VICTORY PARK

CAPITAL

OPPORTUNITIES IN SPECIALTY FINANCE

VPC WHITE PAPER – JANUARY 2016

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I. Introduction

In the last 10-15 years regulatory changes and the development of new technologies have reshaped competition in lending activities previously unique to traditional banks. Lending to consumers and small businesses ("SMEs") are two leading examples. Peer-to-peer ("P2P") lending is a developing trend in which lenders/investors provide capital directly to borrowers (both consumer and SMEs) via online intermediaries ("platforms"). To this point in the industry's development, P2P is a bit of a misnomer in that new loan originations are driven overwhelmingly by institutional funding rather than by retail investors directly participating on the platforms as lenders. However, the fundamental impact is the same in that small borrowers enjoy a new source of funding away from traditional banks and credit cards, and a new, attractive, and scalable investment opportunity has developed.

Since 2009, Victory Park Capital Advisors, LLC ("VPC") has been a leader in sourcing, structuring, implementing, and managing solutions which bridge the gap between P2P borrowers and investors, and has allocated over $1.5B to the sector on behalf of its clients. These efforts have, in aggregate, delivered a net IRR of 17.2%[1], a significant component of which is realized as quarterly cash distributions.

II. Background

The global banking industry has been under enormous pressure since the financial crisis. The strain has been particularly acute in the U.S. and Europe where banks have been subjected to a flurry of new regulations and heightened scrutiny of their risk profile and capitalization. Additionally, the five largest banks in the U.S. (Wells Fargo, Bank of America, Citigroup, JP Morgan, and Morgan Stanley) have collectively incurred over $100.0B in mortgage-crisis-related litigation expense[2] - putting additional strain on their resources. These and other developments have compelled banks to react by shedding non-core businesses - including SME and consumer lending. Together, ten of the largest banks issuing small loans to business lent $44.7B in 2014, down 38% from a peak of $72.5B in 2006.[3]

Overall, the number of commercial banks in the U.S. fell by more than 800 from 2007 to 2013 - a 14% decline[4]. From 1990 to 2008, over 2,000 new banks were formed. In contrast, only seven new banks were formed from 2009 to 2015, and only one since 2011[5].

The Credit Card Accountability Responsibility and Disclosure Act of 2009 ("CARD Act") instituted higher capital requirements for consumer loans and effectively increased traditional banks' cost of doing business. An unintended consequence seems to have been higher credit card interest rates and lesser credit availability for most consumer and SME borrowers. While the longer term implications of the new law remain debatable, the American Banker Association has attributed a decline in credit availability and higher borrowing costs to the law's implementation:

> *"While the CARD Act has provided clear and significant benefits to consumers, there have also been significant tradeoffs, specifically, higher costs and less availability for credit card credit…credit card interest rates are higher, despite the fact that interest rates are at historic lows in the economy and despite the average lower risk of account holders. Both of these factors should have put downward*

1 The VPC Specialty Finance Portfolio is a composite of certain loan investments plus warrant or minority equity positions relating to such investments made by the VPC Funds and co-investments (undertaken on behalf of certain clients), during the period of July 28, 2010 through June 30, 2015. Past Performance is not indicative of future results. No assurance can be given that the Fund's investment objective will be achieved or that an investor will receive a return of all or any part of such investor's investment. Investment results may vary significantly over any given time period. Actual realized returns for unrealized investments will depend on various factors, many of which are not under the control of VPC and any of which may differ from the assumptions and circumstances on which VPC's current fair values are based. Accordingly, any actual realized returns on unrealized investments may differ materially from the returns stated herein. Historical Performance data is hypothetical and is provided for illustrative purposes only. There is no VPC Specialty Finance Portfolio therefore no investor has received this "hypothetical" return. Information regarding the performance of each Victory Park Fund and its respective portfolio holdings is available upon request.

2 Morgan Stanley Blue Paper, "Global Marketplace Lending: Disruptive Innovation in Financials", May 19, 2015

3 Wall Street Journal, "Big Banks Cut Back on Loans to Small Business", November 26, 2015

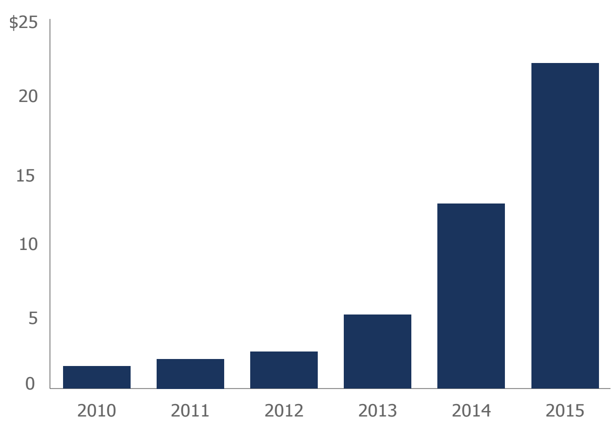
4 Federal Reserve Bank of Richmond Economic Brief, "Explaining the Decline in the Number of Banks since the Great Recession", Roisin McCord, Edward Simpson Prescott, and Tim Sablik, March 2015

5 Federal Reserve Board Staff Working Paper, "Where Are All the New Banks?" Robert. M. Adams, Jacob Gramlich, 2014-113

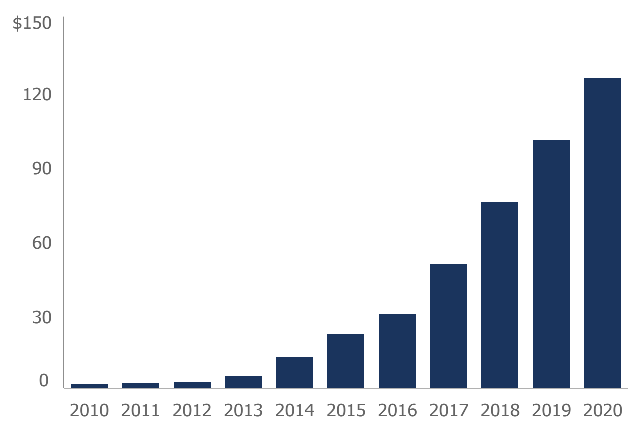
pressure on interest rates. In contrast to credit card accounts, interest rates are down for other consumer credit such as car loans and mortgages. Since 3Q 2008, credit card interest rates have increased by more than 72 basis points, a 5 percentage increase. Other consumer credit rates during the same period have declined significantly, e.g. mortgages by 268 bps, a 42% decrease, and auto loans by 204bps, a 29% decrease.[6]"

In response to these developments, new innovators have stepped in to address banks relative unwillingness or inability to compete for quality small consumer and SME loans. Consumer and SME loan issuance on the two largest U.S. platforms, Lending Club and Prosper, grew more than 65 times from 2009 to 2014[7]. Morgan Stanley ("MS") estimates that U.S. platforms originated $7.0B of consumer loans in 2014 and anticipate growth to $15.0B in 2015. Similarly, MS estimates that U.S. platforms originated $5.0B of SME loans in 2014 and expects this figure to grow to $47.0B by 2020.[8]

U.S. Marketplace Lending Loan Issuance
($ In billions)



U.S. Marketplace Loan Issuance Projection
($ In billions)



III. The Role of Technology

An important differentiator between traditional banks and newer entrants in consumer and SME lending relates to the use of technology in originating, underwriting, and executing loans. Internet proliferation, the development of "big data", and mobile technology are each relevant in different ways. First, the ubiquitous nature of the internet and mobile devices facilitates faster and cheaper customer acquisition as expensive brick and mortar storefronts and related infrastructure are eliminated. Second, new technology has enabled reduced human involvement in the sourcing, screening, and underwriting process and much faster/ cheaper decision-making for online platforms. Third, big data and the prevalence of social networking gives underwriters new tools in avoiding fraud, evaluating credit worthiness, and improving loss ratios. Fourth, mobile banking results in accelerated transaction speed, better customer service, and higher velocity of capital.

Many observers use the terms P2P and "FinTech" synonymously in acknowledging that technology has been a big a driver in the growth of P2P platforms. In fact, several of the earliest and most successful platform launches have been driven by Silicon Valley venture capital investors and their technology entrepreneurs. VPC's relationships with these innovators has been an important advantage in sourcing and securing platform relationships and preferential capacity early in the platforms' development.

6 American Bankers Associate Letter to CFPB, February 19, 2013 (www.aba.com)
7 Goldman Sachs, The Future of Finance Part 1: The rise of the new Shadow Bank, March 3, 2015
8 Morgan Stanley Blue Paper, "Global Marketplace Lending: Disruptive Innovation in Financials", May 19, 2015

IV. P2P Market size and Growth Expectations

According to figures from the U.S. Federal Reserve, total U.S. outstanding consumer debt was $3.3T as of February 2015. That figure includes car loans, student loans and revolving debt, but not mortgages. Total U.S. outstanding revolving debt, which is chiefly made up of credit card balances, was $884.8B as of January 2015. By comparison, total U.S. P2P loan issuance in 2014 was a relatively tiny $25.0B. Morgan Stanley estimates that global marketplace lending can reach $290.0B in 2020, reflecting a market share increase from 1% to 6%[9]. Goldman Sachs estimates that the potential market size for unsecured debt refinance is $258B.[10]

While the U.S. marketplace is the largest and most accessible, other markets also present opportunities. To date, the U.K., Europe, Australia, Canada, and Mexico have each presented opportunities which VPC has pursued either directly in the form of platform relationships 100% focused in those markets, or indirectly in the form of collaboration with U.S.-based platforms who have expanded or are in the process of expanding into those markets. Brazil, New Zealand, and certain Latin American and African markets also may present attractive opportunities for expansion in the near future.

V. VPC's Implementation for Institutional Investors

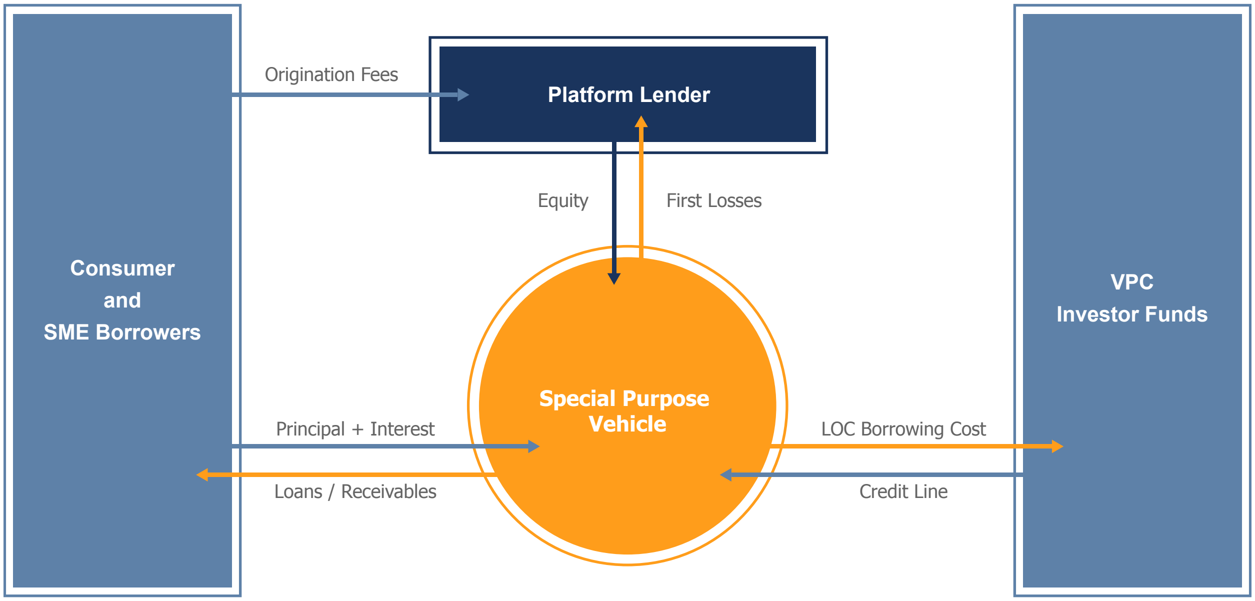
VPC relies on two primary structures in financing P2P loans via platforms: the balance sheet model and the marketplace model. In the balance sheet model (also referred to as the "warehouse model"), loans are originated by the platform and remain on the platform's balance sheet. In this case, VPC's role is as a credit facility provider – typically in the form of senior secured credit facilities of a floating rate with two to four year maturities. Each credit line is used to fund loans that meet criteria defined by VPC in robust and well document covenants. The loans are held in a special purpose vehicle ("SPV") controlled by VPC with all income and principal payments from the loans used to service the payments due to VPC under the agreement. Furthermore, the platform contributes an equity tranche to the SPV which acts as a first loss absorber for any portfolio losses. VPC is exposed, therefore, to the default risk of underlying loans only to the extent the realized losses exceed the equity cushion put in place plus any accumulated profits in the SPV. The arrangements are negotiated so as to result in many multiples of expected loss rates being reflected in the equity cushion within the SPV. The SPV's are structured to be bankruptcy remote from the issuing platform and the collateral loans are controlled by VPC. VPC has never incurred a loss through any platform lending relationships under the balance sheet model. VPC's balance sheet model relationships target unlevered returns of 11% to 16% depending on the platform.

In the marketplace model, loans are originated by the platform and sold to VPC at or near par. In this case, the default risk of the underlying borrowers is borne entirely by VPC (i.e., there is no equity cushion from the platform). The originating platforms generally retain servicing relationships with the borrower in exchange for an ongoing servicing fee (generally 1%). VPC's marketplace model relationships target unlevered returns of 6% to 10% and levered returns of 11% to 18% net of any defaults experienced on the loans.

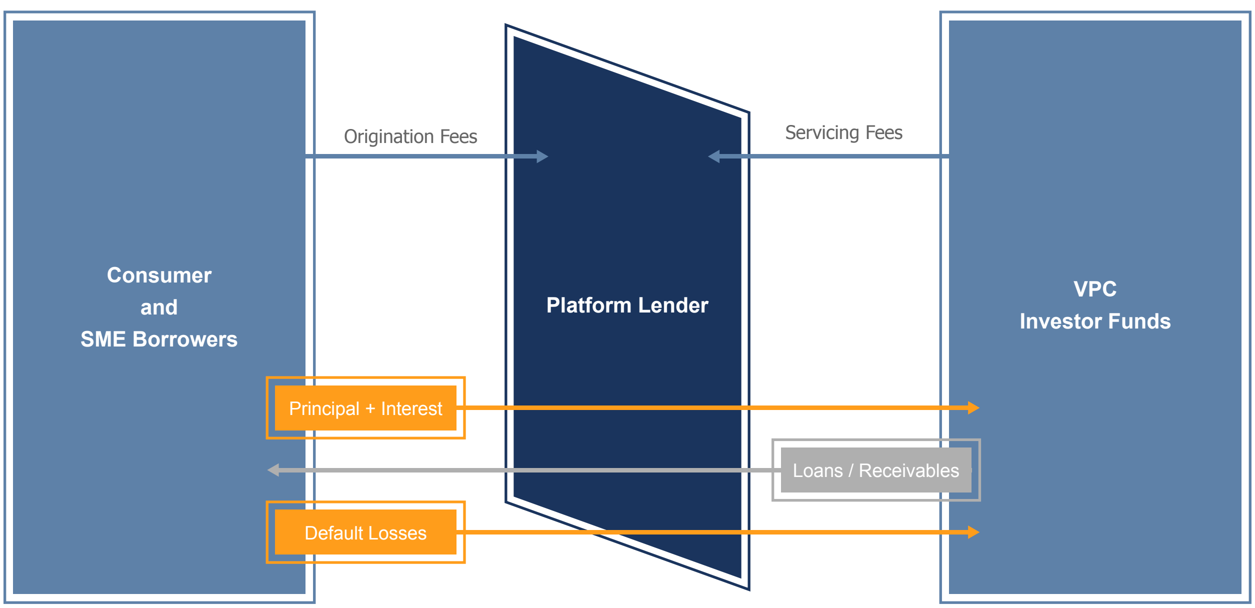
9 Morgan Stanley Blue Paper, "Global Marketplace Lending: Disruptive Innovation in Financials", May 19, 2015

10 Goldman Sachs, The Future of Finance Part 1: The rise of the new Shadow Bank, March 3, 2015

Balance Sheet Model Illustration



Marketplace Model Illustration



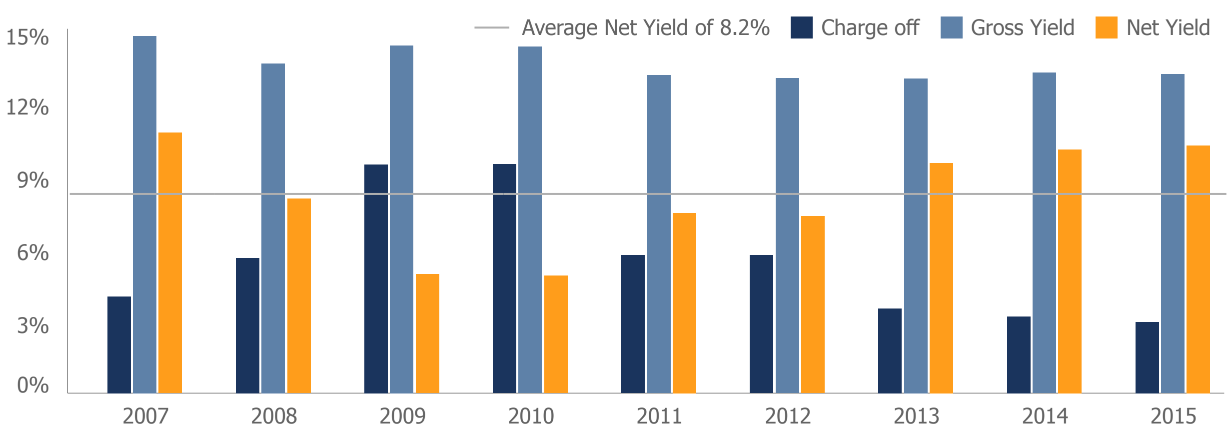
VPC has implemented a variety of different investment mandates focused on P2P opportunities, including both commingled funds and customized separately managed accounts ("SMAs"). In each case, the client vehicle may be designed to restrict the underlying loan portfolios along numerous key risk/return attributes (e.g., Consumer vs. SME, Prime vs. Near Prime, U.S. vs. Europe, Levered vs. Un-Levered, etc.).

VI. Risk Management

A comprehensive and disciplined approach to risk management is central to the VPC investment philosophy – particularly as it relates to P2P lending. Like any potential lending/borrowing relationship, the first layer of risk management involves the scrutiny of the business organization itself and the quality/integrity of its leadership team. This initial review of potential platform relationships begins with in-depth analysis of the platform's business proposition, alignment of incentives, origination standards, customer acquisition costs, equity backing, and balance sheet integrity. Once that process is complete and the necessary comfort level and alignment of interests is established, VPC will assess its preference in engaging in either the balance sheet model, the marketplace model, or both. Regardless of the structure, the VPC due diligence process focuses on the quality of the underlying origination process, the level and reliability of expected loss ratios, the reliability of protections in place to insulate VPC from "first loss" exposure, and net interest margins expected under different default rate scenarios.

Obviously, each individual consumer and SME loan involves idiosyncratic default risk. However, when aggregated with thousands of similar loans, the risks of the pool are much more easily generalized and managed. VPC's risk management process is informed by 20+ years of data on U.S. credit card receivables – a reasonable proxy for the types of loans issued by most platforms. The average net yield achieved on U.S. credit cards net of loan losses from 1995-2015 was 8.2% and no year in that period involved a net loss.[11]

U.S. Credit Card Yields and Charge Offs



Overall, U.S. consumer delinquency rates are lower than most people realize. The average delinquency rate of U.S. Credit Card loans since 1990 is 4.2%. In the second quarter of 2015 it was 2.1%[12]. However, VPC's expected default losses vary widely across platforms and across different products and borrower types within the same platform.

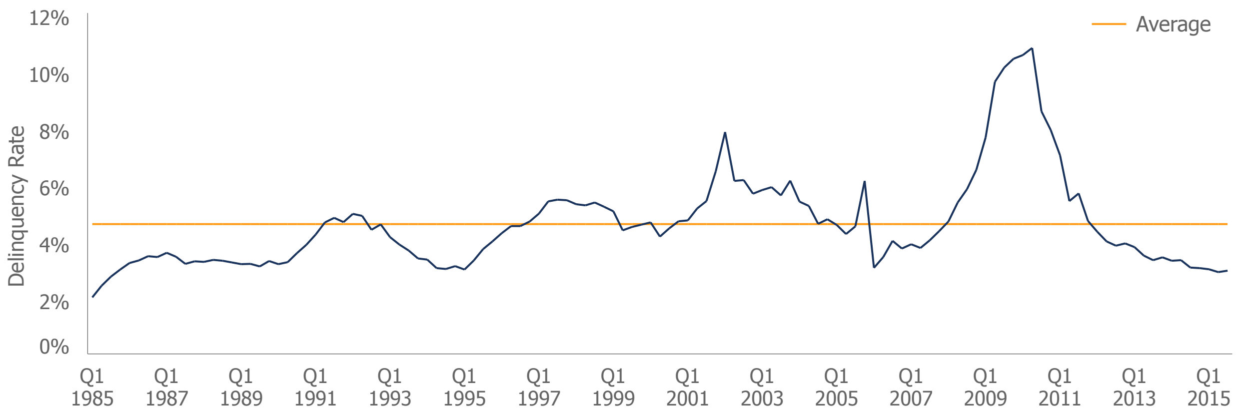
Once invested, VPC receives data monthly from each platform regarding each underlying loan to which VPC is exposed through Balance Sheet and Marketplace relationships. The risk management process includes both qualitative and quantitative analysis of the loan portfolio and includes scrutiny of both underwriting results and servicing quality. VPC utilizes cutting edge technology in its evaluation of loan performance including evaluation of loans in different ranges of delinquency and/or default. Particular emphasis is placed on the absolute performance of the loan early in the life of the loan, and, for more seasoned loans, on the relative performance of the loan against similar loans of similar vintage (i.e., cohort analysis).

11 Federal Reserve Economic Data

12 Federal Reserve Economic Data

Any losses are actively evaluated on a monthly basis and VPC ensures there are remedies in place with each platform relationship in the event actual losses are outside of anticipated ranges.

U.S. Credit Card Charge Offs



VPC's risk management approach also takes into consideration the potential for the platforms themselves to fail. Back up servicers are engaged to step in in the event an underlying the platform should fail. In this scenario, VPC's security interest in the underlying loans, regardless of the model in place (i.e., balance sheet or marketplace) would be unaffected.

VII. Market realities for small consumer and SME borrowers

There are 123M households in the U.S. and the median household income is approximately $54,000 year. The average owed per household with credit card debt is $5,700. Most of these households live paycheck-to-paycheck and lack access to credit. The U.S. national average FICO score is 690[13] and the average APR of credit cards offered to borrowers with "fair" credit (FICO score 650-699) is 20.31%[14].

Historically, aside from their credit cards, these households have had few borrowing options other than payday loans and bank overdraft loans. A payday loan, which also might be called a cash advance, is a short-term loan typically due on the borrowers next payday. Payday loans generally have three features: small amounts, short duration, the borrower must give the lender access to his/her checking account. The cost of the loan (i.e., finance charge) may range from $10 to $30 for every $100 borrowed. A typical two-week payday loan with a $15 per $100 fee equates to an APR of almost 400%. VPC does not participate in payday lending and has no exposure to lending of this type through any underlying platform relationship.

Payday loans are often the only quick alternative to a banking account overdraft for lower income households. Overdraft and non-sufficient funds ("NSF") fees constitute the majority of total checking account fees that consumers incur (about 75% of total consumer banking fees and averaging over $250 per year per consumer). Most NSF fees are paid by a small fraction of bank customers – 8% of customers incur 75% of all overdraft fees – and the transactions that lead to overdrafts are often quite small. In the case of debit card transactions, the median transaction amount that leads to an overdraft fee is $24, and the median size of all transactions that lead to an overdraft fee is $50. Once incurred, the average bank overdraft fee is $34 and the average overdraft duration is three days. 76% of overdrafts are covered within one week. In aggregate, the majority of the $32.0B in annual debit card overdraft fees that are incurred

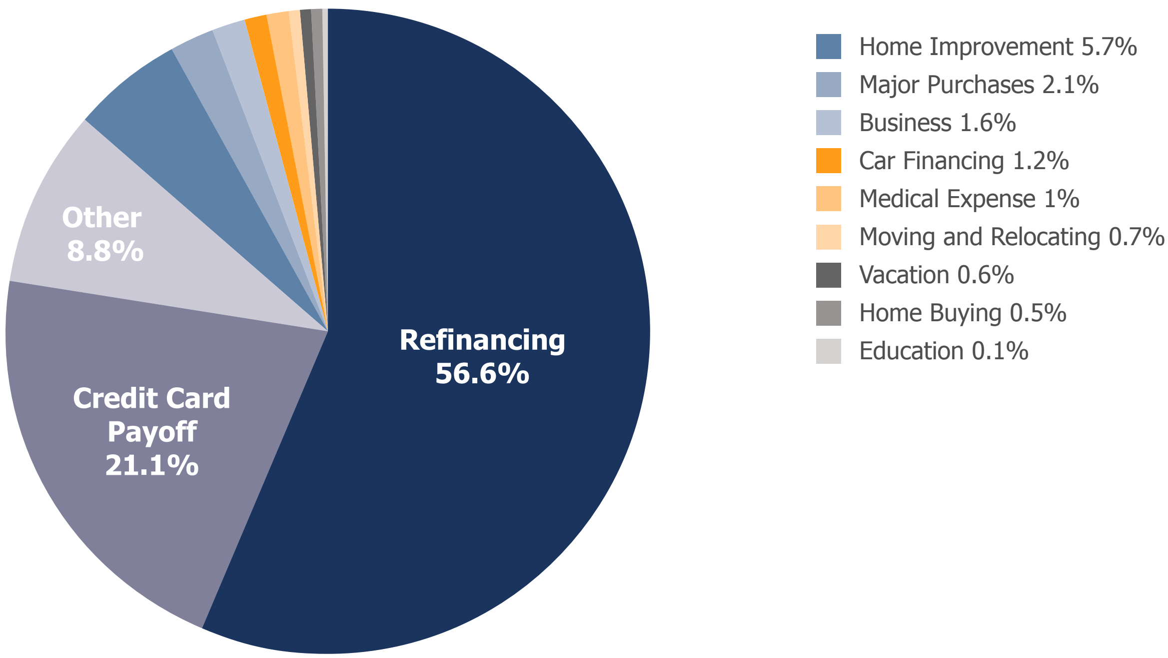
13 www.FICO.com

14 www.CARDHUB.com

by consumers, are done so in relation to transactions of $24 or less and that are repaid in three days. If a consumer borrowed $24 for three days and paid the average overdraft fee of $34, that would mean their "loan" involves an APR of 17,000%[15].

In the vast majority of cases (around 77%), the underlying loans originated by the P2P platforms with whom VPC has contracted, are used to refinance the underlying borrower's more expensive forms of consumer credit (e.g., credit cards, payday loans, etc.) and/or to avoid expensive NSF fees.

Loan Purposes



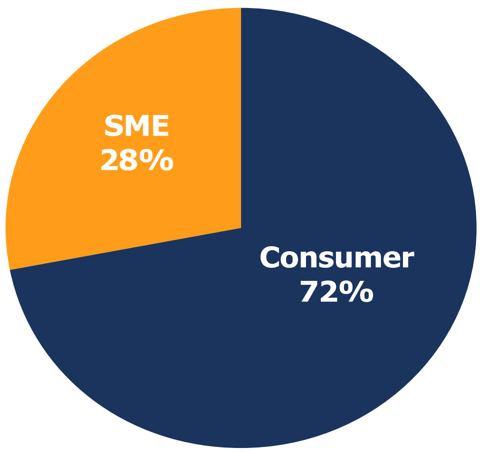
VIII. Current VPC Portfolio and Investment Results

By recognizing P2P market developments early and dedicating significant time and resources to the sourcing and structuring of a wide variety of platform relationships, VPC has developed a robust portfolio of debt and equity investment opportunities for its clients. In aggregate, the underlying P2P investments across all VPC funds have delivered a gross IRR of 22.2% and a Net IRR of 17.2% to investors since 2010[16]. The current aggregate portfolio exhibits the following characteristics:

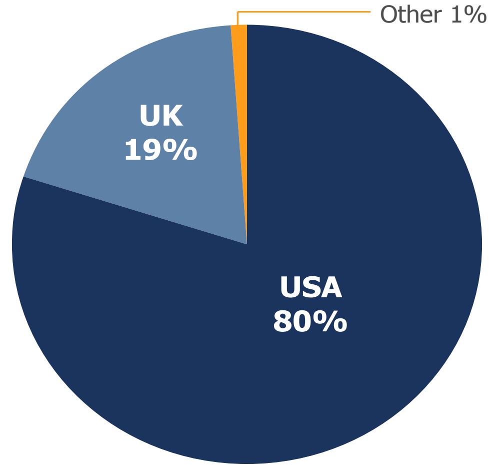
15 Consumer Financial Protection Bureau, Data Point: Checking Account Overdraft, July 2014

16 The VPC Specialty Finance Portfolio is a composite of certain loan investments plus warrant or minority equity positions relating to such investments made by the VPC Funds and co-investments (undertaken on behalf of certain clients), during the period of July 28, 2010 through June 30, 2015. Past Performance is not indicative of future results. No assurance can be given that the Fund's investment objective will be achieved or that an investor will receive a return of all or any part of such investor's investment. Investment results may vary significantly over any given time period. Actual realized returns for unrealized investments will depend on various factors, many of which are not under the control of VPC and any of which may differ from the assumptions and circumstances on which VPC's current fair values are based. Accordingly, any actual realized returns on unrealized investments may differ materially from the returns stated herein. Historical Performance data is hypothetical and is provided for illustrative purposes only. There is no VPC Specialty Finance Portfolio therefore no investor has received this "hypothetical" return. Information regarding the performance of each Victory Park Fund and its respective portfolio holdings is available upon request.

VPC Loan Porfolio Breakdown



VPC Loan Porfolio Breakdown



VPC's portfolio includes a wide diversity of assets across geography, product (e.g., merchant cash advances, prime, near-prime and sub-prime consumers, unsecured and secured debt, and legal settlement finance), and structure (whole loans, senior credit facilities, and equity warrants). In aggregate, the portfolio represents an underlying pool of tens of thousands of loans across multiple geographies and asset classes with individual loans ranging from $200 to more than $1M and terms from one week to 60 months.

IX. Outlook

VPC has deployed over $1.5B to twenty-two P2P platforms since 2010 via balance sheet and marketplace relationships. In addition, VPC has negotiated forward flow agreements with key relationships enabling access to approximately $2.0B in future loans to be originated in the next two years. With respect to additional future capacity, VPC is collaborating with a few of the strongest and best established P2P platform lenders in expanding their product mix, market-share, and geographic reach outside the U.S. Moreover, VPC's active, global sourcing process involves ten professionals reviewing 200 or more platforms each year. In sum, VPCs established leadership as a P2P lender, its preferential relationships with leaders in the industry (including platforms, VC investors, and other stakeholders), and its strategic focus and commitment to the sector, is expected to fuel many years of continuing, attractive yield and total return opportunities for investors.