VPC Specialty Lending Investments PLC
Annual Letter – Fourth Quarter 2020

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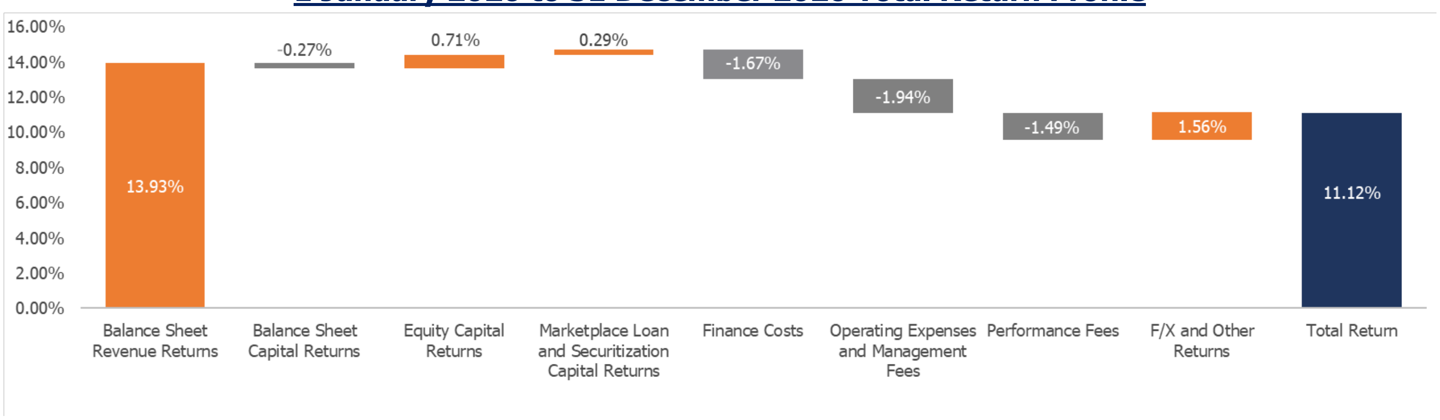
Year in Review

VPC Specialty Lending Investments PLC ("VSL" or the "Company") completed the year with a total NAV return of 11.12% and a gross revenue return of 13.93%. The strong revenue returns were the result of our portfolio companies continuing to perform in line with underwriting expectations despite the effects of the COVID-19 pandemic across the globe. Capital returns were more volatile over the course of the year because of the effect of the pandemic on equity valuations and the provision for expected credit losses, both of which had negative returns in first half of the year and then recovered into the end of the year.

1 January 2020 to 31 December 2020 Total Return Profile



Overall, we are pleased with the Company's performance and believe it demonstrates the resilience of our approach to lending through structured balance sheet loans. Despite facing the worst economic shock in a generation, the Company experienced no realised credit losses and received all interest payments on time throughout the year.

With regard to expected credit loss provisions, and in conjunction with our independent risk review, we took a very conservative approach early in the pandemic and assumed a severe downside scenario across the portfolio when provisioning for losses. Over the course of the remainder of the year the portfolio continued to perform in line with our expectations at the time of underwriting (and in some cases better) so we were able to release some of these reserves as the portfolio seasoned and pre-pandemic vintages continued to pay down.

There was a similar pattern in the equity returns which turned negative as markets sold off in the first quarter but then recovered in the back half of the year as we experienced some catalysts in our portfolio including a realised exit in Bread Financial, Inc. and Katapult Holdings, Inc. (formerly known as Cognical Holdings, Inc.) agreeing to merge with a Special Purpose Acquisition Company (SPAC), both at substantial premiums to the carrying value of investments prior to the announcement.

Given the significant increase in SPAC issuances during 2020, this could potentially benefit our portfolio of equity investments as more portfolio companies could potentially choose to enter the public markets via the SPAC route in the coming years. This is discussed further below.

Top 10 Positions

Below is a summary of the top 10 credit investments, held by the Company as at 31 December 2020.

Investment	Country	% of NAV	Gearing[1]
Applied Data Finance, LLC	United States	15.27%	NO
Caribbean Financial Group Holdings, L.P.	Latin America	13.59%	NO
Elevate Credit, Inc.	United States	11.56%	YES
ATA KS Holdings, LLC	United States	11.00%	NO
Deinde Group, LLC	United States	3.76%	NO
Perch HQ, LLC	United States	3.34%	NO
West Creek Financial LLC	United States	3.24%	NO
Avant, Inc.	United States	2.72%	YES
Counsel Financial Holdings LLC	United States	2.63%	NO
Sunbit, Inc.	United States	2.21%	NO

As discussed in previous letters and monthly reports, our credit investments have continued to perform in line or better versus underwriting expectations. Our top three credit positions remain in the consumer credit market via our long-standing partners Applied Data Finance, LLC ("ADF"), Elevate Credit, Inc. ("Elevate"), and Caribbean Financial Group Holdings, L.P. ("CFG"):

- Elevate achieved record low cumulative principal losses on 2020 vintages[2] as a result of strong underwriting and adjusting credit quickly at the onset of the pandemic. In addition, they achieved record profitability with full year adjusted earnings of $54.7m as compared to adjusted earnings of $26.2m for 2019[3].

- Like Elevate, in Q4 2020 ADF's portfolio experienced favourable credit metrics vs Q4 2019. The average delinquency rate was down year over year by nearly 50% and roll rate charge offs were down year over year by over 40%.

- CFG experienced stable credit metrics during 2020 and well within our underwriting expectations. Average Last Twelve Month net charge offs were 4.68% for 2020 versus 3.97% for 2019. Despite the lack of fiscal stimulus that benefited some of our US based partners, CFG has a 40 year history of operating across multiple jurisdictions in the Caribbean and has successfully navigated previous recessions without any major issues.

[1] Gearing, also known as financial leverage, is a term that refers to the amount of debt a company has.
[2] Source: Elevate Fourth Quarter and FY 2020 Earnings Call Presentation
[3] Elevate Form 10-K

Investment Case Study - Katapult

Katapult offers a good case study in several trends that converged in 2020, including SPACs but also more fundamentally the shift in consumer behaviour caused by the pandemic. Several of our platforms focused on enabling e-commerce saw significant growth during the pandemic, even as others that provide more traditional loan products saw growth slow in the face of weak consumer demand. Credit remained strong across both verticals, but revenue growth diverged as e-commerce demand accelerated.

Katapult offers a fully digital buy-now-pay-later (BNPL) option for non-prime consumers purchasing durable goods online and is currently offered as a payment option through 150 different merchants in the US via a lease to own option. The Company first invested in 2015 as part of the Series B financing at a $12.5 million pre-money valuation in conjunction with providing a credit facility to help finance the growth of the product. VPC's credit facility grew steadily in the following years as the company grew originations while refining credit and adding merchants. In addition to participating in the credit facility, the Company opportunistically purchased additional warrants at a discount in 2016 and provided a bridge note to the parent company that was guaranteed by the equity sponsors. The facility was eventually refinanced at a lower rate in 2019 and because of the strong trajectory of the business VPC chose to take the prepayment penalty in the form of equity rather than cash.

Katapult continued to grow originations at 100% rates year over year and finished 2019 with $92 million[4] of total revenue and a growing pipeline of merchant partners. At the onset of the COVID-19 crisis it was our initial expectation that growth would slow, and that credit would suffer as a result of the recession, but over the coming months this expectation proved to be wrong as credit remained strong and growth actually accelerated as more and more commerce moved online. April and May were both record originations for the company and credit remained extremely strong through this period in the face of lockdowns across the country. Government support for consumers most likely helped them during this period, but this growth continued and the company closed the year with revenue growth of 171%[4]. The market however remains very underpenetrated and Katapult estimates that they currently reach less than 1%[4] of the online market for durable goods, and therefore high levels of growth are projected in the coming years as well.

Katapult

Powerful Business Model that Generates Profitable Growth

FINANCIAL OVERVIEW

$Millions	2019A	2020E	2021E	2022E[2]	2023E
LTO Originations	$88	$201	$402	$606	$867
Revenue	$92	$250	$455	$799	$1,133
EBITDA	($11)	$40	$70	$151	$216
Net Income	($19)	$27	$47	$95	$142
KEY METRICS					
Origination Growth	101%	129%	100%	51%	43%
Revenue Growth	111%	171%	82%	76%	42%
EBITDA Growth	N/M	N/M	74%	114%	43%
EBITDA Margin	N/M	16%	15%	19%	19%

[4] Katapult Investor Presentation

The growth trajectory and strong unit economics of Katapult made them a natural target for the SPAC market as issuance started to grow in the second half of the year. They ultimately reached a deal to go public by merging with FinServ Acquisition Corp (NASDAQ: FSRV) in a deal that valued the equity at $962 million[4] at $10 per share for FSRV. The market reacted strongly to the deal announcement and as of year-end traded at $12.50 per share, which continued into the new year and as of this writing reached $13.81 per share.

As discussed in our December NAV announcement, the equity position in Katapult is currently held by the Company at a 30% discount to market price to reflect both the risk of the deal not closing and the illiquidity associated with the six-month lock up post-closing on our shares. The discount was arrived at after discussions with Duff and Phelps who act as the third-party valuation agent for the Company and will be reduced upon deal closing to 20% and then amortized over the lock up period, at which time it will be valued at the full market value of the position. We expect to use this valuation methodology in future SPAC transactions including deals sponsored by the Company. For Katapult the risk of the deal not closing is very low in VPC's opinion, and with the business continuing to perform well, we remain optimistic that value will continue to increase over time.

Special Purpose Acquisition Companies ("SPACS")

The core focus of the Company remains the generation of an attractive dividend yield through secured lending facilities, and this will remain the vast majority of invested assets and corresponding manager workload. However given the Company has invested in the sponsor entity for a SPAC, and that we have already had an equity exit via a different SPAC (Katapult), we thought it would be worthwhile to give some of our views on the product and market. This will remain a small portion of invested assets relative to credit facilities but is an interesting area and has received a fair amount of press coverage recently, most of which fails to catch some of the core drivers of the surge in SPAC issuance.

This past year was described by many media outlets in the United States as the "Year of the SPAC" as there was a 511%[5] year over year growth of SPAC issuances which, for the first time, exceeded the volume of traditional IPOs[6]. In addition to benefiting from the SPAC market through the Katapult Holdings, Inc. ("Katapult") merger highlighted above, the Company participated in the market by investing in the sponsor entity of two SPACs issued by VPC, VPC impact Acquisition Holdings (VIH) and L&F Acquisition Holdings (L&F). VIH was issued solely by VPC to focus on fintech acquisitions and, in the case of L&F, VPC issued the SPAC in partnership with the management team, to focus on investments in the legal sector. VIH announced the signing of a definitive merger agreement just after the end of the year and L&F continues to source an optimal target. There was no impact to the NAV returns during the year.

Additionally, please find a summary of the drivers behind the growth of the market. For an overview on the SPAC industry please reference this TechCrunch article.

There are many reasons for the explosion of issuances (some positive and some negative), a few of which are highlighted below:

- **A Flexible Alternative to an IPO**: SPACs historically were used as a way for a high-profile executive to take over a business and seek to improve its performance through operational control. The executive would invest personal or investor money into the sponsorship of the SPAC and use their network to

[5] Source: SPAC IPO Transactions: Summary by Year
[6] Source: 219 'blank-check' companies raised $73 billion in 2020, outpacing traditional IPOs to make this the year of the SPAC, according to Goldman Sachs

search for, identify and perform diligence on a target. It was largely viewed as a less popular way to access public markets and for companies that needed improvement via the operational expertise of the sponsor group. Over the past year, the SPAC was reinvented as a method for private companies to access growth capital and enter the public markets with greater efficiency and more price certainty. The target company and its board are able to negotiate all terms of the merger agreement with the SPAC in advance and therefore know the price and amount of capital to be raised before signing a definitive agreement, which can all happen in a two to three month time horizon. This contrasts with an IPO that can take significantly longer, and where the company only finalises the price of the IPO and the amount of funds raised shortly before pricing the deal. Huge IPO "pops" have also been common in a number of IPOs leading many to believe the SPAC route is a better alternative because it is often less dilutive than traditional IPOs. Some other differences between the two processes are highlighted below:

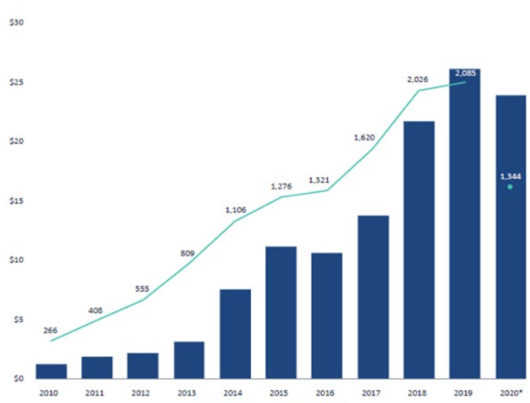
	SPAC Merger	Traditional IPO
Timing	▪ Pre-negotiated transaction ▪ Subject to SEC review of Proxy or Tender Offer filing	▪ Subject to SEC review of registration statement ▪ Subject to IPO window being open ▪ Subject to Investment Bank backlog / calendar
Certainty	▪ Pricing less affected by short term market conditions ▪ Price discovery at announcement ▪ Ability to arrange concurrent PIPE financing of fully committed capital	▪ Valuation uncertain until pricing ▪ Subject to unpredictable market conditions ▪ Highly sensitive to IPO market
Valuation / Projections	▪ Ability to provide projections and use earn-out to achieve a higher valuation over time, as applicable ▪ Negotiated between SPAC sponsor and seller	▪ Cannot provide projections – valuation not contingent on future results ▪ Determined by a discount to market comparables
Cash to Sellers	▪ Negotiated – up to 100% depending on market receptivity	▪ Limited ability to cash out
Fees & Expenses	▪ 3.5% deferred underwriting fees	▪ 7.0% underwriting fee
Post-Transaction Support	▪ Financial and operational resources available from SPAC sponsor ▪ Existing management	▪ Existing Management

- **Risk free product for IPO investors**: Investors into SPAC IPOs have the option to recover their investment (plus interest) if they choose to redeem their capital at the time of a merger or after two years if no deal is consummated, so they take no principal risk by investing in an IPO. As of the end of February, the last thirty SPAC issuances are all trading above their IPO price[7]. These two factors taken together (combined with the point below) make it almost inevitable that there will be a boom in issuances that will continue until pre-deal premiums converge towards zero. This will almost certainly happen at some point, but the timing is impossible to predict.

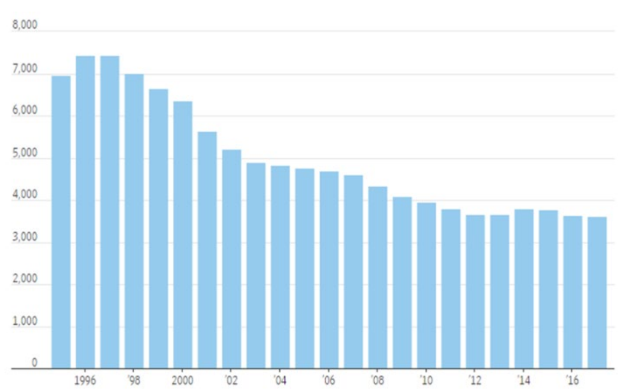
- **Asymmetric return profile for sponsor capital:** The sponsor typically invests about two to three percent of capital to fund the expenses of the offering (underwriters and lawyers) and in exchange typically receives shares equal to 20% of the SPAC (the promote) and warrants. If the SPAC does not complete a transaction within the defined timeframe (typically 24 months), the sponsor capital is entirely lost. On the other hand, if a deal is completed the sponsor keeps its sponsor shares. Target companies can negotiate with sponsors to forfeit some of these shares and on average, in 2020 sponsors forfeited approximately 24% of their promote in order to complete a transaction[8]. Sponsor shares are subject to a lock up period after the closing of the merger agreement which subjects them to share price risk if they complete a negatively perceived transaction, but even after adjusting for all of this, it remains an excellent deal for the sponsors. This leads to the biggest risk involved in the SPAC market, which is that the sponsors are incentivised to complete any deal possible to avoid losing their sponsor capital. In the past year, deal announcements have been very well received, but how they will perform after the mergers are completed will be determined in the coming years.

- **Backlog of private companies:** The number of public companies trading in the US has dropped by roughly half in the past 20 years[9]. Two large factors contributing to this are the increased costs and risks of becoming a public company combined with the huge growth of private capital markets that have reduced the need to access public capital markets in order to fund growth. The combination of these two factors have made the path of least resistance for a growing company to stay private for longer. At the macro level this has vastly increased the amount of capital raised by private companies but also cut off access for retail investors to most growth stage investments.

Pre-IPO Fintech Deal Activity[10]



Number of Listed US Companies[11]



[7] Source: Citi SPAC Weekly Update
[8] Source: Bloomberg, Jefferies
[9] Source: Center for Research in Security Prices at University of Chicago's Booth School of Business
[10] Source: Pitchbook; 2020 data represents deal activity through 9/30/20
[11] Source: Center for Research in Security Prices at University of Chicago's Booth School of Business

> The SPAC market is now reversing this trend at a very rapid pace, for better and worse. Private companies are getting access to large amounts of capital in an easier process and retail investors are getting access to more nascent and growth stage investments. Looking forward we think it is likely there will be some highly successful long term growth stories to emerge from the SPAC market, but this will likely be offset by a number of unsuccessful deals that generate negative returns.

The Company has already benefited from the growth of this market and we think this trend will continue in 2021 as the Company continues to sponsor new SPACs. Additionally, the Company's existing private equity investments could likely become merger candidates for other SPACs in the market. Overall, the growth of the market is almost certain to slow down during the coming year, but we think the Company is well positioned to benefit in most scenarios, although this is far from certain and risks always remain. We believe qualified sponsors like VPC have the expertise needed to execute attractive deals and therefore have the opportunity to become serial issuers even after the current wave of issuance slows down, but given the early stage of the market development there is a high degree of uncertainty around this.

Conclusion

We are pleased to have completed another year with a fully covered dividend of 8.00p and double-digit total NAV returns, despite the ongoing COVID-19 pandemic. In addition, the Company is well positioned to continue to deliver consistent returns as VPC executed on eight new balance sheet transactions with a total capacity of $600 million during 2020 and have a strong pipeline of potential new investments. The interest rates on these facilities are in line with our current portfolio and we anticipate stable revenue returns and we remain optimistic about future capital gains through our equity portfolio and SPAC sponsorship. The arrival of several vaccines and their rapid deployment around the world has us optimistic that the world will be slowly opening over the coming months. We also believe the risks of another severe employment shock are receding. We continue to monitor risk very closely and do our best to make sure the portfolio can perform regardless of the economic environment.

Kind Regards,
The VPC Team
19 March 2021

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Important Information

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