation that has taken place. The exposure to marketplace loans and securitisation residuals has correspondingly decreased, accounting for 31% of NAV at the year end, down from 40% at the end of the third quarter of 2016 and 58% at the beginning of the year. We expect this reallocation process to continue and, overtime, to drive higher returns for the Company. The look-through gearing level of the Company has decreased from 0.87x as at 30 September 2016 to 0.63x as at 31 December 2016.

The Avant securitisation residuals, which are held at fair value, have been a key aspect of weak capital returns due to a moderate increase in the underlying loss curve projections compounded with significant leverage. The Company's exposure to these residuals has continued to shrink and was 5.2% of NAV as at 31 December 2016. Beginning in December 2016, the Avant securitisation residuals have been excluded from the marketplace loan portfolio and will be disclosed separately as securitisation residuals in all future published disclosures. The Avant securitisation C-note is included in marketplace loans – see disclosure on page 3.

While the Avant securitisation residuals have been one of the worst performing assets in the investment portfolio, it is notable that, despite some deterioration in the performance of the underlying loans, Avant credit investments have also generated some of the best returns in the portfolio. Specifically, in the fourth quarter of 2016 the Avant exposures via a balance sheet structure and a securitisation C-note (both of which have first loss protection), contributed levered annualised returns of 14.7% and 20.3% respectively. These exposures totalled £19.89 million as at 31 December 2016 and their performance demonstrates the advantage of balance sheet investments and other investments with first loss protection.

The Company hedges its exposure to the U.S. Dollar and other major currencies but has left FX positions unhedged where hedging is uneconomic, such as its AUD exposure. The Company's zipMoney investment negatively impacted returns in the fourth quarter of 2016 due to currency losses.

On 22 December 2016 the Company announced a share buyback programme in light of the significant disparity between the Company's share price and its NAV per share. As at 31 December 2016, 1,500,000 shares had been repurchased at an average price of 77.25p.

In addition, Victory Park continues to purchase shares of the Company with 20% of VPC's monthly management fee at the prevailing market price. During the quarter, VPC purchased 241,888 shares at an average price of 77.27p.

## Portfolio Statistics

Set forth below is a summary of all positions, excluding equity exposure, held by the Company equal to or greater than 1% of NAV as at 31 December 2016.

Investment	Country	Security Type	% of NAV	Gearing
Borro Ltd.	United Kingdom	Balance Sheet	10.93%	NO
Avant, Inc. - Marketplace	United States	Marketplace	10.76%	YES
Elevate Credit, Inc.	United States	Balance Sheet	7.40%	NO
zipMoney Limited	Australia	Balance Sheet	6.21%	NO
Wheels Financial Group, LLC	United States	Balance Sheet	5.92%	YES
Funding Circle US, Inc.	United States	Marketplace	5.80%	NO
Prosper Marketplace, Inc.	United States	Marketplace	5.69%	YES
Avant, Inc. - Balance Sheet	United States	Balance Sheet	5.65%	YES
Avant, Inc. - Securitisation Residuals	United States	Securitisation Residual	5.21%	YES
The Credit Junction, Inc.	United States	Balance Sheet	3.74%	NO
Applied Data Finance, LLC	United States	Balance Sheet	2.63%	NO
Kreditech Holding SSL GmbH	Germany	Balance Sheet	2.30%	NO
Upstart Network, Inc.	United States	Marketplace	2.08%	YES
LendUp, Inc.	United States	Balance Sheet	1.65%	NO
Funding Circle Europe	Luxembourg	Marketplace	1.64%	YES

## Outlook

During the fourth quarter of 2016, we continued to make progress towards redeploying the portfolio into new and existing balance sheet loans (and have made further progress in 2017 to date). We remain confident that this repositioning will increase both the returns and the resilience of the Company. During the transition, we continue to closely monitor the portion of the marketplace portfolio that is challenged, including exploring ways to further tactically reduce exposure. Finally, we will continue to purchase shares where it is accretive to shareholder value.

Kind Regards,

The VPC Team

7 February 2017

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