

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 2021

Adopted at the annual general
meeting on 20 April 2022



Cathrine Moesgaard Albertsen
chairman

Table of contents

	Page
Statements	
Statement by management on the annual report	1
Independent auditor's report	2
Management's review	
Limited partnership details	5
Management's review	6
Financial statements	
Accounting policies	8
Income statement 1 January - 31 December	10
Balance sheet 31 December	11
Notes to the annual report	13

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 2021.

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 2021 and of the results of the limited partnership's operations for the financial year 1 January - 31 December 2021.

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 2022

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. januar - 31. december 2021, 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 2021 and of the results of the company's operations for the financial year 1. januar - 31. december 2021 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 2022

EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

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

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. januar - 31. december 2021
Incorporated: 20 May, 2015
Domicile: Copenhagen

Board of directors Niels Christian Wedell-
Wedellsborg
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

2021 was characterized by record high deal activity, leading to a significant increase in Private Debt financing in Europe – a trend which is expected to continue in Q1 2022. This development is partly due to large amounts of dry powder from sponsors and partly driven by a continued high M&A activity. Looking ahead to 2022, whilst we expect some near-term caution surrounding the COVID-19 pandemic evolution, improving fundamental European employment, consumer confidence and productivity data should enable the recovery to continue whilst maintaining a strong transaction flow and a very low single digit default rate environment. 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. In 2021, a total of DKK 589.6 million was distributed to investors.

The Limited Partnership's return on investments during 2021, gross of costs and expenses, and valuation adjustments of loans based on management judgement, was 10.7%, corresponding to a 9.8% return on a EUR-hedged basis. This compares to a 4.4% 2021 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.

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.

Management's review

Significant events occurring after end of reporting period

During January 2022 one of the investments in the portfolio has undergone a restructuring resulting in a debt conversion of the Limited Partnership investments in the underlying company.

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

However, the situation in Ukraine might lead to financial uncertainty in 2022, which is not measurable.

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 2021 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

	Note	2021 t. DKK	2020 t. DKK
Profit/loss on investment activities		91,965	24,600
Other external expenses	1	<u>-6,555</u>	<u>-8,111</u>
Ordinary operating profit/loss		85,410	16,489
Financial costs		<u>-709</u>	<u>-887</u>
Profit/loss before tax		84,701	15,602
Tax on profit/loss for the year		<u>9</u>	<u>0</u>
Profit/loss for the year		<u>84,710</u>	<u>15,602</u>
Retained earnings		<u>84,710</u>	<u>15,602</u>
		<u>84,710</u>	<u>15,602</u>

Balance sheet 31 December

	<u>Note</u>	<u>2021</u> t. DKK	<u>2020</u> t. DKK
Assets			
Bank loans		<u>523,746</u>	<u>586,266</u>
Fixed asset investments		<u>523,746</u>	<u>586,266</u>
Total non-current assets		<u>523,746</u>	<u>586,266</u>
Other receivables		<u>6,584</u>	<u>25,277</u>
Receivables		<u>6,584</u>	<u>25,277</u>
Other securities and investments		<u>178,342</u>	<u>473,325</u>
Securities		<u>178,342</u>	<u>473,325</u>
Cash		<u>91,464</u>	<u>221,076</u>
Total current assets		<u>276,390</u>	<u>719,678</u>
Total assets		<u><u>800,136</u></u>	<u><u>1,305,944</u></u>

Balance sheet 31 December

	<u>Note</u>	<u>2021</u> t. DKK	<u>2020</u> t. DKK
Equity and liabilities			
Share capital		1,000,000	1,000,000
Retained earnings		<u>-200,938</u>	<u>303,952</u>
Equity	2	<u>799,062</u>	<u>1,303,952</u>
Banks		0	200
Other payables		<u>1,074</u>	<u>1,792</u>
Total current liabilities		<u>1,074</u>	<u>1,992</u>
Total liabilities		<u>1,074</u>	<u>1,992</u>
Total equity and liabilities		<u><u>800,136</u></u>	<u><u>1,305,944</u></u>

Noter til årsrapporten

1 Staff costs

There are no employees in the limited partnership.

2 Limited partners' capital

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Total</u>
Equity at 1 January 2021	1,000,000	303,952	1,303,952
Extraordinary dividend paid	0	-589,600	-589,600
Net profit/loss for the year	0	84,710	84,710
Equity at 31 December 2021	<u>1,000,000</u>	<u>-200,938</u>	<u>799,062</u>

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.

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Lone Sauer


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Anders Duedahl-Olesen

EY Signer

På vegne af: EY Godkendt Revisionspartnerselskab

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