PEMBERTON

Working Capital Finance

STABLE, DIVERSIFIED RETURNS

September 2023

Executive Summary

In a world where the outlook for inflation and interest rates is uncertain, and where historic correlations between asset classes are breaking down, Working Capital Finance (WCF) offers diversification to institutional investor portfolios and provides self-generated liquidity in periods of market crisis.

WCF assets are a form of short-dated private credit – providing investors with zero duration risk, stable returns, very low default rates, attractive risk-adjusted yields, and low volatility.

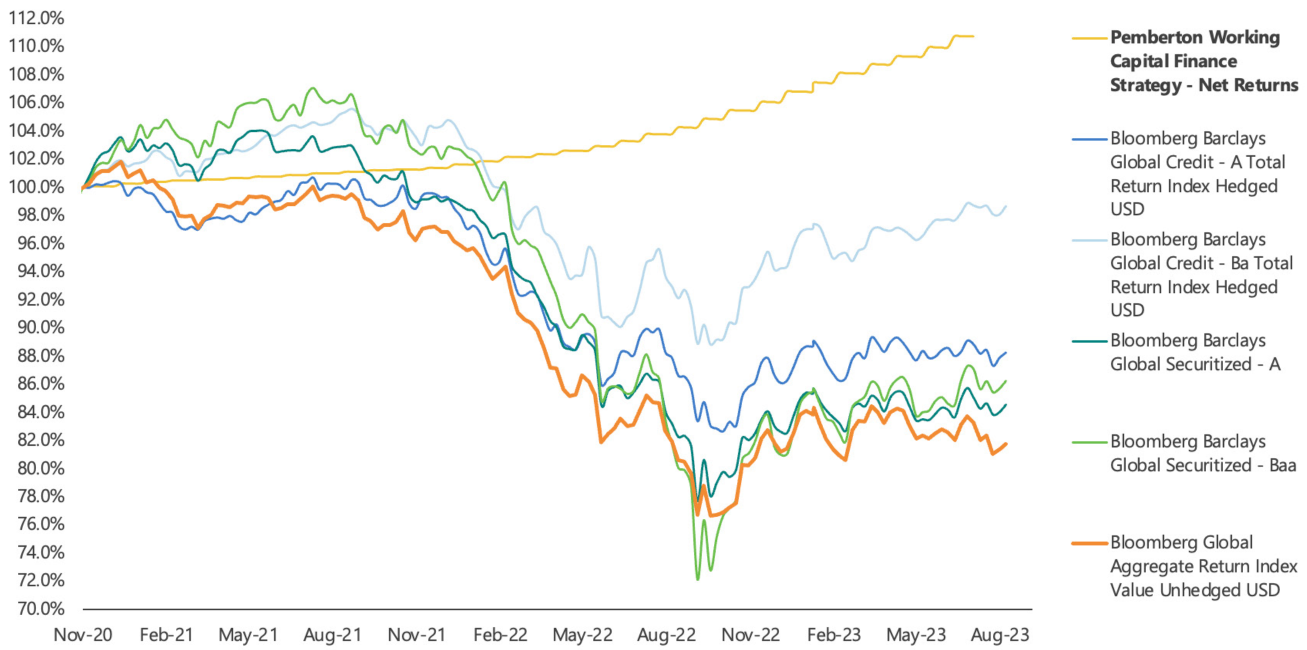
WCF assets perform structurally ahead of their senior unsecured position in the capital structure – benefitting from creditors' incentives to maintain businesses as a going concern, even in stressed credit situations.

With average tenors below 120 days, WCF assets have a natural level of liquidity and investors can access their investments via a monthly dealing open-ended fund.

The Pemberton WCF strategy provides exposure to this rapidly growing asset class via a highly diversified portfolio by both geography and industry – which targets a return of 3-month risk-free rate +250bps net.

Stable Returns in Volatile Markets

GAV of Pemberton Working Capital Finance strategy vs comparable credit indices



Source: Pemberton Asset Management, as of 16th August 2023. Past performance is not a reliable indicator of future results. Performance is measured in USD and takes account of variable utilisation rates over time. The returns are the gross strategy returns of the Uninsured Sub-Class after deduction of expected origination and servicing fees, investment holding vehicle costs, investment programme hedging costs and (where applicable) credit insurance costs. USD 3m Libor average over last 3 months is used in order to attribute performance.

What is the opportunity in WCF?

There is a major imbalance between the demand and supply of working capital finance. While banks are retrenching, demand for this type of financing is growing strongly, with supply chains under pressure and many companies moving from 'just-in-time' to 'just-in-case' inventory strategies.

This has precipitated the birth of specialist working capital finance providers such as Pemberton. These firms have utilised advances in digitalisation and the platformisation of banking products to provide access to institutional investors to what was a staple of corporate and commercial banking.

While banks still retain c.90% of the trade finance market, the number of non-bank lenders involved in the asset class has grown – providing alternative sources of funding to borrowers, particularly in the sub-investment grade, mid-market corporate sector in Europe and the US where Pemberton specialises.

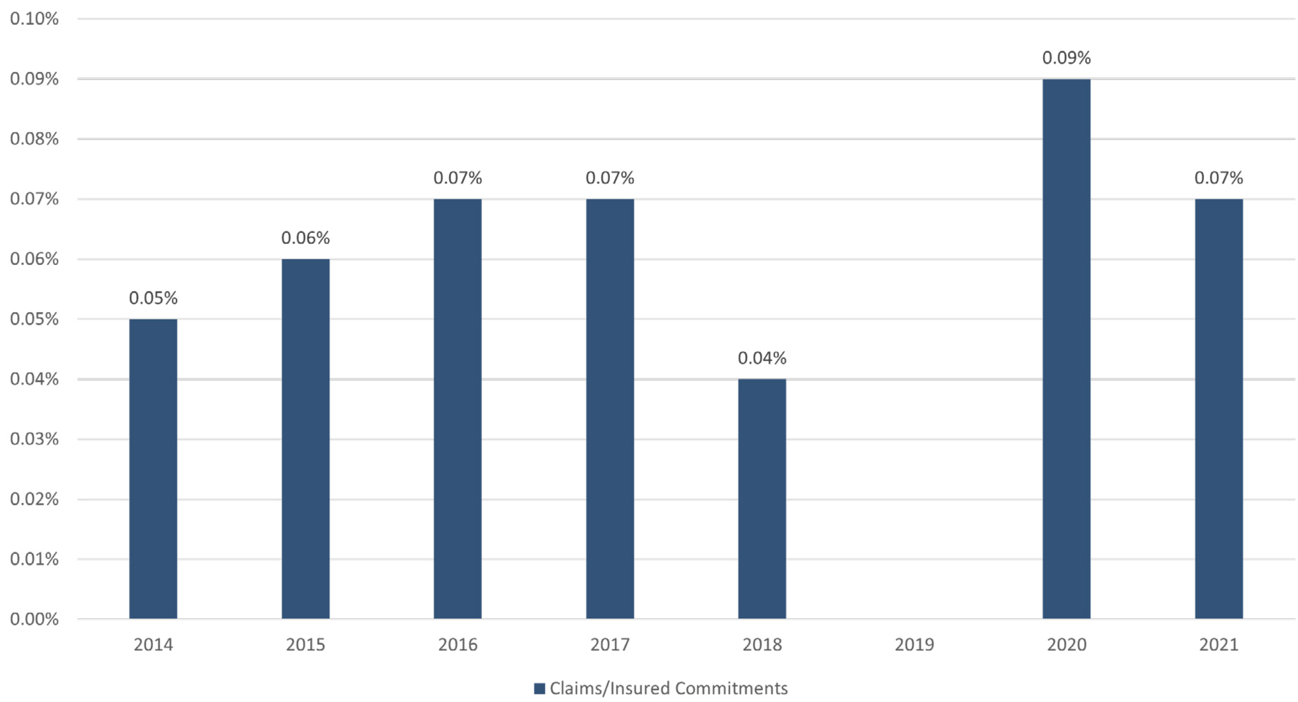
What is the investor case?

As an asset class, WCF is increasingly finding favour with a broad range of investors – for several compelling reasons. The key investment characteristics driving strong growth in investor appetite include:

- Attractive yields: the asset class offers attractive return premia relative to its level of risk.
- Zero duration risk: no price exposure to changes in market interest rates and credit spreads.
- Low volatility: the lack of market exposure, duration risk and low default rates deliver a low volatility return stream.
- Low default risk: the short tenor of the assets, uncommitted facilities and structural "super senior" performance in a default, underpin very low historic default data.
- Floating-rate returns: WCF offers investors positive exposure to rising short-term rates.
- Self-liquidating: WCF facilities are repaid as part-and-parcel of a borrower's trading operations.
- Diversification: the asset class delivers a differentiated short-term corporate credit exposure unlike other credit risks available to investors.

Berne Union Annual Short Term Credit Insurance and Recoveries 2014–21

Credit Risk – Loss rates for WCF have historically been low



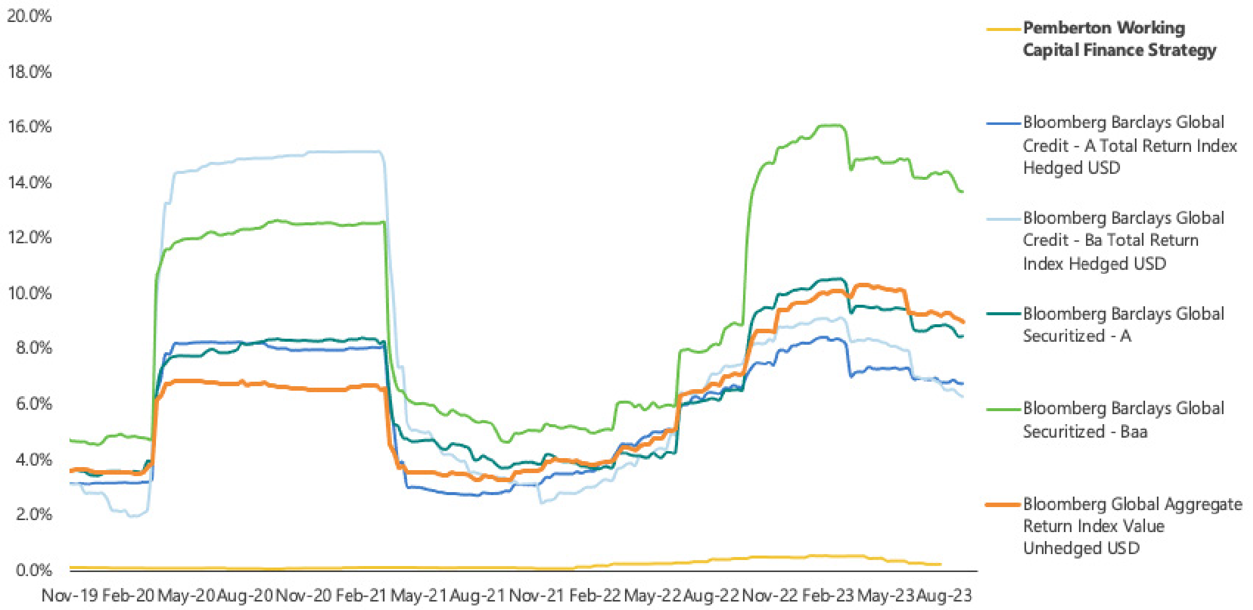
What type of investors does WCF suit?

WCF provides a range of attractive opportunities for a very diverse group of investors worldwide – with the investor base already spanning corporates, insurers, pension schemes and many other types of institutional and wealth managers.

Among the attractions to different types of investors are the following:

1. An attractive alternative to fixed-income investments such as government and corporate bonds.
2. A liquid cash alternative to money market funds, bank deposits, commercial paper, and other traditional cash products.
3. A cashflow management tool to manage investors' illiquid commitments.
4. An attractive potential Tier 2 liquidity asset.

Volatility of returns* of the Pemberton Working Capital Finance strategy vs comparable credit indices



Source: Pemberton Asset Management, as of 16th August 2023. Past performance is not a reliable indicator of future results. Performance is measured in USD and takes account of variable utilisation rates over time. All returns are based on gross performance. Actual returns will be subject to management fees and fund costs. *Volatility of returns are calculated as annualised standard deviation of monthly returns over the previous twelve months for the WCF strategy, and as annualised standard deviation of weekly net returns over the previous twelve months for the Bloomberg indices. Fluctuations in volatility are based on the range of returns during the given time period, with WCF demonstrating consistent returns when accounting for changes in benchmark rate.

What is Pemberton's WCF strategy?

The Pemberton WCF strategy targets a return of 3-month risk-free rate +250bps net. The strategy manages in excess of US$1 billion and is targeting US$10 billion in the medium term. The opportunity for institutional investors is via Pemberton's open-ended Luxembourg SICAV RAIF, WCF Fund.

Pemberton's investment philosophy is one of bottom-up fundamental credit analysis. The WCF strategy focuses on providing funding to medium-sized and large companies worldwide. The emphasis is on sourcing high-quality short-term lending opportunities supported by receivables, payables, and inventory.

Pemberton's WCF origination team – based in Europe and the US – sources assets directly from corporates, through dedicated WCF servicing and technology platforms, and in strategic partnership with leading trade finance banks.

The Pemberton WCF portfolio is diversified across Europe and the US and across a broad range of industries. The portfolio has an average BB- rating and a weighted average tenor of less than 120 days. Since inception in August 2019, the strategy has funded US$5.4 billion of invoices and has experienced no defaults.

Approach to Sustainability

Pemberton believes environmental, social and governance (ESG) factors are fundamental in combining long-term value for our shareholders, limited partners, and co-investors with stronger and more profitable growth for our portfolio companies. Since the inception of the firm in 2013, building a sustainable business has been at the core of our vision for Pemberton. We believe Pemberton is an ESG pioneer in the alternative credit space. We became a UNPRI signatory in 2018 and have subsequently helped to shape the private credit industry's focus on ESG. We are also proud to be a carbon neutral firm with an equitable, diverse and inclusive working environment.

Pemberton has built sustainability on two pillars:

- Sustainable Investing is at the heart of our investment philosophy. It is integral to value creation and helps us manage ESG-related downside risks of our investments. We also believe that the effective management of sustainability risks and opportunities by portfolio companies ensures their optimal positioning for growth. We are continuously enhancing our investment processes to better assess environmental, social and governance factors, so that our clients can benefit from the attractive characteristics of our asset class in a robust and responsible manner.

  Pemberton's firm-wide ESG policy incorporates all business lines and underpins our commitment to integrated ESG analysis and monitoring, as well as stewardship responsibilities on behalf of our clients. Our investment teams use specific ESG assessment frameworks for each strategy and we seek to actively engage with borrowers where possible to influence better practice on sustainability. This process takes into account the specific attributes of each fund and in the case of working capital finance - with short-dated trade finance loans and an average tenor of the underlying investment of 96 days - we seek to align to recognised best practice standards* and look for evidencing of responsible trade policies and ESG credentials for the business, especially involving 'red flag' controversies.

- Corporate Sustainability involves building a sustainable business from within and includes our people, our governance and how we can affect change. The firm strives to foster an inclusive and equitable culture that celebrates diversity in all its forms. Pemberton is committed to investing in the well-being and career development of our colleagues, who underpin the value proposition of our business. Our governance process includes an ESG Committee, a sub-committee of the Board, that is responsible for oversight of our strategy for Sustainable Investing as well as the firm's environmental and social impacts. This includes affecting change, and our senior leadership advocates and is directly involved in the firm's community and inclusion outreach.

*Sustainable Trade Criteria from the International Chamber of Commerce

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