

Capital Four - Strategic Lending Fund K/S

**c/o Intertrust (Denmark) A/S
Sundkrogsgade 21
2100 Copenhagen Ø**

CVR no. 36 90 16 67

Annual report for 2016

Adopted at the annual general
meeting on 2 May 2017

Anders Solem
chairman

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Statement by management on the annual report

Today the board of directors has discussed and approved the annual report of Capital Four - Strategic Lending Fund K/S for the financial year 1 January - 31 December 2016.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the limited partnership's financial position at 31 December 2016 and of the results of its operations for the financial year 1 January - 31 December 2016.

In our opinion, management's review includes a fair review of the matters dealt with in the management's review.

Management recommends that the annual report should be approved at the annual general meeting.

Copenhagen, 6 April 2017

Board of directors

Søren Søgaard
chairman

Lone Sauer

Niels Christian Wedell-
Wedellsborg

Independent auditor's report

To the limited partners of Capital Four - Strategic Lending Fund K/S

Opinion

We have audited the financial statements of Capital Four - Strategic Lending Fund K/S for the financial year 1 January - 31 December 2016, which comprise accounting policies, an income statement, balance sheet and notes. The financial statements are prepared under the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the limited partnership's financial position at 31 December 2016 and of the results of the limited partnership's operations for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the limited partnership in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the limited partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless management either intends to liquidate the limited partnership or to cease operations, or has no realistic alternative but to do so.

Independent auditor's report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the limited partnership's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the limited partnership's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the limited partnership to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

Independent auditor's report

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on management's review

Management is responsible for management's review.

Our opinion on the financial statements does not cover management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read management's review and, in doing so, consider whether management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of management's review.

Copenhagen, 6 April 2017

Ernst & Young
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Anders Duedahl-Olesen
State Authorised Public Accountant

Rasmus Berntsen
State Authorised Public Accountant

Limited partnership details

The limited partnership	Capital Four - Strategic Lending Fund K/S c/o Intertrust (Denmark) A/S Sundkrogsgade 21 2100 Copenhagen Ø
	CVR no.: 36 90 16 67 Reporting period: 1 January - 31 December Incorporated: 20. May 2015 Domicile: Copenhagen
Board of directors	Søren Søgaard, chairman Lone Sauer Niels Christian Wedell-Wedellsborg
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4 2000 Frederiksberg

Management's review

Business activities

The limited partnership's objective and investment strategy is to invest in a diversified portfolio of European sub-investment grade high yield bonds and loans, as well as to directly extend bilateral loans to Danish and Nordic borrowers, for the latter with a focus on subordinated lending. The strategy applies fundamental credit research and selection skills coupled with careful portfolio construction and risk management.

Business review

2016 has seen high activity in both the European and the Nordic leveraged finance market, across both large syndicated deals and smaller non-syndicated deals. The limited partnership has participated in multiple new deals during the year. At the end of 2016 loans constituted approximately 94% of the limited partnerships assets. Approximately 10% of the loans were direct lending contributing positively to the outperformance during the year.

The 2017 pipeline for prospective direct lending investment is sound and spans transactions for small and medium sized corporates across multiple industries and deal sizes.

The limited partnership's return on investments during 2016, net of all costs and expenses, was 4.91%, corresponding to a 5.67% return on a EUR-hedged basis. This compares to a 5.46% 2016 (gross) return for the European Institutional Leverage Loan index (Credit Suisse) on a EURhedged basis. As a result, we consider this return highly satisfactory and reflective as strong credit selection and dynamic portfolio management.

The limited partnership's income statement for the year ended 31 December shows a profit of t. DKK 51,773, and the balance sheet at 31 December 2016 shows equity of t. DKK 1,060,399.

The partnership does not have any employees.

Disclosures pursuant to the Danish Alternative Investment Fund Managers etc. Act section 61(3)

Information on the remuneration of the management of Capital Four AIFM A/S is stated in the annual report of Capital Four AIFM A/S which is archived at the Danish Business Authority.

Significant events occurring after end of reporting period

No events have occurred after the balance sheet date which could significantly affect the limited partnership's financial position.

Accounting policies

The annual report of Capital Four - Strategic Lending Fund K/S for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B.

The accounting policies applied are consistent with those of last year.

The annual report for 2016 is presented in t. DKK

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including amortisation, depreciation and impairment losses, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the limited partnership and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the limited partnership and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. On subsequent recognition, assets and liabilities are measured as described below for each individual accounting item.

Income statement

Profit/loss on investment activities

Profit/loss on investment activities comprise realised and unrealised capital gains and losses on securities and derivative financial instruments, non-refundable share of dividend taxes as well as interest income and expenses on securities. Income and expenses are recognised in the income statement at the amounts relating to the financial year.

Other external expenses

Other external expenses include costs incurred during the year for fund management.

Financial income and expenses

Financial income and expenses include interests etc. not related to investment activities.

Accounting policies

Balance sheet

Assets

Fixed asset investments

Other receivables are held to maturity and are measured at amortised cost. Realised capital gains and losses are amortised over the lending period and recognised in the income statement as part of "Profit/Loss on investment activities".

Receivables

Other receivables are measured at amortised cost.

Cash and cash equivalents

Cash comprise cash and short-term securities whose remaining life is less than three months and which are readily convertible into cash and which are subject only to insignificant risks of changes in value.

Current asset investments

Other securities and investments comprising listed bonds, are measured at their fair values at the balance sheet date. Fair value is determined on the basis of the latest quoted market price (Level 1).

Accounting policies

Liabilities

Short-term debt

Other payables are measured at net realisable value.

Fair value

The fair value measurement is based on the principal market. If no principal market exists, the measurement is based on the most advantageous market, i.e. the market that maximises the prices of the asset or liability less transaction and/or transport costs.

All assets and liabilities which are measured at fair value, or whose fair value is disclosed, are classified based on the fair value hierarchy, see below:

Level 1: Value in an active market for similar assets/liabilities

Level 2: Value based on recognised valuation methods on the basis of observable market information

Level 3: Value based on recognised valuation methods and reasonable estimates (non-observable market information).

Income statement 1 January - 31 December

	Note	2016 t. DKK	20/5-31/12 2015 t. DKK
Profit/loss on investment activities		60,171	14,185
Other external expenses		<u>-7,680</u>	<u>-3,859</u>
Ordinary operating profit/loss		52,491	10,326
Financial income		0	46
Financial costs		<u>-718</u>	<u>0</u>
Net profit/loss for the year		<u>51,773</u>	<u>10,372</u>
Retained earnings		<u>51,773</u>	<u>10,372</u>
		<u>51,773</u>	<u>10,372</u>

Balance sheet 31 December

	<u>Note</u>	<u>2016</u> t. DKK	<u>2015</u> t. DKK
Assets			
Other receivables		<u>101,583</u>	<u>0</u>
Fixed asset investments		<u>101,583</u>	<u>0</u>
Fixed assets total		<u>101,583</u>	<u>0</u>
Other receivables		<u>42,829</u>	<u>16,520</u>
Receivables		<u>42,829</u>	<u>16,520</u>
Other securities and investments		<u>948,182</u>	<u>985,913</u>
Current asset investments		<u>948,182</u>	<u>985,913</u>
Cash		<u>70,106</u>	<u>128,635</u>
Current assets total		<u>1,061,117</u>	<u>1,131,068</u>
Assets total		<u>1,162,700</u>	<u>1,131,068</u>

Balance sheet 31 December

	<u>Note</u>	<u>2016</u> t. DKK	<u>2015</u> t. DKK
Liabilities and equity			
Contributed capital		1,000,000	1,000,000
Retained earnings		<u>60,399</u>	<u>8,626</u>
Equity	1	<u>1,060,399</u>	<u>1,008,626</u>
Other payables		<u>102,301</u>	<u>122,442</u>
Short-term debt		<u>102,301</u>	<u>122,442</u>
Debt total		<u>102,301</u>	<u>122,442</u>
Liabilities and equity total		<u><u>1,162,700</u></u>	<u><u>1,131,068</u></u>

Notes

1 Limited partners' capital

	<u>Contributed capital</u>	<u>Retained earnings</u>	<u>Total</u>
Equity at 1 January 2016	1,000,000	8,626	1,008,626
Net profit/loss for the year	<u>0</u>	<u>51,773</u>	<u>51,773</u>
Equity at 31 December 2016	<u>1,000,000</u>	<u>60,399</u>	<u>1,060,399</u>

The limited partnership's capital is divided into limited partnership interest of DKK 1 or any multiple thereof of a nominal value of t. DKK 1,000,000. No interest carry any special rights. The limited partnership's capital has been unchanged since the establishment.