

# VICTORY PARK

---

## CAPITAL

### VPC Specialty Lending Investments PLC

#### Second Quarter 2016

*Please note that the information contained herein may not be reproduced, used or distributed to others, at any time, in whole or in part, for any purpose without the prior written consent of Victory Park Capital Advisors, LLC ("VPC" or "Victory Park").*

#### Quarterly Update

In the second quarter of 2016, VPC Speciality Lending Investments PLC ("VSL" or the "Company") delivered a net return of 0.33%. Although the return was below expectations, it does not reflect what we believe will be the level of long-term returns for our shareholders given our existing portfolio and pipeline. There are several reasons for the decline in short-term performance, which are outlined below along with the steps we are taking to mitigate these factors in the near term.

The decision by U.K. voters to leave the European Union ("EU") and the subsequent depreciation of the GBP had a negative impact on the Company's performance as we had to maintain an outsized cash balance related to our currency hedge. Leading up to the EU Referendum, we took a conservative approach to our cash management and credit allocations. A substantial portion of our assets are held in USD and other currencies, which are hedged to GBP via forward currency swaps. The hedging program was put in place when the investments were made following the Company's March 2015 IPO and September 2015 C share offering. Since then, due to the substantial depreciation of GBP against USD, the Company has had to deposit in cash up to 11.5% of the Company's NAV. While the direct effect of the currency swings on our income has been limited because our non-GBP exposure is largely hedged, the obligation to settle the hedges upon expiration and the need to maintain additional liquidity in the event the GBP depreciates further has limited our ability to be largely fully invested, as we strive to be. The outlook for the GBP continues to be uncertain - several economists have set target prices for USD/GBP at \$1.20 or below with a one-year time horizon - leaving us to remain conservative. We are reviewing all available options to reduce the cash drag related to the margin requirement, including a revolving credit facility for the Company.

The majority of our whole loan portfolio performed in line with our expectations, although certain positions did experience higher than expected losses. In addition, under IFRS guidelines, the Company accounts for non-securitized whole loans at amortized cost and therefore we are not permitted to hold general reserves against loan portfolios, but rather reserves are only booked as we observe actual delinquencies. The challenge with this approach is that while interest income is received on a straight line, losses do not occur evenly. As a result of the proceeds from the IPO and C share issuance being invested rapidly, most of our whole loan portfolios are aging along similar loss curves. Accordingly, we believe we are now in the period of peak losses for our portfolios (assuming static economic conditions), leading to muted NAV returns in the near term but we expect the returns to even out over the life of the investments.

As previously announced, our portfolio of Funding Circle US loans has continued to substantially underperform our expectations, a trend which continued during the quarter and created a drag on the overall portfolio. We stopped purchasing new Funding Circle US loans late in 2015 so the portfolio continues to amortize down.

---

## VICTORY PARK

### CAPITAL

We also saw a reduction in the value of three residual interests in securitizations of Avant loans that are held at fair market value. These markdowns, which flow through capital, reflect loss curves coming in slightly higher than in the first quarter. While the capital markets have recently begun to re-open for marketplace lending loans, we have no current plans to pursue additional securitizations. Nevertheless, we will continue to monitor the capital markets and strive to take advantage of opportunities when they present themselves and if prudent to do so.

On a more positive note, our balance sheet loan portfolio continued to show excellent performance with no impairments and coupons ranging from 12% to 16%. Furthermore, over the past six months we have been able take advantage of industry illiquidity to close several new balance sheet investments and amend existing deals, resulting in a portfolio of proprietary credit facilities that will benefit our shareholders going forward. For instance, during the quarter, we added exposures to the following investments:

- On 26 May 2016, the Company made initial investments in West Creek Financial, Inc., a provider of point-of-sale lease-to-own financing to underserved customers enabling purchases of durable goods such as furniture, mattresses, and appliances.
- On 30 June 2016, the Company made initial investments in Fundbox Ltd., a provider of short-term working capital advances to small and medium-sized businesses in the U.S. and the Company funded a new tranche of senior secured debt to Elevate Credit, Inc. Elevate is a provider of cash advances and installment loans to U.S. consumers.

Given the opportunity, our investment plan is to redeploy the majority of principal amortization from our whole loan portfolio into balance sheet investments. Over time, we expect our balance sheet loans to make up a significant portions of the portfolio.

### Portfolio Statistics

Set forth below is a summary of all positions held by the Company equal to or greater than 1% of NAV. We are providing this summary for the first time this quarter, and will continue to do so going forward.

INVESTMENT	COUNTRY	SECURITY TYPE	% OF NAV	GEARING
Funding Circle UK	United Kingdom	Whole Loans	11.57%	YES
Borro Ltd.	United Kingdom	Balance Sheet	10.55%	NO
Prosper Marketplace, Inc.	United States	Whole Loans	9.96%	YES
Funding Circle US, Inc.	United States	Whole Loans	9.84%	NO
Avant, Inc. - Whole Loan	United States	Whole Loans	9.65%	YES
Avant, Inc. - Securitization	United States	Whole Loans	6.56%	YES
Avant, Inc. - Balance Sheet	United States	Balance Sheet	6.56%	YES
Wheels Financial Group, LLC	United States	Balance Sheet	5.62%	YES
Elevate Credit, Inc.	United States	Balance Sheet	5.15%	NO
zipMoney Limited	Australia	Balance Sheet	4.48%	NO
Upstart Network, Inc.	United States	Whole Loans	4.34%	YES
The Credit Junction, Inc.	United States	Balance Sheet	2.93%	NO
Fundbox Ltd.	United States	Balance Sheet	1.83%	NO
LendUp, Inc.	United States	Balance Sheet	1.74%	NO
Renovo Financial	United States	Balance Sheet	1.00%	NO

## **Outlook**

While cash drag as a result of the currency hedge and the performance of certain whole loan investments were disappointing, we are encouraged by the performance of our existing balance sheet investments as well as the attractive terms of newer deals. In order to further demonstrate our commitment to the Company and our confidence in achieving returns of 8% or greater, we have agreed with the Company's Board of Directors to modify our management agreement such that we will apply 20% of our monthly management fee to purchase shares of the Company at the prevailing market price on an ongoing basis, whilst the shares are trading at a discount to net asset value.

Kind Regards,

The VPC Team

3 August 2016

**For Enquiries Please Contact:**

Investor Relations – Telephone: (+001) 312 705 1244; Email: [info@vpcspecialtylending.com](mailto:info@vpcspecialtylending.com)

Press – Telephone: +44 (0) 20 7680 6550; Email: [vpc@newgatecomms.com](mailto:vpc@newgatecomms.com)

**Important Information**

All data in this quarterly letter (the “report”) is at or to the final day of the calendar month identified in the heading of the report’s front page unless otherwise stated.

Past performance should not be seen as an indication of future performance. The value of investments and any income may fluctuate and investors may not get back the full amount invested. The views expressed are those of VPC at the time of writing, are subject to change without notice and do not constitute investment advice. Whilst VPC has used all reasonable efforts to ensure the accuracy of the information contained in this report, we cannot guarantee the reliability, completeness or accuracy of the content.

Issued in the U.K. by VPC. This report is provided for the purpose of information only, and if you are unsure of the suitability of this investment you should take independent advice. NAV performance is not linked to share price performance and shareholders may realise returns that are lower or higher in performance.

This report may not be distributed or transmitted in or into the United States of America, Canada, Australia or Japan, or in any other country outside the United Kingdom where such distribution may lead to a breach of law of regulatory requirements, or transmitted, distributed or sent to or by any national, resident or citizen of such countries. The distribution of this document in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any such distribution could result in a violation of the law of such jurisdiction.

The Company is authorised and regulated by the Financial Conduct Authority and is registered in England (registered number 9385218) with its registered office at 40 Dukes Place, London EC3A 7NH.