

# **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 2020**

Adopted at the annual general meeting on 22 April 2021

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Kim Svendsen  
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 2020.

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 2020 and of the results of the limited partnership's operations for the financial year 1 January - 31 December 2020.

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, 25 March 2021

### **Board of directors**

Niels Christian Wedell-  
Wedellsborg  
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 2020, 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 company's financial position at 31 December 2020 and of the results of the company's operations for the financial year 1 January - 31 December 2020 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, 25 March 2021

EY Godkendt Revisionspartnerselskab  
CVR no. 30 70 02 28

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

## Limited partnership details

<b>The limited partnership</b>	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 2020
	Incorporated: 20 May, 2015
	Domicile: Copenhagen
<b>Board of directors</b>	Niels Christian Wedell- Wedellsborg Lone Sauer Søren Søgaard
<b>Auditors</b>	EY Godkendt Revisionspartnerselskab  Dirch Passers Alle 36 2000 Frederiksberg

## **Management's review**

### **The Limited Partnership's main 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.

2020 was severely impacted by Covid-19 with a resulting adverse business and economic impact. In response the credit monitoring and stakeholder engagement activities were increased materially during the period. The portfolio companies have generally proven resilient and recovered well, in particular during the second half of the year, and we are overall comfortable with the status and outlook of the portfolio.

The pandemic saw most transactions and financing opportunities being put on hold during the first half of the year and as a result the Limited Partnership only committed to one new deal during this period. The investment period of the Limited Partnership came to an end on 30 June 2020 and as a result no new commitments for investments have been made since and the direct lending portfolio will now gradually run off over time.

The Limited Partnership's return on investments during 2020, gross of costs and expenses and valuation adjustments of loans based on management judgement was 5.5%, corresponding to a 6.5% return on a EUR-hedged basis. This compares to a negative 4.6% 2020 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, not least 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.

### **Significant events occurring after end of reporting period**

There have been no subsequent events after end of reporting period that affect the financial statement.



## **Accounting policies**

The annual report of Capital Four - Strategic Lending Fund K/S for 2020 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 2020 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".

If the credit risk has increased significantly or the loan is in default or otherwise impaired, management exercises judgement and uses estimates and assumptions to calculate the impairment amount, which is based on future cash flows.

##### **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>2020</u> t. DKK	<u>2019</u> t. DKK
Profit/loss on investment activities		24,600	150,283
Other external expenses	1	<u>-8,111</u>	<u>-7,916</u>
<b>Ordinary operating profit/loss</b>		<b>16,489</b>	<b>142,367</b>
Financial income		0	182
Financial costs		<u>-887</u>	<u>0</u>
<b>Profit/loss for the year</b>		<b><u>15,602</u></b>	<b><u>142,549</u></b>
Retained earnings		<u>15,602</u>	<u>142,549</u>
		<b><u>15,602</u></b>	<b><u>142,549</u></b>

## Balance sheet 31 December

	<u>Note</u>	<u>2020</u> t. DKK	<u>2019</u> t. DKK
<b>Assets</b>			
Bank loans		<u>586,266</u>	<u>626,429</u>
<b>Fixed asset investments</b>		<u><b>586,266</b></u>	<u><b>626,429</b></u>
<b>Total non-current assets</b>		<u><b>586,266</b></u>	<u><b>626,429</b></u>
Other receivables		<u>25,277</u>	<u>35,131</u>
<b>Receivables</b>		<u><b>25,277</b></u>	<u><b>35,131</b></u>
Other securities and investments		<u>473,325</u>	<u>594,578</u>
<b>Securities</b>		<u><b>473,325</b></u>	<u><b>594,578</b></u>
<b>Cash</b>		<u><b>221,076</b></u>	<u><b>35,366</b></u>
<b>Total current assets</b>		<u><b>719,678</b></u>	<u><b>665,075</b></u>
<b>Total assets</b>		<u><u><b>1,305,944</b></u></u>	<u><u><b>1,291,504</b></u></u>

## Balance sheet 31 December

	<u>Note</u>	<u>2020</u> t. DKK	<u>2019</u> t. DKK
<b>Equity and liabilities</b>			
Share capital		1,000,000	1,000,000
Retained earnings		<u>303,952</u>	<u>288,350</u>
<b>Equity</b>	<b>2</b>	<b><u>1,303,952</u></b>	<b><u>1,288,350</u></b>
Banks		200	1,149
Other payables		<u>1,792</u>	<u>2,005</u>
<b>Total current liabilities</b>		<b><u>1,992</u></b>	<b><u>3,154</u></b>
<b>Total liabilities</b>		<b><u>1,992</u></b>	<b><u>3,154</u></b>
<b>Total equity and liabilities</b>		<b><u><u>1,305,944</u></u></b>	<b><u><u>1,291,504</u></u></b>

## Notes

### 1 Staff costs

There are no employees in the limited partnership.

### 2 Limited partners' capital

	Share capital	Retained ear- nings	Total
	t. DKK	t. DKK	t. DKK
Equity at 1 January 2020	1,000,000	288,350	1,288,350
Net profit/loss for the year	0	15,602	15,602
<b>Equity at 31 December 2020</b>	<b>1,000,000</b>	<b>303,952</b>	<b>1,303,952</b>

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

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