

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 2019

Adopted at the annual general meeting on 16 April 2020

Jon Reinhold Jensen
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 2019.

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 2019 and of the results of the limited partnership's operations for the financial year 1 January - 31 December 2019.

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 by the company in general meeting.

Copenhagen, 24 March 2020

Board of directors

Niels Christian Wedell-We-
dellsborg
chairman

Lone Sauer

Søren Søgaard

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 2019, which comprise a summary of significant accounting policies, 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 group and the parent company's financial position at 31 December 2019 and of the results of the group and the parent company's operations for the financial year 1 January - 31 December 2019 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 company 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 the 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 company'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 company 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 company'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 company'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 company 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, 24 March 2020

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

Anders Duedahl-Olesen
State Authorised Public Accountant
MNE no. mne24732

Rasmus Berntsen
State Authorised Public Accountant
MNE no. mne35461

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 2019 Incorporated: 20 May, 2015 Domicile: Copenhagen
Board of directors	Niels Christian Wedell-Wedellsborg Lone Sauer Søren Søgaard
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Dirch Passers Alle 36 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

The Limited Partnership was incorporated and established on 20th May 2015 with a base capital of DKK 3, subsequently increased to DKK 1,000,000,000.00 on 22nd June 2015 by issuance of an equal amount of limited partnership interests, 1/3 from each of the Limited Partners. The proceeds of the issuance of the limited partnership interests were available, and the initial investments were made, 29th June 2015.

2019 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 several new deals during the year. Furthermore, a total of five direct lending deals were originated and executed in the Limited Partnership during the year. As a result, as of the end of 2019 direct lending loan commitments constitute approximately 80% of the Limited Partnership's portfolio, thereby contributing positively to the outperformance during the year in a material way.

The 2020 pipeline for prospective direct lending investment started the year being sound with several lending opportunities for small and medium sized corporates across multiple industries and deal sizes. However, the recent COVID-19 crisis and resulting likely economic impact had by March 2020 led to most live and short-term upcoming transactions being put on, both when it comes to equity/M&A and the relevant debt financing. The fund continues to proactively monitoring and engage with existing borrowers to assess and address the adverse economic environment. The fund's investment period for direct lending deals will end on the first business day following 60 months after the Launch Date, after which only broadly syndicated liquid credit investment may be made.

The Limited Partnership's return on investments during 2019, gross of all costs and expenses, was 9.4%, corresponding to a 8.9% return on a EUR-hedged basis. This compares to a 4.5% 2019 gross return for the Western European Institutional Leverage Loan index (Credit Suisse, non-USD denominated) on a EUR-hedged basis. As a result, we consider this return highly satisfactory and reflective as strong credit selection and dynamic portfolio management, with the majority of the positive return contribution derived from the direct lending portfolio holdings.

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.

Management's review

Significant events occurring after end of reporting period

On December 31, 2019, the World Health Organisation was informed that a limited number of cases of pneumonia, of an unknown cause, were detected in Wuhan, China. On January 7, 2020, Chinese authorities identified coronavirus (COVID-19) as the cause. Since December 31, 2019, the rapid outbreak of the COVID-19 is not only causing a global health crisis but also causing a shock to the global economy and financial markets.

The Fund's investment portfolio comprises of loans and debt instruments. As a result of the crisis, there has been a significant negative impact in the financial markets. While the duration and future economic impact of COVID-19 is difficult to know, the Board of Directors of the Fund and the AIFM continue to watch the efforts of governments to contain the spread of the virus and monitor the economic impact, if any, on the companies in the portfolio.

Business Continuity Plan

The Board of Directors of the Fund have delegated the daily management of the Fund to the AIFM. The number one priority of the AIFM of the Fund is the safety and well-being of its stakeholders and employees. It has designed a continuity plan that allows it to remain fully operational and continuously monitor the Fund's activities. All employees of the AIFM can work from home as it has been ensured that all systems can be accessed from distance in order to ensure smooth continuation of business.

Accounting policies

The annual report of Capital Four - Strategic Lending Fund K/S for 2019 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B elective choice of certain provisions applying to reporting class C entities. The presentation of the financial statements is adjusted to the limited partnership's special activities.

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

The annual report for 2019 is presented in t. DKK

Basis of recognition and measurement

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rate at the transaction date and the rate at the date of payment are recognised in the income statement as financial income or financial expenses.

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

Bank loans comprising Danish bankloans are held to maturity and 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 comprising interest receivables and trade settlement balances and are measured at amortised cost.

Cash and cash equivalents

Cash comprise cash in custodian bank.

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).

Liabilities

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

	<u>Note</u>	<u>2019</u> t. DKK	<u>2018</u> t. DKK
Profit/loss on investment activities		150,283	44,529
Other external expenses	1	<u>-7,916</u>	<u>-8,021</u>
Ordinary operating profit/loss		142,367	36,508
Financial income		182	0
Financial costs		<u>0</u>	<u>-26</u>
Profit/loss for the year		<u>142,549</u>	<u>36,482</u>
Retained earnings		<u>142,549</u>	<u>36,482</u>
		<u>142,549</u>	<u>36,482</u>

Balance sheet 31 December

	<u>Note</u>	<u>2019</u> t. DKK	<u>2018</u> t. DKK
Assets			
Bank loans		626,429	653,116
Fixed asset investments		626,429	653,116
Total non-current assets		626,429	653,116
Other receivables		35,131	106,404
Receivables		35,131	106,404
Other securities and investments		594,578	316,068
Securities		594,578	316,068
Cash		35,366	91,969
Total current assets		665,075	514,441
Total assets		1,291,504	1,167,557

Balance sheet 31 December

	<u>Note</u>	<u>2019</u> t. DKK	<u>2018</u> t. DKK
Equity and liabilities			
Share capital		1,000,000	1,000,000
Retained earnings		<u>288,350</u>	<u>145,800</u>
Equity	2	<u>1,288,350</u>	<u>1,145,800</u>
Banks		1,149	917
Other payables		<u>2,005</u>	<u>20,840</u>
Total current liabilities		<u>3,154</u>	<u>21,757</u>
Total liabilities		<u>3,154</u>	<u>21,757</u>
Total equity and liabilities		<u><u>1,291,504</u></u>	<u><u>1,167,557</u></u>

Notes

1 Staff costs

There are no employees in the limited partnership.

2 Limited partners' capital

	<u>Share capital</u>	<u>Retained ear- nings</u>	<u>Total</u>
Equity at 1 January 2019	1,000,000	145,801	1,145,801
Net profit/loss for the year	<u>0</u>	<u>142,549</u>	<u>142,549</u>
Equity at 31 December 2019	<u>1,000,000</u>	<u>288,350</u>	<u>1,288,350</u>

t. DKK

The limited partnership's capital is divided into limited partnership interest of DKK 1 of a nominal value of t. DKK.

The limited partnership's capital has been unchanged since the establishment.