

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 2022

Adopted at the annual general mee-
ting on 3 May 2023



Cathrine Moesgaard Albertsen
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 2022.

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

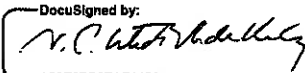
In our opinion, the financial statements give a true and fair view of the limited partnership's financial position at 31 December 2022 and of the results of the limited partnership's operations for the financial year 1 January - 31 December 2022.

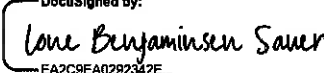
In our opinion, management's review includes a fair review of the matters dealt with in the management's review.

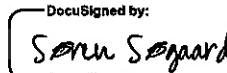
Management recommends that the annual report should be approved by the company in general meeting.

Copenhagen, 3 April 2023

Board of directors

DocuSigned by:

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Niels Christian Wedell-
Wedellsborg
chairman

DocuSigned by:

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Lone Sauer

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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 2022, 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 2022 and of the results of the company's operations for the financial year 1 January - 31 December 2022 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 and IESBA Code. 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 judgement and maintain professional scepticism 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, 3 April 2023

EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



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

Company details

The company

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 2022

Incorporated: 20 May 2015

Domicile: Copenhagen

Board of directors

Niels Christian Wedell-
Wedellsborg, chairman
Lone Sauer
Søren Søgaard

Auditors

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

In 2022, higher cost of raw material and energy, disruptions in the global supply chain, reduction in consumer confidence, rising interest rates, and depreciation of the Euro drag down primary buyout activity compared to the previous year. However, the lower mid-market, which has historically proven to be more resilient than the large-cap segment, provided tailwinds for the LBO activity.

The investors return on investments during 2022, gross of costs and expenses was 8.66% (at cost). TVPI (gross) is at 1.27x. During 2022, four issuers repaid their loans. In total, the realized deals yielded an IRR of 11.52% on average. The fund distributed DKK 379.8m in 2022. The fund holds three investments, which are covered by the Distressed Team. The result is impacted by the impairment of 49.6m DKK during the year.

Disclosures

The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

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

During January 2023, we enforced the share pledge in one of our portfolio investments, a loan to a Danish company, and took over the power to sell the shares of the underlying company. If a buyer cannot be found, we will as a next step consider taking over the shares of the company ourselves. The company has been in breach of covenants since Q1 2021, and scheduled interest and amortization have not been paid since Q1 2022.

Accounting policies

The annual report of Capital Four - Strategic Lending Fund K/S for 2022 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 2022 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.

Investment in associates measured at fair value with unrealised losses are recognised in the income statement and recognised directly under the revaluation reserve under the equity if gains.

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.

Accounting policies

Financial income and expenses

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

Accounting policies

Balance sheet

Assets

Fixed asset investments

Investments in associates consists of investments in unquoted companies and are measured at fair value. Revaluations and reversals hereof are taken directly to equity.

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 activites".

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).

Equity

Revaluation reserve

The reserve comprises revaluations of investments in associates relative to cost. The reserve can be eliminated in case of losses, realization of investments or a change in accounting estimates. The reserve cannot be recognized at a negative amount.

Liabilities

Other payables are measured at net realisable value.

Accounting policies

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>2022</u> t. DKK	<u>2021</u> t. DKK
Profit/loss on investment activities		-22,964	91,965
Other external expenses	1	<u>-4,589</u>	<u>-6,555</u>
Ordinary operating profit/loss		-27,553	85,410
Financial costs		<u>-228</u>	<u>-709</u>
Profit/loss before tax		-27,781	84,701
Tax on profit/loss for the year		<u>0</u>	<u>9</u>
Profit/loss for the year		<u>-27,781</u>	<u>84,710</u>
Retained earnings		<u>-27,781</u>	<u>84,710</u>
		<u>-27,781</u>	<u>84,710</u>

Balance sheet 31 December

	<u>Note</u>	<u>2022</u> t. DKK	<u>2021</u> t. DKK
Assets			
Investments in associates	2	25,077	0
Bank loans		<u>325,078</u>	<u>523,746</u>
Fixed asset investments		<u>350,155</u>	<u>523,746</u>
Total non-current assets		<u>350,155</u>	<u>523,746</u>
Other receivables		<u>3,741</u>	<u>6,584</u>
Receivables		<u>3,741</u>	<u>6,584</u>
Other securities and investments		<u>41,557</u>	<u>178,342</u>
Securities		<u>41,557</u>	<u>178,342</u>
Cash		<u>5,834</u>	<u>91,464</u>
Total current assets		<u>51,132</u>	<u>276,390</u>
Total assets		<u><u>401,287</u></u>	<u><u>800,136</u></u>

Balance sheet 31 December

	<u>Note</u>	<u>2022</u> t. DKK	<u>2021</u> t. DKK
Equity and liabilities			
Share capital		1,000,000	1,000,000
Revaluation reserve		8,871	0
Retained earnings		<u>-608,519</u>	<u>-200,938</u>
Equity	3	<u>400,352</u>	<u>799,062</u>
Other payables		<u>935</u>	<u>1,074</u>
Total current liabilities		<u>935</u>	<u>1,074</u>
Total liabilities		<u>935</u>	<u>1,074</u>
Total equity and liabilities		<u><u>401,287</u></u>	<u><u>800,136</u></u>
Contingent liabilities	4		

Notes

1 Staff costs

There are no employees in the limited partnership.

	<u>2022</u>	<u>2021</u>
	t. DKK	t. DKK
2 Investments in associates		
Cost at 1 January 2022	1,434	0
Additions for the year	16,207	1,434
Disposals for the year	<u>-86</u>	<u>0</u>
Cost at 31 December 2022	<u>17,555</u>	<u>1,434</u>
Revaluations at 1 January 2022	-1,434	0
Disposals for the year	86	0
Revaluations for the year, net	8,871	0
Write-downs of investments for the year	<u>-1</u>	<u>-1,434</u>
Revaluations at 31 December 2022	<u>7,522</u>	<u>-1,434</u>
Carrying amount at 31 December 2022	<u>25,077</u>	<u>0</u>

Investment in associates measured at fair value with unrealised losses are recognised in the income statement and recognised directly under the revaluation reserve under the equity if gains.

The value of unlisted equity investments (level 3 in the fair value hierarchy) is assessed quarterly on the basis of a scenario based discounted cash flow and a multiple model for Pay-PerWash International ApS and furthermore a multiple model for Isadora Holding AB.

The required rate of return (WACC) and the multiple is determined based on comparable industries. Other input is determined by Management.

Notes

Investments in associates are specified as follows:

Name	Registered office	Ownership interest	Equity	Profit/loss for the year
PayPerWash International ApS	Jyllinge	37%	-1,509	7,839
Isadora Holding I AB	Malmö	50%	-248	-26,987

3 Limited partners' capital

	Share capital	Revaluation reserve	Retained earnings	Total
Equity at 1 January 2022	1,000,000	0	-200,938	799,062
Extraordinary dividend paid	0	0	-379,800	-379,800
Revaluation for the year	0	8,871	0	8,871
Net profit/loss for the year	0	0	-27,781	-27,781
Equity at 31 December 2022	1,000,000	8,871	-608,519	400,352

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.

4 Contingent liabilities

As part of the investment in PayPerWash International ApS Capital Four Strategic Lending Fund K/S has a remaining commitment of 24,375 t. DKK for further investment in the company.