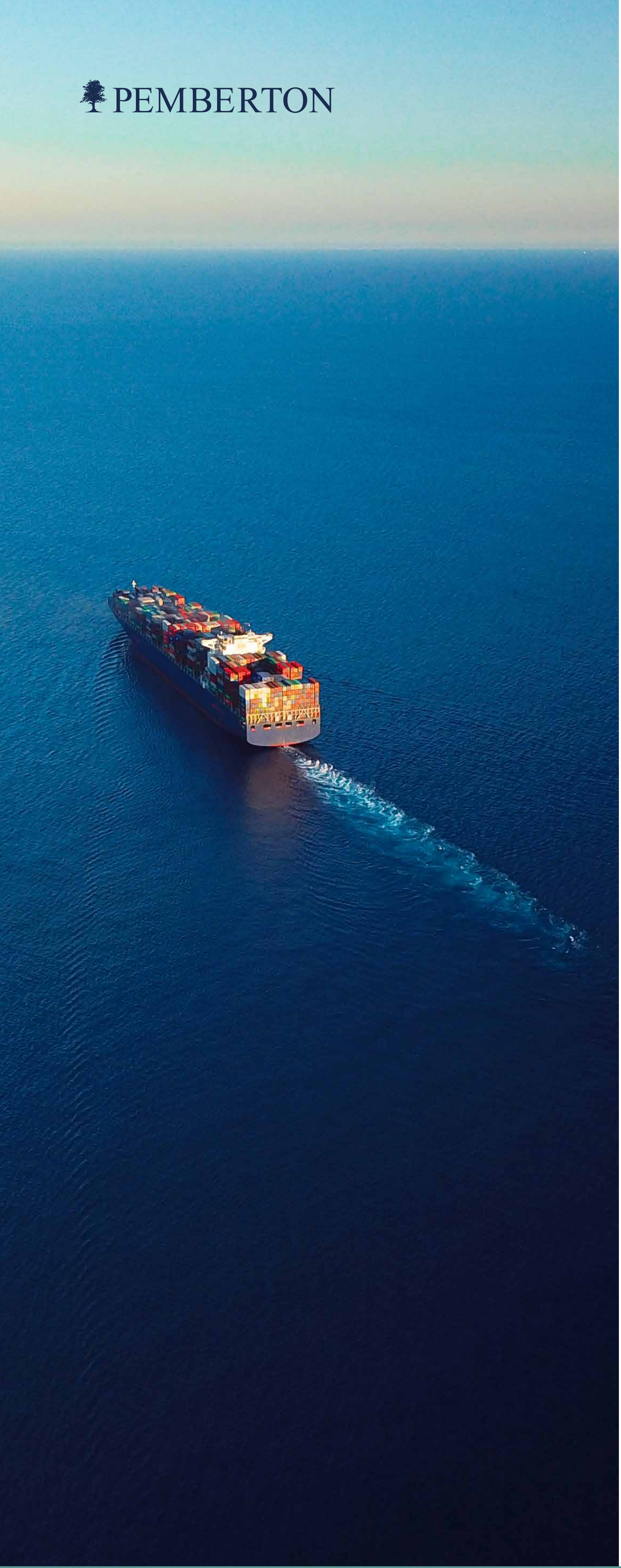

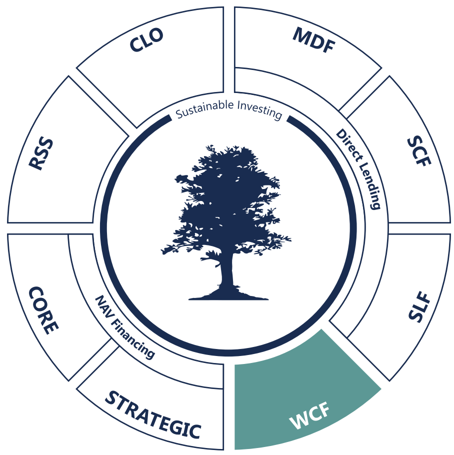

Working Capital Finance Strategy

Working Capital Finance as an Asset Class for Global Investors

October 2024

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Executive Summary

Working Capital Finance (WCF) – which includes trade finance as well as non-trade related finance of corporate receivables, payables and inventory - is increasingly being viewed as an investable asset class, with zero duration and low volatility, offering an attractive risk-adjusted yield.

The Pemberton Working Capital Finance strategy targets a return of 3-month risk free rate +250bps net[1]. WCF assets are a form of short dated corporate credit. Given their short duration and self-liquidating nature they experience very low volatility in terms of returns. With average tenors below 120 days they have a natural level of liquidity, and investors can access their investments via a monthly share class open-ended fund.

In a world where the outlook for inflation and interest rates is less certain, and where historic correlations between asset classes are breaking down, the WCF asset class offers diversification to portfolios and provides self-generated liquidity in periods of market crisis.

WCF performs structurally ahead of its senior unsecured position in the capital structure, benefiting from company creditors' incentive to maintain a business as a going concern, even in stressed situations. The low-risk profile of WCF assets is backed by data from Berne Union[2], which points to an average claims ratio of 13bps for Short-Term export credit between 2020-2023, a period that includes the economic dislocation of the global pandemic[3]. (Please see Credit Risk section below).

Trade Finance is a growing market, currently valued at USD 9.3 trillion and projected to see a CAGR of 3% over the next decade[4].

A 2023 J.P. Morgan analysis suggests that Working Capital Finance specifically is expected to be a focus area for treasurers and CFOs, as companies seek cost-effective funding sources to optimize capital structure and support growth in a high interest rates environment[5].

Two major factors have allowed for the entry of non-bank lenders like Pemberton into the WCF space, which has traditionally been dominated by international trade banks. Firstly, banks have retreated from sub-investment grade lending following the Global Financial Crisis (GFC), causing a major funding gap. Secondly, reconciliation technology, which had been a major barrier to entry, has undergone major innovation, driven largely by private and government investments into digital trade finance technology and other forms of fintech, aiming to secure global trade.

Pemberton has developed a robust proprietary IT infrastructure capable of effectively handling large amounts of WCF transactions.

Pemberton's investment philosophy is one of bottom up-fundamental credit analysis. The Working Capital Finance strategy focuses on providing funding to large and medium-sized companies. The emphasis is on sourcing high-quality short-term lending opportunities supported by receivables, payables and inventory. Pemberton Asset Management is a leading European alternative credit manager, investing in non-investment grade debt on behalf of institutional investors globally. Assets under management total EUR €20.0bn (2024)[6], with EUR €29.0bn invested since Pemberton's inception in 2013. Legal & General Group Plc (L&G) is a 40% equity shareholder.

Pemberton believes the Working Capital Finance strategy provides a range of attractive opportunities for Institutional Investors:

- As an attractive complement or alternative to fixed-income investments in government and corporate bonds;
- As a liquid cash plus complement to money market funds (MMFs) and bank deposits;
- As a cashflow management tool to manage illiquid commitments;
- As a component of Tier 2 liquidity pools alongside ABS, CLO's, absolute bond funds;
- As a component of Cashflow Driven Investment (CDI);
- As a complement to Buy & Maintain Credit strategies; and
- As a stable 'End of Life' asset for closed DB pension schemes.

[1]There is no guarantee that target returns will be achieved. Such forecasts are not a reliable indicator of future performance. [2]The International Union of Credit & Investment Insurers, The Berne Union, is an international association and community for the global export credit and investment insurance industry. [3]Berne Union Export Credit & Investment Insurance Report 2023. [4]Trade Finance Market Size Forecast 2023-2032 – Global Market Insights. [5]Strategies for resiliency Working Capital Index 2023 – J.P. Morgan. [6]Assets under management are defined as committed capital. For closed funds the FX rate used as at final close. For separate managed accounts and open funds FX rate used as at time of commitment (as of 30th June 2024).

Part One: Inflation, Interest Rate Volatility and Portfolio Diversification

Inflation and Interest Rate Volatility

A range of factors in recent periods have seen levels of inflation unseen on a global basis for decades.

These range from the supply side destruction seen as a consequence of the pandemic, reduced labour market participation, commodity price increases associated with military conflict, and climate change and supply chain reorientation as a consequence of geopolitical decoupling.

In addition, many of the major drivers of deflation seen over the last 30 years have at a minimum slowed in their rate of growth or in many cases gone into reverse. The largest of these deflationary impulses was the entrance of China and Eastern Europe into the global trading system, which led to both an enormous increase in the supply of labour and an unprecedented increase in investment in productive capital.

The second major reversal in disinflationary forces is a longer term and slower moving variable, the demographic shift being experienced globally, particularly in the developed world. As developed societies age so the dependency ratio, the percentage of retirees relative to the working age population, increases. This is inflationary in two respects, in that it reduces production, as retirees cease to produce, and simultaneously increases demand, as those same people demand significantly more public goods and services, in particular health and social care[7].

So, as we look forward over the next decade the rebalance of power towards labour and the potential for structurally higher inflation and inflation volatility seems a distinct risk.

In this context the recent interest rate volatility could potentially persist, over a multi-year time horizon, with all the implications this would have for asset prices.

Market Volatility and Asset Price Correlations

The recent increase in inflation volatility has led to significant movements in interest rates and volatility in asset prices. It has also seen previous longstanding correlations between assets such as equities and fixed income shift. With the elevated levels of leverage across public and private sectors and structurally higher inflation levels, these correlations are likely to remain uncertain.

Pemberton's Working Capital Finance Return Profile and Portfolio Diversification

WCF's return profile, with its combination of private market valuation, structural, self-generated liquidity and short tenor, has a low correlation to public markets and low price volatility. In a diversified portfolio of equities and fixed income assets this lack of correlation to liquid markets and low volatility is likely to diversify the portfolio further, reducing the overall portfolio expected volatility and providing a component of floating rate, spread return.

Stable Liquidity

Market traded assets provide, in most environments, immediate opportunities for liquidity through the market mechanism. In periods of market dysfunction though, that liquidity may come only at significantly lower asset prices or, in certain markets, liquidity can dry up partially or entirely. A key benefit of the private yet self-liquidating characteristic of the WCF asset class is that its inherent structural liquidity provides investors with access to their investments divorced from any ongoing market distress.

[7]Pemberton's market view.

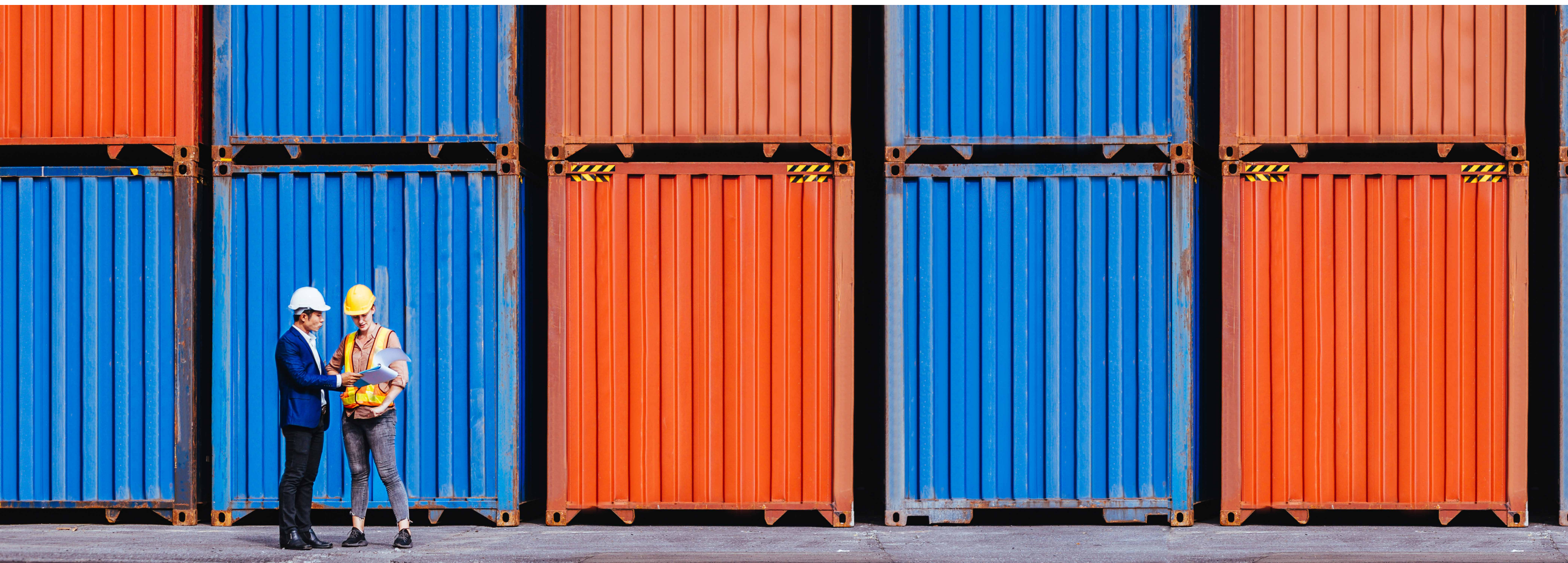
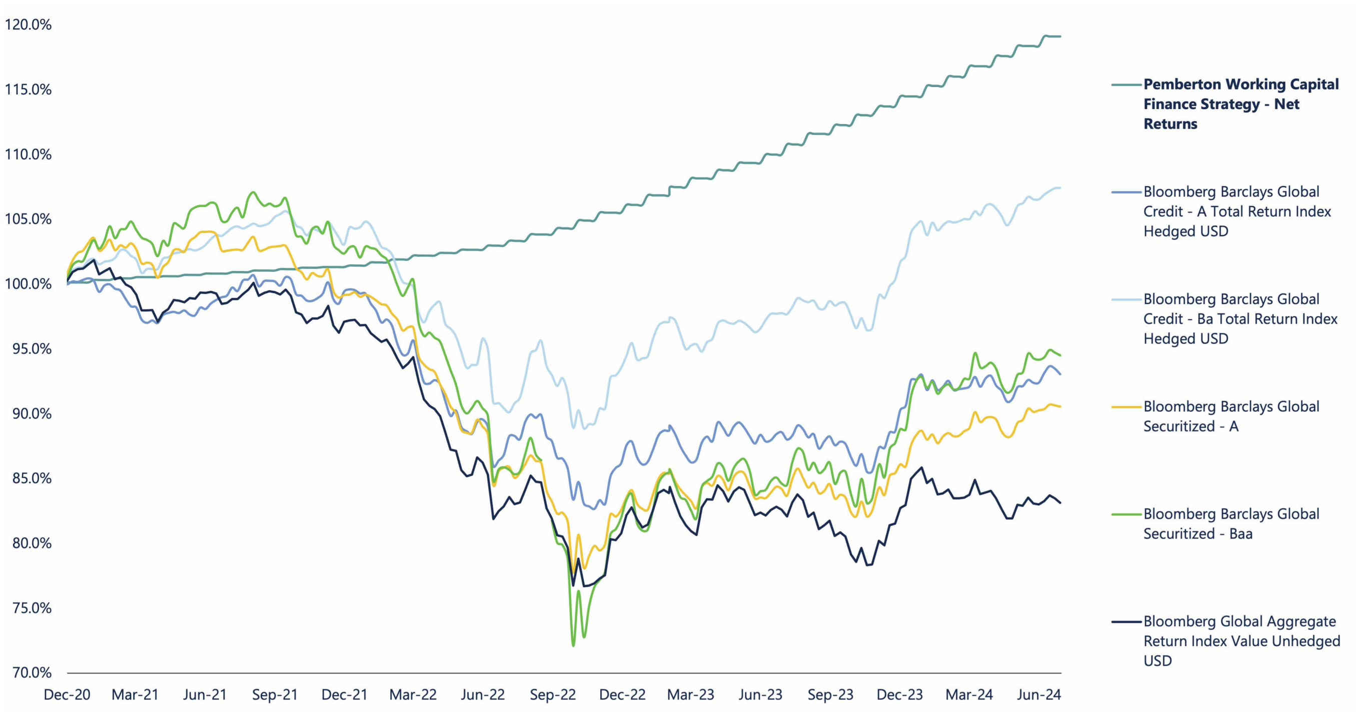


Table 1: Performance of Pemberton's Working Capital Finance Strategy versus Global Credit Indices 2019-24

WCF Stability in Volatile Markets

GAV of Pemberton Working Capital Finance strategy vs comparable credit indices



Source: Pemberton Asset Management, as of 30th June 2024. 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. Past performance is not a reliable indicator of future results. USD 3m Libor average over last 3 months is used in order to attribute performance.

Part Two: Introducing Working Capital Finance and Trade Finance

WCF is made up of three core products:

- **Payables Finance:** in which the lender extends payment terms to the buyer, while assuming the responsibility of timely payments to the sellers,
- **Receivables Finance:** in which the lender provides the seller with early payments against their invoices – assuming the buyer's payment risk and the counterparty risk of the seller,
- **Inventory Finance:** in which the lender provides financing against a book of warehoused inventory or unsold goods.

The WCF market comprises the financing of working capital assets (receivables, payables and inventory) on company balance sheets worldwide. This includes but is not limited to financing related to cross-border trade, which is valued at an estimated US$18 trillion.

WCF assets are typically between 90-180 days in length and self-liquidating. As an operating expense they perform structurally senior to other forms of corporate debt, benefitting from the creditors incentive to maintain businesses as a going concern, even in stressed credit situations (see credit box below).

An investable asset class

Once exclusively offered by trade finance banks, regulatory changes since the Great Financial Crisis, such as Basel 3 and 4, have resulted in many banks becoming more restrictive in their trade related lending activities – with some 'derisking' from the sector altogether.

Non-bank lenders have stepped into the breach, many offering short-term WCF via digitised platforms that connect borrowers with institutional funders.

The Working Capital Finance gap

There is a major imbalance between the demand and supply of working capital finance. Whilst 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. Often run by former trade finance bankers, 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.

That said, banks retain c90% of the trade finance market, with the vast majority dominated by 13 global trade finance banks[8].

Nonetheless, thanks to the digitalisation and platformisation of working capital finance, the number of non-bank lenders involved in the asset class has grown, connecting borrowers with alternative sources of funding. Many still partner with banks that, while maintaining client relationships, have restricted lending appetites – making the funds an increasingly integral part of the working capital finance landscape[9].

Credit Risk - Low Loss Rates for Working Capital Finance

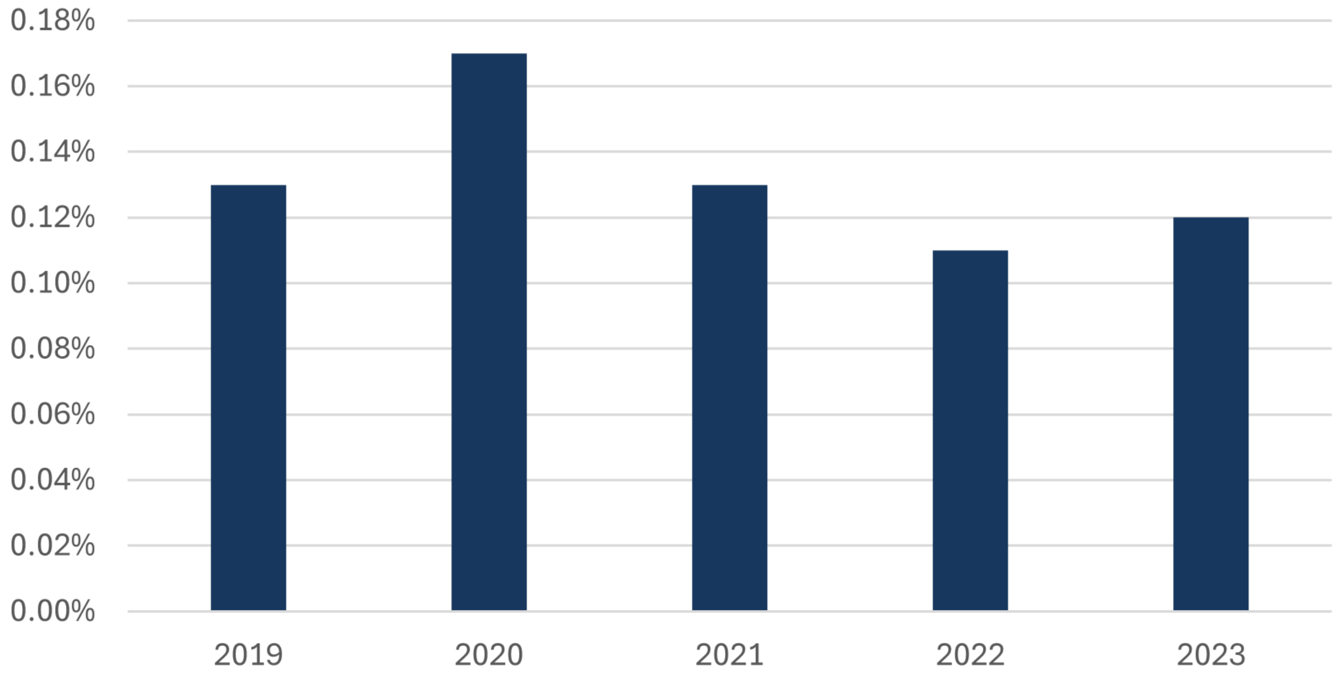
Loss rates for working capital finance have historically been low. There are various reasons for this, including:

- Working capital finance assets are often short dated, the bulk of Pemberton's Working Capital Finance strategy is invested in payables or receivables with maturities between 60 and 120 days. Default rates over short-time periods are historically low.
- WCF facilities are generally uncommitted in nature, as such a funder may cease funding further invoices at any point, without penalty.
- Short-term payment behaviour is a highly predictive factor of future corporate credit deterioration. With real time oversight of payments, providers of WCF funding are in a privileged position to assess the near-term default risk of a borrower. This allows funding to be stopped in good time.
- Typically, an unfolding credit deterioration, which may or may not lead to an eventual default, is much longer than the duration of a WCF funding tenor. Any deterioration allows the funder to terminate further lending facility and allow outstanding assets to self-liquidate.
- Outstanding working capital obligations are considered operating expenses. In most defaults, of medium or large companies, existing senior secured creditors maintain defaulted businesses as going concerns, so as to maximise recoveries. In a going-concern state short term obligations, such as payables and receivables, continue to be paid. Given the operating status of WCF liabilities they can perform super senior to other corporate liabilities.
- Further evidence of the lower-risk attributes of trade finance is provided by the Berne Union[10]. Its 2023 industry report highlights credit insurance claims of short-term trade-related insured debt relative to insured commitments (see Table 2). This data, for short-term trade credit insurance, covers the types of programmes funded by Pemberton's Working Capital Finance strategy – predominantly payables and receivables programmes for "BB" rated companies. Globally, the total annual cover in 2023 was $2.3 trillion, with total claims of $2.6 billion.
- Between 2020-2023 Berne Union data reported an average annual default rate of 13 bps p.a. This period includes the displacement in global trade of the pandemic period, which contributed to higher-than-usual default rates[11].
- Longer term data from the International Chamber of Commerce shows default rates of 7 bps p.a. between 2008-2017[12] and of 8.8 bps between 2017-2021[13].

[8]International Chamber of Commerce Global Survey 2018. [9]https://www.financierworldwide.com/trade-finance-an-attractive-asset-class#.YtVZ4HbTU2w.
[10]The International Union of Credit & Investment Insurers, The Berne Union, is an international association and community for the global export credit and investment insurance industry. [11]Berne Union Export Credit & Investment Insurance Report 2023. [12]International Chamber of Commerce Trade register 2018. [13]International Chamber of Commerce Trade register 2021.

Table 2: Berne Union Annual Short Term Credit Insurance and Recoveries 2019-2023

Short Term Trade Credit Insurance Claims



Part Three: Attributes of WCF as an asset class

As an asset class, WCF is increasingly finding favour with a broad range of investors. The key investment characteristics that explain this include:

- **Zero duration risk:** no price exposure to changes in market interest rates and credit spreads,
- **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 (see box),
- **Low volatility:** the lack of market exposure, duration risk and low default rates deliver a low volatility return stream.
- **Attractive yields:** the asset class offers an attractive return premia relative to its level of risk,
- **Floating rate returns:** WCF offers investors positive exposure to rising short term rates,
- **Self-liquidating:** facilities are repaid as part-and-parcel of a borrower's trading operations, and
- **Diversification:** the asset class delivers a differentiated short-term corporate credit exposure unlike other credit risks available to investors.

As such, Pemberton believes WCF provides a range of attractive opportunities for investors. These include the following:

1. **An attractive alternative to fixed-income investments such as government and corporate bonds.** Pemberton's Working Capital Finance strategy allows fixed income investors to reduce their exposures to duration risk in a volatile interest rate environment, a scenario that impacts the value of existing bond holdings. Given the low volatility of WCF assets, as well as the low default risk, inclusion in portfolios also reduces the overall portfolio volatility while maintaining credit portfolio yields.
2. **A liquid cash alternative to money market funds, bank deposits, commercial paper and other traditional cash products.** The Working Capital Finance strategy delivers a stable, liquid return profile at an attractive premium to cash, returns are floating so track movements in short-term interest rates. The monthly share class allows investors to benefit from attractive returns with short term access to capital. The underlying risk is corporate and so is distinct from the bank risk inherent in MMF's and bank deposits.

3. **As a cashflow management tool to manage investors illiquid commitments.** Many investors have committed to illiquid strategies such as private debt and private equity. A challenge facing investors in this position is what to do with the capital likely to be drawn at some unknown point in the future. Some investors invest in liquid capital markets such as equities or credit while others hold the capital in cash. Yet both solutions carry potential costs: one exposes the investor to volatile capital markets while the other locks in low returns. Working Capital finance offers a third way: a lower-risk, low-volatility asset class that delivers positive returns over floating rates but is stable over time.

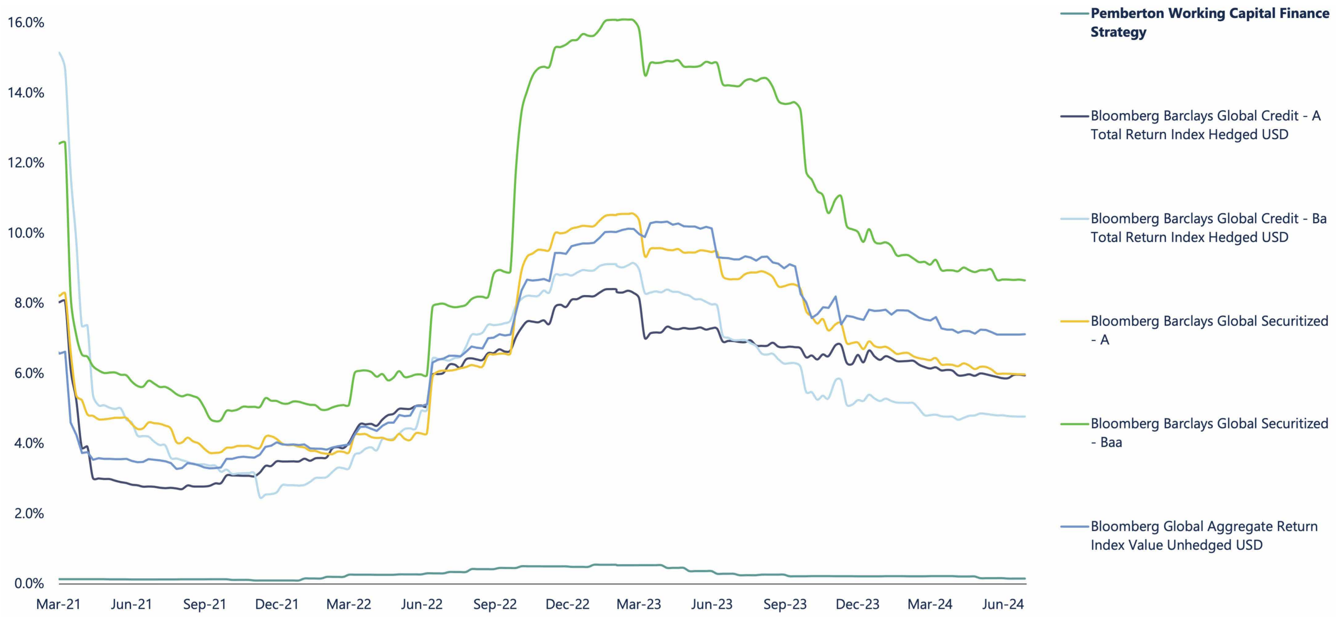
4. **An attractive potential Tier 2 liquidity asset** Working Capital Finance can sit alongside other Tier 2 collateral liquidity assets such as ABS or Multi-Asset Credit Funds. Its zero-duration exposure means that its value is unaffected by movements in credit spreads or interest rates. The self-liquidating nature of the underlying assets provides investors with natural liquidity that is unaffected by market instability or dysfunction. WCF delivers a differentiated return and liquidity profile to other Tier 2 assets that provide diversification to investors.

5. **A component of and complement to Cashflow Driven Investment (CDI) and Buy & Maintain Credit Strategies.** Working Capital Finance can provide predictable cashflows that increase the certainty of meeting an investor's liquidity objectives. This can be delivered with a reduction in duration risk combined with low default rates. WCF is therefore a potentially attractive component of a CDI strategy. WCF is also an alternative to buy-and-maintain credit strategies that focus on matching investor's medium term cash requirements. Adding WCF assets results in the volatility of the overall credit portfolios being reduced through diversification, while the medium-term liquidity needs of the typical CDI portfolio are closely matched by the strategy's characteristics. And the fact WCF facilities are floating rate protects against volatile interest rates.

6. **An attractive End-of-Life asset for defined benefit pension schemes.** Working Capital Finance's zero duration, stable, low-volatility, return profile delivers predictability as schemes model the path to Buy Out. The strategy delivers an attractive positive risk premia over floating rates and is self-liquidating, with up to monthly strategy liquidity, with up to monthly strategy liquidity providing the ability to accurately match scheme asset values to specific target Buy Out dates delivering a low volatility glide path.

Table 3 below shows the returns and volatility of several asset classes commonly held by investors over the past three years. What the data shows is that the low volatility and steady returns of Pemberton's Working Capital Finance strategy would, if substituted for any of the other asset classes, improve the risk-reward ratio – making the portfolio more efficient.

Table 3: Volatility of Returns[14] of the Pemberton Working Capital Finance Strategy vs Comparable Credit Indices



Source: Pemberton Asset Management, as of 30th June 2024. 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.
[14]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.

Part Four: Introducing Pemberton and its Working Capital Finance Strategy

Pemberton's Working Capital Finance strategy focuses on investments in medium-sized and large companies, as well as entities within their supply-chains. The emphasis is on sourcing high-quality short-term lending opportunities supported by receivables, payables and inventory. The opportunity for institutional investors is via a range of open-ended share classes including monthly and quarterly liquidity products.

WCF is a rapidly growing asset class. To assess opportunities, Pemberton utilises the credit underwriting expertise of its highly experienced team – made up mostly of former trade finance bankers.

Pemberton's origination team, based in Europe and the United States, originates assets directly from corporates, through WCF servicing and technology platforms, as well as in strategic partnership with leading trade finance banks. Partner platforms include Taulia, PrimeRevenue, LiquidX, Demica, and GSCF Bank partners include Deutsche Bank, HSBC, JP Morgan, MUFG, Santander and Citibank.

The Pemberton Working Capital Finance portfolio is diversified across Europe, the U.S. and Asia and across a range of industries (IT, food and beverages, chemicals, media, capital goods, automotive, engineering, metals, energy and retail). Pemberton's WCF portfolio has an average BB- rating[15] and a weighted average tenor of less than 120 days. Since inception, in August 2019, the strategy has funded US$7.5bn of invoices and has experienced no defaults[16].

A leading European private credit manager

Pemberton Asset Management is a leading European alternative credit manager, investing in non-investment grade credit on behalf of institutional investors globally.

Pemberton provides a range of financing solutions for borrowers and risk-reward options for investors, assets under management total US$23.5 billion (2024)[17]. Legal & General Group Plc (L&G) became a 40% equity shareholder in August 2014 with the remaining 60% owned by senior management.

Pemberton's focus is on providing finance for companies across their capital structures, from short-term working capital to longer tenor, senior debt, first lien, second lien, unitranche and preferred debt.

In contrast to its peers, Pemberton has segregated the types of risk originated into seven clearly defined strategies:

In addition to the Working Capital Finance strategy described above, Pemberton offers the following:

- Mid-Market Debt Strategy, providing senior secured first lien loans to mid-market companies,
- Strategic Credit Strategy, providing solutions across the capital structure including flexibly structured senior debt, unitranche, second lien, mezzanine and preferred debt,
- Senior Loan Strategy, providing replacement capital for bank-club deals for corporates with largely "BB" equivalent credit metrics,
- NAV Financing Strategy, launched in 2022 to provide financing solutions predicated on the underlying value of private equity funds' performing investment portfolios, and
- Risk Sharing Strategy, launched in 2022 to target junior tranches of transactions.
- CLOs, launched in 2023, investing in publicly-rated, broadly-syndicated leveraged loans used to fund sponsor-driven or corporate M&A activity.

An optimal approach

Operating an optimal approach for a large-scale private credit business, Pemberton employs over 70 investment professionals involved with sourcing, structuring and underwriting investments, with a further 120 professionals covering all other core responsibilities, such as operations, finance and fund administration, legal, risk, compliance, global clients and business development, investor relations, marketing, sustainable investing, people and performance, information technology, strategy and support[18].

Pemberton's strengths include:

- Size and depth of investment team.
- Local origination strategy.
- Institutionally-backed platform.
- Dual-track credit process.
- Credit rating system.

[15]Pemberton internal calculation. [16]Pemberton internal calculation as at 30/06/24. [17]Data as of 30th June 2024. Assets under management are defined as committed capital. For closed funds the FX rate used as at final close. For separate managed accounts and open funds FX rate used as at time of commitment.
[18]Pemberton Group, including consultants, contractors, and advisors as of 30th June 2024.

Pemberton's approach to sustainability

Since inception, sustainability has been core to Pemberton's vision and purpose, which is to create long-term value for all our stakeholders. Social and environmental trends are shaping economies and industries, and our focus is to help investors navigate the risks and opportunities that these trends create. What makes a good risk-return has evolved as the relevance and materiality of sustainability issues has become increasingly clear, and consideration of environmental, social and governance factors helps us avoid undue risk in our investment process.

We aim to remain at the forefront in private credit and are proud to serve on the UNPRI Private Debt Advisory Committee (PDAC), supporting the design, delivery and dissemination of sustainable investing guidance for our asset class. We hold ourselves to the same standards we expect of companies and other investee entities and strive to sustain a working environment in which our corporate values are exemplified by all, while offering a diverse and inclusive working environment.

2024 marked the release of our inaugural Sustainable Investing Report, and we continue to expand our efforts to integrate ESG into our investment process and day-to-day operations.

Corporate Sustainability involves building a sustainable business from within and includes our people, our governance and how we can affect change.

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.

Sustainability in Working Capital Finance Investment takes into account the short tenor (<1 year) and transactional nature of the credit relationship with borrowers, while ensuring our investors can benefit from the attractive characteristics of this asset class in a responsible manner.

Trade transactions can pose higher risk for money laundering, sanctions, and geopolitical risk requiring strong compliance and KYC controls, including identification of any 'red flags' such as PEP (Politically Exposed Person) exposure. A robust review of ESG data is therefore conducted, supplemented by the significant experience of our investment team in understanding geopolitical, supply chain, and other risks that must be considered.

The Working Capital Finance team benefits from an in-team ESG ambassador who works closely with the firm-wide Sustainable Investing Process (SIP) team in cases where a more rigorous ESG analysis is required.

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Pemberton Capital Advisors LLP (the "Advisor"), Pemberton Mid-Marked Debt Fund IV SCSp SICAV-RAIF, together with any separately managed accounts or single investor vehicles (collectively, each an "SMA" and, together the "SMAs") and any other entities or vehicles which invest in parallel with the above noted funds (collectively "Funds"), and Further Capital Partners Ltd ("Further Capital") entered into a Third-Party Marketing Agreement on 14 February 2022 relating to the offering of interests in the Funds to certain institutional investors in the provinces of Canada as defined in (the "Agreement"). Further Capital will solicit on behalf of and refer to the Adviser potential investors who are "accredited investors" as defined in as defined in National Instrument 45-106 - Prospectus Exemptions or Section 73.3 of the Securities Act (Ontario). Further Capital is an independent service provider to the Adviser, and except for the services under the Agreement, there is no affiliation or relationship between, on the one hand, Further Capital, and on the other hand, the Adviser, its affiliates and group entities (together, "Pemberton").

Under the Agreement, Further Capital is entitled to receive a monthly Retainer fee for 2020 and a Placement Fee, which is offset by the Retainer and is only paid if there is an investment in the Funds by an introduced investor. The fees will be paid to Further Capital by the Adviser, and not by the Funds or by any investor in it. Neither the Agreement nor the payment of the fees will result, directly or indirectly, in the payment of additional fees by any investor in the Funds or a successor fund. The Advisor or its affiliates may share information relating to investors' commitments in the Funds or a successor fund with Further Capital to assist in calculating the Placement Fee. Further Capital is an exempt market dealer registered with the securities commissions or like authorities in the provinces of Canada

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