

# VICTORY PARK

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## CAPITAL

### VPC Specialty Lending Investments PLC

#### Quarterly Letter – First Quarter 2019

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### Quarterly Review

VPC Specialty Lending Investments PLC (the "Company") continues to build on the momentum from a strong 2018 and both VPC and the Directors were pleased with the performance in the first quarter of 2019. The investment portfolio continues to deliver strong credit performance as gross revenue returns were 3.30% and net revenue returns of 2.06% for the quarter. Capital returns were -0.29% for the quarter, primarily driven by the cost of the hedging program for the Company and the total NAV (Cum Income) return for the quarter was 1.78%. Pro forma after removing the catch-up portion of the performance fee, the total NAV (Cum Income) return was 2.25%. This compares favourably to the total NAV (Cum Income) return of 0.94% during the first quarter of 2018, and brings the Company to a trailing twelve-month NAV (Cum Income) return of 9.94%.

We continue to reap the benefits of the balance sheet model as evidenced by a reduction in the credit losses of the Company. As outlined in the Company's latest annual report, credit losses for 2018 declined to £2.6 million from £15.6 million in 2017 and £41.1 million in 2016. The Company's reserve balance as at 31 December 2018 was £7.2 million, of which £5.5 million was on balance sheet loans (primarily on Borro Ltd.), on a gross amount of £307.7 million (1.8%), and the remaining was on the marketplace loans that are being wound down in the portfolio.

### Top Ten Positions

Set forth below is a summary of the top ten positions, excluding equity exposure, held by the Company as at 31 March 2019<sup>1</sup>.

Investment	Country	Security Type	% of NAV	Deal Specific Gearing
Elevate Credit, Inc.	United States	Balance Sheet	22.85%	YES
Caribbean Financial Group	Caribbean	Balance Sheet	12.96%	NO
LendUp, Inc.	United States	Balance Sheet	7.66%	NO
Applied Data Finance, LLC	United States	Balance Sheet	6.68%	NO
Oakam Ltd.	United Kingdom	Balance Sheet	4.40%	NO
Borro Ltd.	United Kingdom	Balance Sheet	4.16%	NO
Avant, Inc.	United States	Balance Sheet	3.90%	YES
NCP Holdings, LP	United States	Balance Sheet	3.54%	NO
West Creek Financial LLC	United States	Balance Sheet	3.49%	NO
Cognical, Inc.	United States	Balance Sheet	2.73%	NO

During the first quarter, the Company's balance sheet investment in Fundbox Ltd. ("Fundbox") was fully repaid and substantially all the proceeds were utilised to lower the Company's CapitalSource gearing facility, or were reinvested

<sup>1</sup> The summary includes a look-through of the Company's investment in VPC Offshore Unleveraged Private Debt Fund Feeder, L.P.

into existing balance sheet investments. Fundbox represented 7.24% of the Company's NAV as at 31 December 2018. Going forward, we plan to continue to use the revolving portion of the CapitalSource facility to minimize cash drag on the portfolio.

## **Elevate Amendment and Extension**

In February 2019, the Company announced that VPC reached an Agreement with Elevate Credit, Inc. ("Elevate") to amend VPC's existing facilities and extend the maturity date through to 2024, thereby extending the largest position in the Company for the next five years with attractive economics. For the full details of the amendment, please see the press release describing the transaction linked below:

<http://www.victoryparkcapital.com/2019/elevate-announces-amended-credit-facilities-with-victory-park-capital.html>

As detailed in the press release, the committed capital to Elevate across all VPC funds now exceeds \$1.0 billion in aggregate. Elevate offers three core products, to all of which the Company has exposure across its separate credit facilities. The products are diversified by underlying FICO exposure and by geography, with exposure across both the US and the UK. Below is a description of the individual products and the percentage of NAV of each balance sheet investment as at 31 March 2019 (for informational purposes – overall net exposure will be reported and used for concentration limits).

### **Elastic – 10.73% of NAV**

A line of credit product offered through a third-party bank and offered in 40 states across the US. As with all its products, Elevate seeks to promote long-term financial well-being by offering transparent products and responsible lending with no hidden fees. Included with the Elastic product are innovative features like credit bureau reporting, free credit monitoring and online financial literacy videos and tools which can help its customers make responsible financial decisions. The average Elastic customer has an income of \$39,545.

### **Rise – 7.61% of NAV**

An installment loan product offered in 23 states variously through state licenses, CSO originated and bank partners. In order to promote financial health and responsible lending, the Rise products reward successful repayment history with lower rates on subsequent loans, and also included are the features detailed above. As with Elastic, there are no origination fees, monthly fees, late fees, over-limit fees or fees for returned payments on the product. The average Rise customer has an income of \$53,560, and across both Elastic and Rise 82% attended college and 22% are homeowners.

### **Sunny – 4.51% of NAV**

An installment loan product offered in the UK offering loans of up to £2,500. The average Sunny customer has an income of \$18,662, 54% attended college and 12% own their homes.

As detailed in the press release, the stated interest rate came down, but we are very pleased to have retained this position for an extended period of time at a level that still reaches the Company's target returns. In addition, VPC continues to pursue options to obtain non-recourse financing to enhance the returns of the Company. Subsequent to the quarter end, on 30 April 2019, VPC closed on a low cost, non-recourse leverage facility for the Elastic product that has reduced the overall net exposure of the Company in Elevate by 6.34% to 16.51% on a pro-forma basis.

## Director Updates

On 26 April 2019, the Company announced the appointment of Kevin Ingram as Chairman of the Company and Clive Peggram as Chairman of the Audit & Valuation Committee.

Further, Mark Katzenellenbogen was appointed as a new independent non-executive director of the Company with effect on 1 May 2019. In addition to having strong corporate finance skills, Mr. Katzenellenbogen has a successful career advising asset management companies, a skill set which we feel will be particularly valuable to the Company in the coming years.

We believe that these appointments continue to strengthen the Company's Board.

## Conclusion

In conclusion, both VPC and the Company are pleased with the Company's first quarter results and with the composition of the Company's investment portfolio. VPC views that there will be less turnover in the Company's top ten holdings than there was in 2018. This should provide stability to the monthly revenue returns for the remainder of the year. Capital returns can be more difficult to predict, although it is almost certain that the cost of hedging will continue to be a slight drag to the Company. This is because we feel that USD/GBP rates are unlikely to converge in the near term with the uncertainty around Brexit. We still feel confident that the Company can continue to deliver strong risk-adjusted returns to its shareholders.

Kind Regards,

The VPC Team

9 May 2019

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## **Important Information**

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The Company is registered in England (registered number 9385218) with its registered office at 6<sup>th</sup> Floor, 65 Gresham Street, London, EC2V 7NQ.