|MV|Credit

MV Credit: 20 Years of Experience in Fund Financing

INTRODUCTION AND HISTORY

Since inception, fund financing has been an important part of MV Credit's toolbox to deliver attractive risk adjusted returns. The aim of this paper is to illustrate the breadth of experience MV Credit has in using fund financing to create value for investors.

This value predominantly takes the form of:

1. Utilisation of asset level leverage to generate enhanced risk-adjusted returns.
2. Bridge financing for the purposes of LP liquidity and flexibility.
3. Other innovative financing facilities to meet both short term and medium-term needs.

The expertise built up over the years allows MV Credit to offer investors tailored solutions with certainty of deliverability and attractive terms.

MV Credit has a specialist in-house team tasked with sourcing, structuring and managing fund financing and maintaining institutional relationships.

MV Credit's funds have consistently achieved attractive risk adjusted performance thanks to active credit selection, partnering with top tier private equity sponsors and the successful implementation of appropriate financing strategies. The performance and the financing structures have been tested through multiple credit cycles. For example, the 2001 vintage fund returned a 21.5% gross IRR and the 2006 vintage fund returned a 12.0% gross IRR[1].

MV CREDIT'S APPROACH

When sourcing and structuring fund financing, the MV Team utilises its deep relationships with a familiar network of lenders.

MV Credit funds target private equity backed Western European credits within non-cyclical, defensive industries such as subscription-based software services and healthcare. This focus on specific industries and geographies means that financing must be structured to ensure the lender's diversity/risk restrictions are met whilst maximising the borrower's investment flexibility.

MV Credit takes an active stance in structuring fund financing whilst working closely with lenders. The structuring is a collaborative and iterative process that ensures maximum flexibility for MV Credit. This approach is different to the "market norm", where terms are often taken by managers at face value without much participation in structuring or detailed analysis of the suitability of financing for the underlying funds.

The strength of MV Credit's relationships with lenders is attributable to their trust in our investment strategy. Trust is maintained via total transparency as well as MV Credit's ability to demonstrate performance with a long track record of success:

- **Transparency** - MV Credit has maintained healthy relationships with top tier investment banks that are based around transparency. MV Credit's policy is to ensure lenders are informed of all aspects of portfolio performance – good and bad. Any risk reports shared with investors are also circulated to lenders (they are ultimately an investor themselves). These discussions are key to building the lender's trust in MV Credit's ability to select performing credits and manage the fund financing.
- **Track record** – The strong performance track record of MV Credit funds is provided to new lenders in the early stages of the lender's due diligence process. This 20-year long record helps lenders validate the efficacy of MV Credit's investment process, allowing them to become comfortable and offer competitive terms.

MV CREDIT'S FUND FINANCING GUIDELINES

MV Credit's experience structuring fund financing has manifested as a set of lessons learned that help shape MV Credit's negotiations with lenders today. As such, MV Credit retains a cautious approach to 1) *mark-to-market covenants*, 2) *asset veto rights, 3) refinancing risk* and *4) the ultimate utilisation of the facility:*

1) Avoiding a Mark-to-Market

MV Credit's core strategy in structuring fund financing is to avoid Mark to Market risk. The conventional lender proposition used by other managers is to mark portfolio assets to market. While this approach is understandable from the lender perspective, it means that the health of the facility is subject to external market movements. MV Credit's core strategy is centred around the principal of long-term buy-and-maintain investing. Hence, any covenant that re-values assets based on short-term market movements rather than the asset's long-term performance has the potential to upset the strategy's workings.

[1]Please note that past performance is not indicative of future performance.

In the event of a market downturn where investors panic or are forced to sell, asset pricing often falls to a discount below the asset's true value. By structuring a facility so that assets are marked to market only in the event of poor performance, performing assets maintain their value over the course of a market shock. This approach to structuring prevents market shocks from upsetting the workings of the facility.

2) Asset veto rights

Credit selection is a key strength of the MV Credit Team. In structuring fund financing, the MV Credit Team ensures that the facility does not place any restriction on the origination capability of the fund. Vetoes are included in financing documentation by lenders to give them a say on how a portfolio is constructed. As such, each asset that the borrower intends to add to the portfolio must first be approved by the lender. MV Credit believes it is vital to maintain full control over the investment process and the ability to actively select credits.

3) Refinancing risk

Fund financing is structured so that the facility's life matches the fund's life as closely as possible in order to allow for the orderly amortisation of the portfolio to pay down the facility, thereby reducing refinancing risk.

Managers that execute short dated facilities do so for increased flexibility and lower pricing, however these marginal benefits leave the manager vulnerable to a change in market standard terms as the refinancing date draws near. The post COVID-19 market environment highlights the dangers of this short-sighted approach.

4) Active and conservative approach

The negotiation of attractive terms and the flexibility that this enables is one of the key considerations during the structuring process. Pricing is an important factor, however subtle differences in aspects of the facility such as the loan-to-value ratio have significant implications for the usage of the facility. Securing a higher loan-to-value ratio allows for the potential to draw more capital from the facility, as each asset secures higher debt levels.

MV Credit's approach is <u>not</u> to draw on the facility aggressively, but to take a measured and conservative stance towards facility usage. The difference between possible facility usage and the actual utilisation can be thought of as a buffer. This buffer shelters MV Credit from the risk of an adverse scenario. MV Credit's work in collaborating with the lender to secure a high loan-to-value ratio generates value by increasing the size of this buffer.

FUND FINANCING MARKET DYNAMICS

Having weathered numerous market cycles throughout the course of its history, MV Credit has witnessed how banks respond to adverse market conditions. Lending institutions are susceptible to staff turnover and the attitudes of risk teams and lending committees that can change very quickly in response to external shocks like COVID-19 or the Great Financial Crisis. In the current climate, banks are reining in their lending activity and renegotiating terms with borrowers whose portfolios are not performing. As a result, the portfolios of these borrowers suffer.

In stark contrast, since COVID-19 first rocked markets in March 2020, MV Credit has closed one bridge facility at pre COVID-19 pricing. The facility was negotiated over the course of Q1 2020 and was priced competitively relative to the pre-COVID-19 market. Despite the impact of COVID-19 upon the market over H1 2020, the lender did not seek to adjust pricing. This stance was attributable to the pre-existing relationship between MV Credit and the lender.

Furthermore, the MV Credit team is currently working to expand and enhance the MV Credit leverage program through the extension of a leverage facility currently in place with a senior fund of one. This is in stark contrast to the experience of other managers in the industry, who have had banks retreating from putting in new facilities or expanding existing ones.

CONCLUSION

The above examples highlight the value-add of MV Credit's approach to working with lenders. MV Credit's attitudes to transparency and collaboration that help to form trusting relationships, mean lenders are less likely to adjust the lending terms of MV Credit facilities during times of stress. Furthermore, lenders have not been hesitant in their approach to doing new business with MV Credit. MV Credit offers investors the opportunity to invest in resilient credit portfolios with tailor made strategies to further enhance risk return metrics. Having successfully implemented various forms of fund financing over levered and unlevered strategies, MV Credit has the <u>**relationships**</u> necessary to secure attractive terms, as well as the <u>**expertise**</u> and <u>**experience**</u> necessary to use fund financing to create value for investors. These three elements are key to the success of MV Credit's strategy and can only be acquired through many years of investing in private debt markets.

Disclaimer

This White Paper (this "White Paper") is being provided by MV Credit Partners LLP ("MV Credit"), a firm authorised and regulated by the UK Financial Conduct Authority (the "FCA").

This White Paper is not intended to create any right of a legally binding or enforceable nature between MV Credit and the recipient in respect of the provision of services or products. It does not purport to be a comprehensive review of any recipient's investment objectives, financial situation or particular needs. The contents of this White Paper do not constitute legal, tax or investment advice.

Recipients of this White Paper should make their own investigations and evaluations of the information contained herein and investors should consult their own legal, tax or relevant professional advisor or attorney with regard to their specific situations.

No representation or warranty is or will be made or given, express or implied, and no responsibility or liability will be accepted by or on behalf of MV Credit nor any of their affiliates or respective members, directors, officers, employees, advisers, agents, representatives, subsidiaries or corporate parents or by any other person as to, or in relation to, the accuracy, fairness, correctness or completeness of the preliminary information contained in this White Paper, the information or opinions contained herein or supplied herewith or any other written or oral information made available to any person, which all remain subject to amendment and updating and which may not be complete. No liability whatsoever (for negligence or otherwise) is accepted by MV Credit nor any of their affiliates or respective members, directors, officers, employees, advisers, agents, representatives, subsidiaries or corporate parents for any loss howsoever arising, directly or indirectly, from any use of this White Paper or otherwise arising in connection therewith.

This material is communicated in accordance with Article 14 (Investment Professionals), Article 21 (Certified high net worth individuals) and Article 22 (High net worth companies) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001, or pursuant to the permitted exemptions made available by the FCA in section 4.12 of its Conduct of Business Sourcebook and is not intended for retail clients (as defined in the FCA Rules) who should not, and cannot, rely on information here. Any offering or solicitation will be made only to such qualified prospective investors at a later date pursuant to the relevant offering documentation and/or investment agreement of a relevant investment product, all of which should be read in their entirety.

The distribution of this White Paper in other jurisdictions may be restricted by law, and persons into whose possession this White Paper comes should inform themselves about, and observe, any such restrictions.

Neither MV Credit nor any of its directors, officers, employees, advisers, agents, representatives, subsidiaries, corporate parents and affiliates undertake any obligation to update or revise this White Paper, the information or opinions contained herein or supplied here with or any other written or oral information made available to any of the prospective investors and their respective directors, officers, employees, advisers, agents and representatives.

This material has been provided for information purposes only to investment service providers or other Professional Clients, Qualified or Institutional Investors and, when required by local regulation, only at their written request. This material must not be used with Retail Investors.

In the E.U. (outside of the UK and France): Provided by Natixis Investment Managers S.A. or one of its branch offices listed below. Natixis Investment Managers S.A. is a Luxembourg management company that is authorized by the Commission de Surveillance du Secteur Financier and is incorporated under Luxembourg laws and registered under n. B 115843. Registered office of Natixis Investment Managers S.A.: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. **Italy:** Natixis Investment Managers S.A., Succursale Italiana (Bank of Italy Register of Italian Asset Management Companies no 23458.3). Registered office: Via San Clemente 1, 20122 Milan, Italy. **Germany:** Natixis Investment Managers S.A., Zweigniederlassung Deutschland (Registration number: HRB 88541). Registered office: Im Trutz Frankfurt 55, Westend Carrée, 7. Floor, Frankfurt am Main 60322, Germany. **Netherlands:** Natixis Investment Managers, Nederlands (Registration number 50774670). Registered office: Stadsplateau 7, 3521AZ Utrecht, the Netherlands. **Sweden:** Natixis Investment Managers, Nordics Filial (Registration number 516405-9601 - Swedish Companies Registration Office). Registered office: Kungsgatan 48 5tr, Stockholm 111 35, Sweden. **Spain:** Natixis Investment Managers, Sucursal en España. Serrano n°90, 6th Floor, 28006, Madrid, Spain. **Belgium:** Natixis Investment Managers S.A., Belgian Branch, Louizalaan 120 Avenue Louise, 1000 Brussel/Bruxelles, Belgium.

In France: Provided by Natixis Investment Managers International – a portfolio management company authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009, and a public limited company (société anonyme) registered in the Paris Trade and Companies Register under no. 329 450 738. Registered office: 43 avenue Pierre Mendès France, 75013 Paris.

In Switzerland: Provided for information purposes only by Natixis Investment Managers, Switzerland Sàrl, Rue du Vieux Collège 10, 1204 Geneva, Switzerland or its representative office in Zurich, Schweizergasse 6, 8001 Zürich.

In the British Isles: Provided by Natixis Investment Managers UK Limited which is authorised and regulated by the UK Financial Conduct Authority (register no. 190258) - registered office: Natixis Investment Managers UK Limited, One Carter Lane, London, EC4V 5ER. When permitted, the distribution of this material is intended to be made to persons as described as follows: in the United Kingdom: this material is intended to be communicated to and/or directed at investment professionals and professional investors only; in Ireland: this material is intended to be communicated to and/or directed at professional investors only; in Guernsey: this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Guernsey Financial Services Commission; in Jersey: this material is intended to be communicated to and/or directed at professional investors only; in the Isle of Man: this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Isle of Man Financial Services Authority or insurers authorised under section 8 of the Insurance Act 2008.

In the DIFC: Provided in and from the DIFC financial district by Natixis Investment Managers Middle East (DIFC Branch) which is regulated by the DFSA. Related financial products or services are only available to persons who have sufficient financial experience and understanding to participate in financial markets within the DIFC, and qualify as Professional Clients or Market Counterparties as defined by the DFSA. No other Person should act upon this material. Registered office: Office 23, Level 15, The Gate Building, East Wing, DIFC, PO Box 506752, Dubai, United Arab Emirates.

In Japan: Provided by Natixis Investment Managers Japan Co., Ltd., Registration No.: Director-General of the Kanto Local Financial Bureau (kinsho) No. 425. Content of Business: The Company conducts discretionary asset management business and investment advisory and agency business as a Financial Instruments Business Operator. Registered address: 1-4-5, Roppongi, Minato-ku, Tokyo.

In Taiwan: Provided by Natixis Investment Managers Securities Investment Consulting (Taipei) Co., Ltd., a Securities Investment Consulting Enterprise regulated by the Financial Supervisory Commission of the R.O.C. Registered address: 34F., No. 68, Sec. 5, Zhongxiao East Road, Xinyi Dist., Taipei City 11065, Taiwan (R.O.C.), license number 2018 FSC SICE No. 024, Tel. +886 2 8789 2788.

In Singapore: Provided by Natixis Investment Managers Singapore (name registration no. 53102724D) to distributors and institutional investors for informational purposes only. Natixis Investment Managers Singapore is a division of Ostrum Asset Management Asia Limited (company registration no. 199801044D). Registered address of Natixis Investment Managers Singapore: 5 Shenton Way, #22-05 UIC Building, Singapore 068808.

In Hong Kong: Provided by Natixis Investment Managers Hong Kong Limited to institutional/ corporate professional investors only.

In Australia: Provided by Natixis Investment Managers Australia Pty Limited (ABN 60 088 786 289) (AFSL No. 246830) and is intended for the general information of financial advisers and wholesale clients only .

In New Zealand: This document is intended for the general information of New Zealand wholesale investors only and does not constitute financial advice. This is not a regulated offer for the purposes of the Financial Markets Conduct Act 2013 (FMCA) and is only available to New Zealand investors who have certified that they meet the requirements in the FMCA for wholesale investors. Natixis Investment Managers Australia Pty Limited is not a registered financial service provider in New Zealand.

In Latin America: Provided by Natixis Investment Managers S.A.

In Uruguay: Provided by Natixis Investment Managers Uruguay S.A., a duly registered investment advisor, authorised and supervised by the Central Bank of Uruguay. Office: San Lucar 1491, Montevideo, Uruguay, CP 11500. The sale or offer of any units of a fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627.

In Colombia: Provided by Natixis Investment Managers S.A. Oficina de Representación (Colombia) to professional clients for informational purposes only as permitted under Decree 2555 of 2010. Any products, services or investments referred to herein are rendered exclusively outside of Colombia. This material does not constitute a public offering in Colombia and is addressed to less than 100 specifically identified investors.

In Mexico Provided by Natixis IM Mexico, S. de R.L. de C.V., which is not a regulated financial entity, securities intermediary, or an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores) and is not registered with the Comisión Nacional Bancaria y de Valores (CNBV) or any other Mexican authority. Any products, services or investments referred to herein that require authorization or license are rendered exclusively outside of Mexico. While shares of certain ETFs may be listed in the Sistema Internacional de Cotizaciones (SIC), such listing does not represent a public offering of securities in Mexico, and therefore the accuracy of this information has not been confirmed by the CNBV. Natixis Investment Managers is an entity organized under the laws of France and is not authorized by or registered with the CNBV or any other Mexican authority. Any reference contained herein to “Investment Managers” is made to Natixis Investment Managers and/or any of its investment management subsidiaries, which are also not authorized by or registered with the CNBV or any other Mexican authority.

The above referenced entities are business development units of Natixis Investment Managers, the holding company of a diverse line-up of specialised investment management and distribution entities worldwide. The investment management subsidiaries of Natixis Investment Managers conduct any regulated activities only in and from the jurisdictions in which they are licensed or authorized. Their services and the products they manage are not available to all investors in all jurisdictions. It is the responsibility of each investment service provider to ensure that the offering or sale of fund shares or third party investment services to its clients complies with the relevant national law.

The provision of this material and/or reference to specific securities, sectors, or markets within this material does not constitute investment advice, or a recommendation or an offer to buy or to sell any security, or an offer of any regulated financial activity. Investors should consider the investment objectives, risks and expenses of any investment carefully before investing. The analyses, opinions, and certain of the investment themes and processes referenced herein represent the views of the portfolio manager(s) as of the date indicated. These, as well as the portfolio holdings and characteristics shown, are subject to change. There can be no assurance that developments will transpire as may be forecasted in this material. Past performance information presented is not indicative of future performance.

Although Natixis Investment Managers believes the information provided in this material to be reliable, including that from third party sources, it does not guarantee the accuracy, adequacy, or completeness of such information. This material may not be distributed, published, or reproduced, in whole or in part.

All amounts shown are expressed in USD unless otherwise indicated.