

# Funding Circle SME Income Fund

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April 2016

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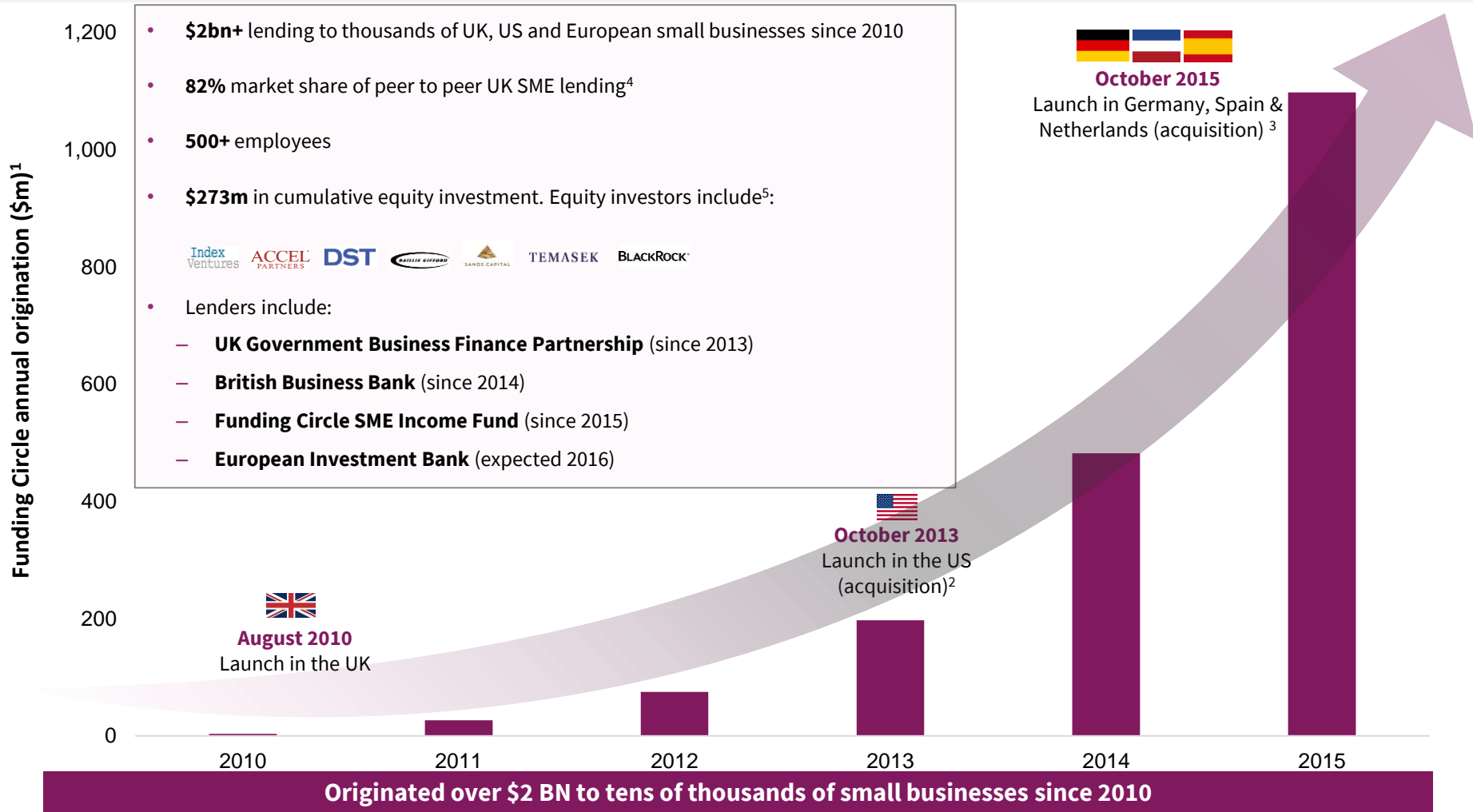
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# Funding Circle is the Global Leader in Marketplace Lending to Small Businesses



Source: Funding Circle

1. Used GBP/USD FX of 1.52; EUR/USD of 1.07 2. Acquisition of ELN 3. Acquisition of Zencap 4. Source: <http://www.altfi.com/data/indices/Ukvolume>; time period: from inception until 22 February 2016, Excludes loans originated by lendinvest and Wellesley as these are purely property related and therefore not an appropriate comparable. 5. "Other groups to participate in the round include BlackRock, the world's largest asset manager, Singapore's state investment company Temasek, Edinburgh-based asset manager Baillie Gifford and US investment group Sands Capital Ventures." Financial Times, 23Apr15

# Funding Circle Team

## Funding Circle Management and Capital Markets Team



**Samir Desai**  
CEO &  
Co-Founder

- Extensive experience in financial services
- Previously Executive at Olivant and financial consultant at BCG
- Area of focus: strategy, financial oversight, day to day management



**Matthias Knecht**  
Co-Founder and  
MD, Funding  
Circle CE

- Experience in financial services with focus on banking restructuring, insurance, and private equity
- Previously Engagement Manager with McKinsey & Company
- Areas of focus: strategy, day to day management of Funding Circle in Continental Europe.



**Jerome Le Luel**  
Global Chief  
Risk Officer

- Areas of focus: 20 years experience in credit risk management
- Previously Global Head of Risk Analytics at Barclays and Chief Risk Officer at Barclaycard
- Area of focus: oversight of global risk functions and strategy



**Sachin Patel**  
Global Co-Head of  
Capital Markets

- Extensive banking experience
- Previously Vice President at Barclays Capital and J.P.Morgan (ALM Fixed Income & Credit Solutions)
- Area of focus: capital markets strategy & institutional lending, Funding Circle UK



**Albert Periu**  
Global Co-Head of  
Capital Markets

- Previously Director at Telsey Advisory Group and Vice President at FBR Capital Markets, Merrill Lynch Capital and Deutsche Bank
- Area of focus: capital markets strategy & institutional lending, Funding Circle US

## Non-Executive Directors



**Andrew Learoyd**

- Ex-Chairman on Healthy Kids and Small World, Managing Director at Goldman Sachs, Angel Investor, Non-Executive Director and consultant to several start ups



**Bob Steel**

- CEO of Perella Weinberg Partners
- Prior: Under Secretary for Domestic Finance of the United States Treasury, Vice Chairman at Goldman Sachs, Board Member at Barclays, CEO of Wachovia Corporation.



**Jörg Asmussen**

- Ex-State Secretary at the German Ministry of Finance
- Former Executive Board Member of the European Central Bank (ECB)
- Previously chairman of the financial regulator BaFin as well as G7 and G20 Deputy



**Harry Nelis**

- Partner at Accel, member of the Selection Committee of the WEF Technology Pioneers Programme
- Prior: Perry Capital, Goldman Sachs, Founder of E-motion, Hewlett-Packard



**Neil Rimer**

- Co-founder and Partner of Index Ventures
- Led investments in Betfair (LSE) and Supercell (Softbank)
- Boards include: Auxmoney, Stack Exchange, Supercell, Trello, SavingGlobal, Deliveroo

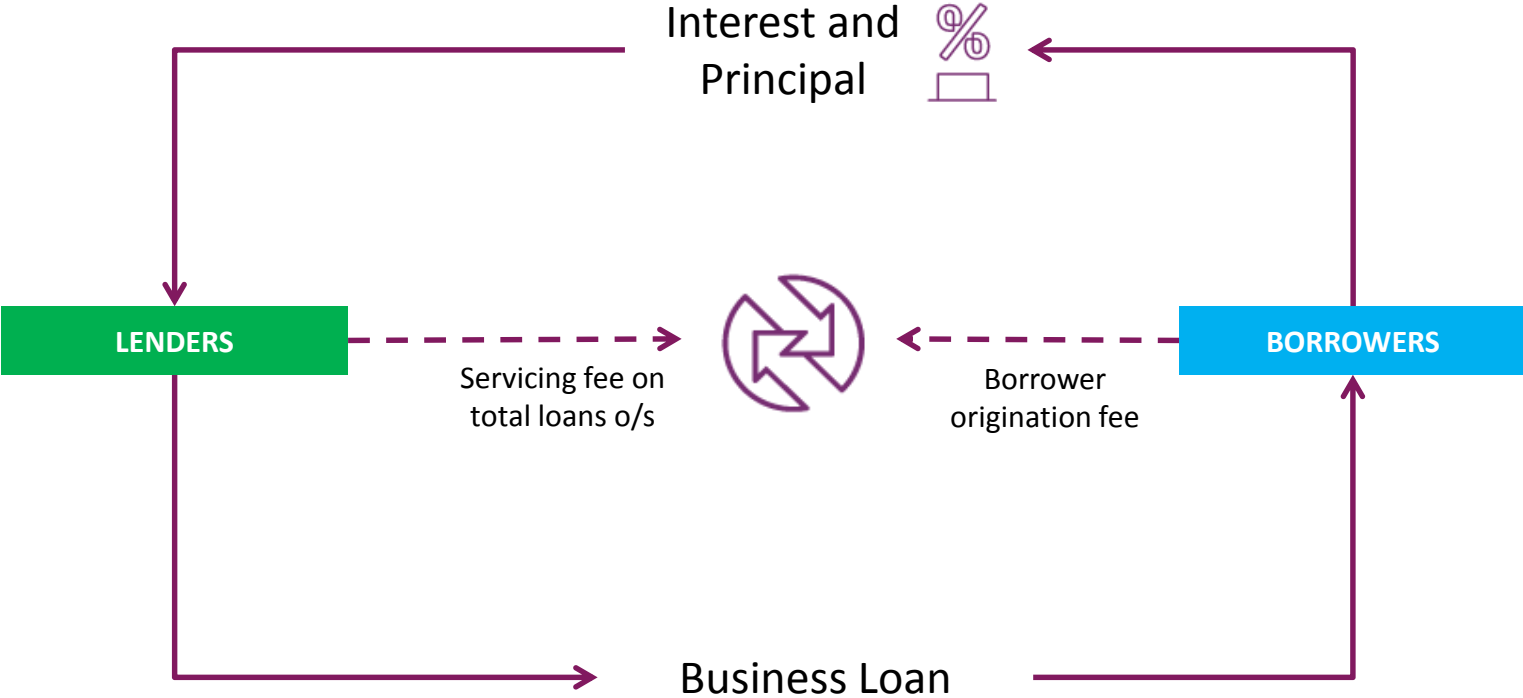


**Ed Wray**

- Co-Founder of Betfair
- Previously CEO and Chairman of Betfair, Vice President at J.P. Morgan & Co

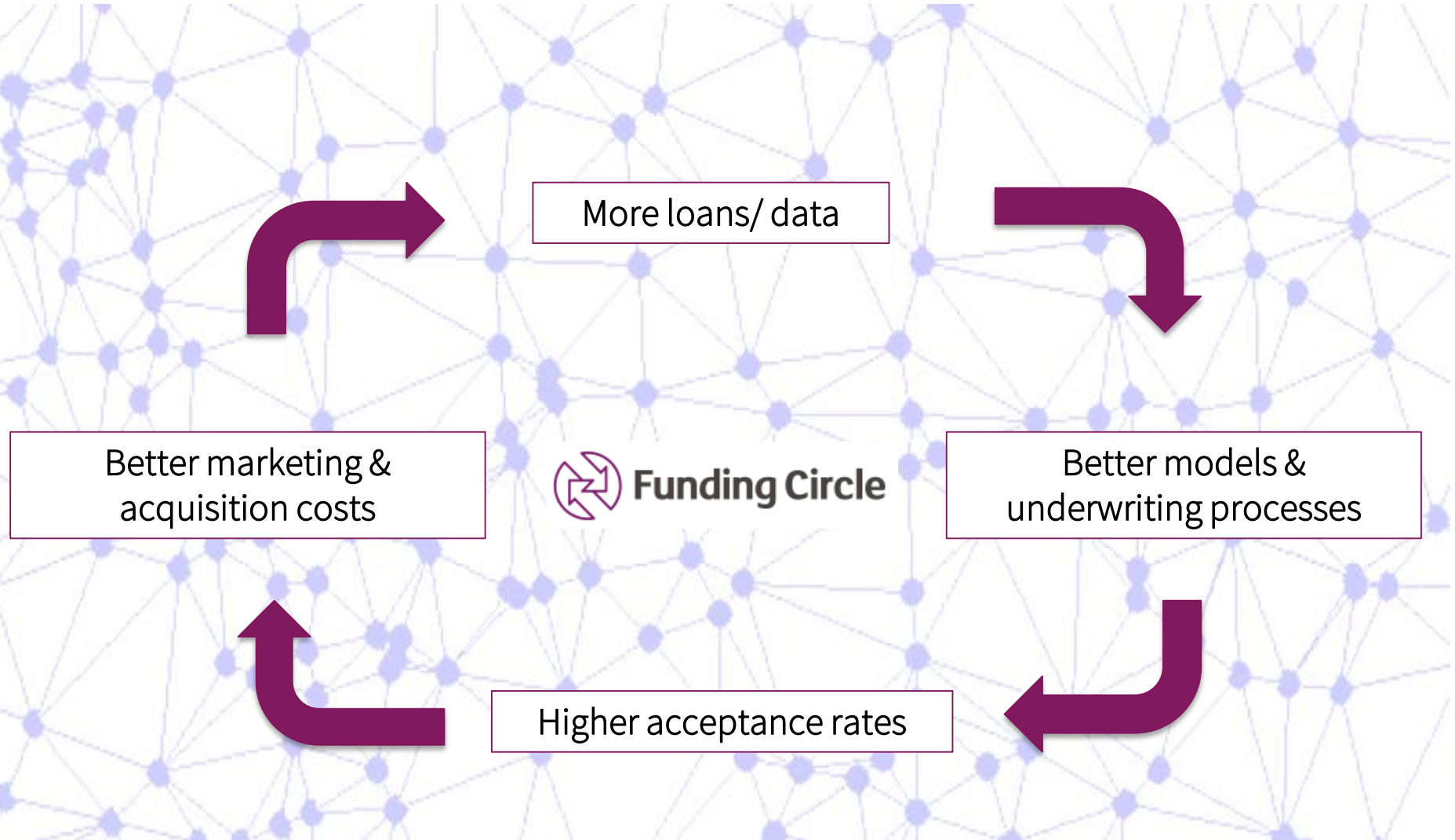
Source: Funding Circle

# Funding Circle Connects Lenders and Borrowers Directly



Source: Funding Circle

# Virtuous Funding Circle Creates Powerful Network Effects and Win, Win, Win

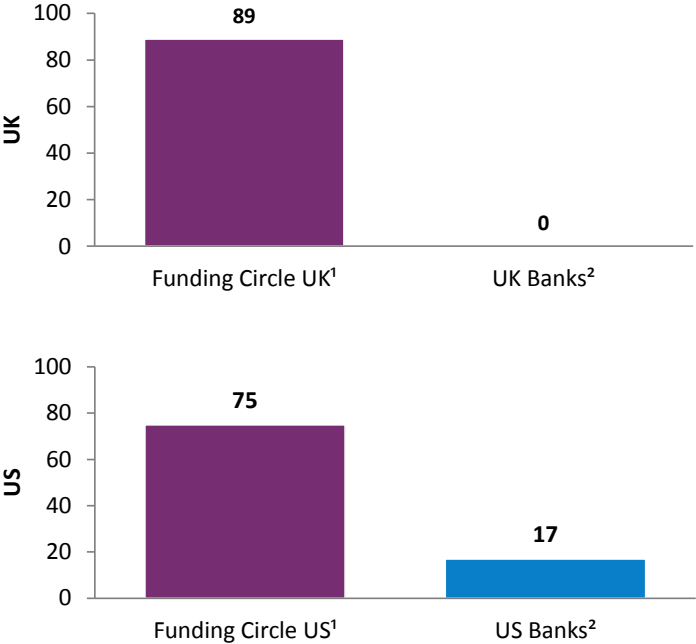


Source: Funding Circle

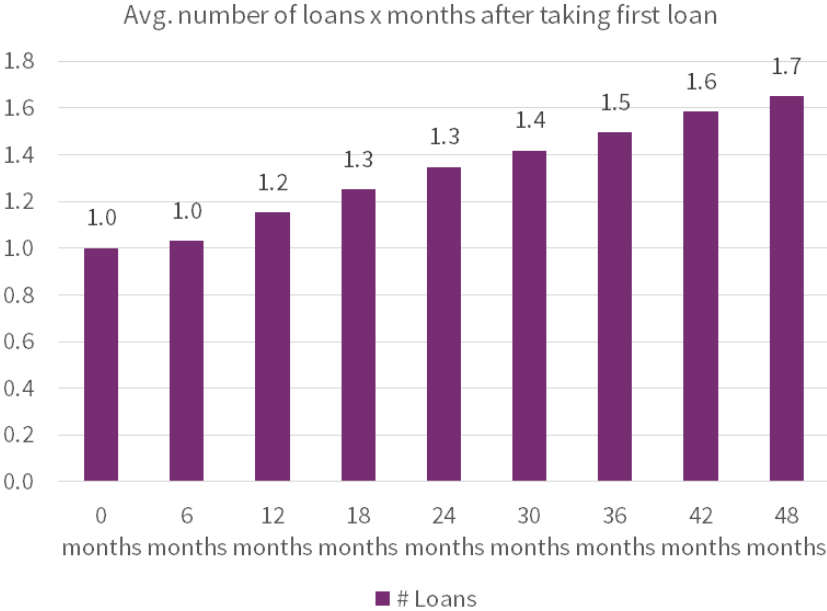


# Funding Circle is Faster, Better, Cheaper and is the Preferred Borrowing Marketplace for Small Businesses

## Customer Satisfaction is Very High



## UK Borrowers Return to Funding Circle<sup>3</sup>



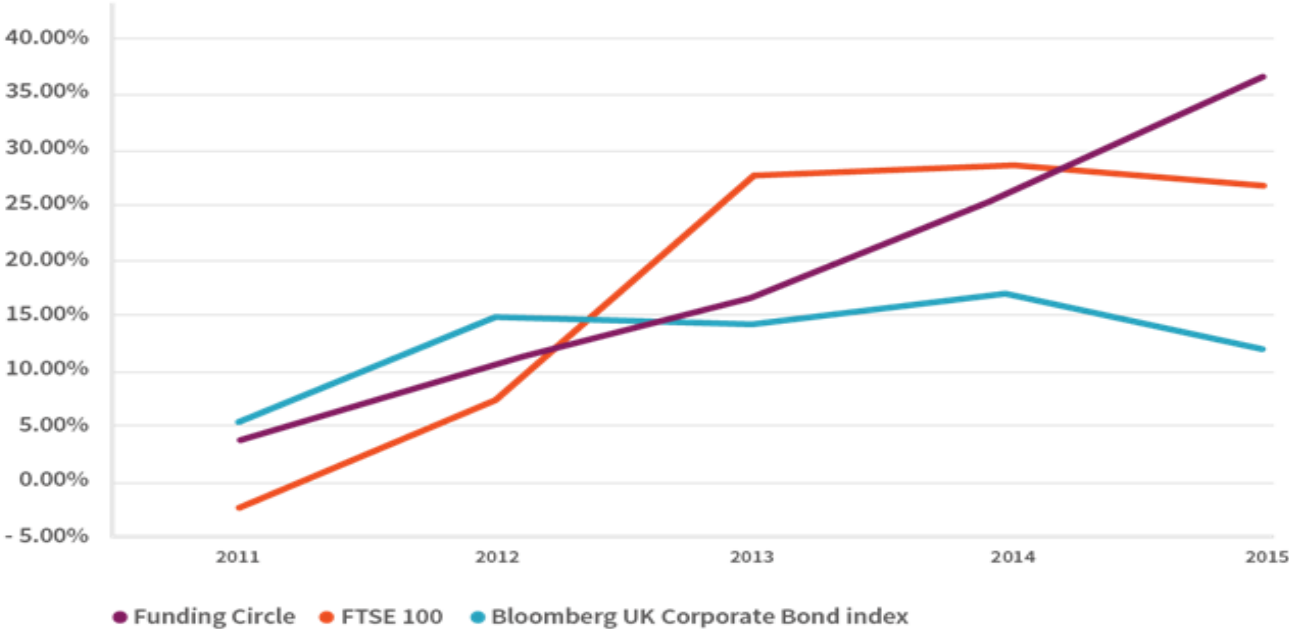
**77% of businesses would approach Funding Circle first in the future vs. their bank<sup>4</sup>**

Source:  
 1 Funding Circle recent data  
 2 Source: Bain & Company – Customer Loyalty in Retail Banking: Global Edition 2014  
 3 Data for UK only; Source: Funding Circle Limited  
 4 According to NESTA: Banking on Each Other – peer-to-peer lending to businesses: evidence from Funding Circle (Apr 2013); data refers to UK operations

# Funding Circle Creates Superior Risk Adjusted Returns for Investors

Funding Circle loans have outperformed the FTSE 100 and Bloomberg UK Corporate Bond Index in the last 5 years

Cumulative returns between 2011 and 2015



Source: <https://www.fundingcircle.com/blog/tag/ifisa/>

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# Introduction to Funding Circle SME Income Fund (FCIF)

- **£150m** IPO (November 2015) was the beginning of a placement programme which is intended to grow in line with Funding Circle's marketplaces
- **8-9% annual** target<sup>1</sup> NAV total return once capital is fully deployed and levered
- **6-7p per share annual** target<sup>1</sup> dividend<sup>2</sup>, paid quarterly once capital is fully deployed – Intention to **grow the dividend** in line with prevailing market conditions
- **Attractive** potentially below-market financing from a supranational entity
- **0% management or performance fees**<sup>3</sup>
- **Highly diversified** portfolio in place, expected to be substantially invested by the summer

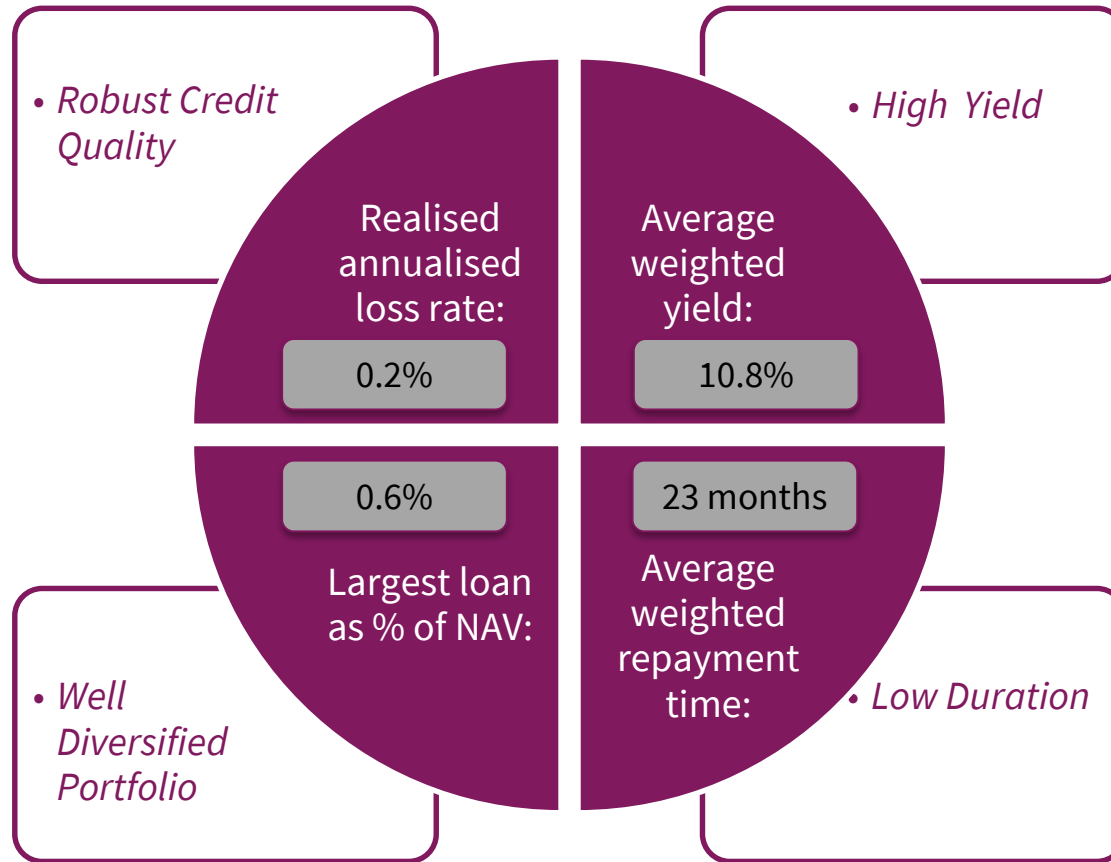
Source: Funding Circle

1. There can be no assurance that references in the Presentation to a target or targets can or will be met and they should not be seen as an indication of expected or actual results. Accordingly, no person should place any reliance on these targets in deciding whether to make an investment or assume that any distributions will be made at all

2. Abbreviated description of dividend policy; target dividend based on the expected net income of the Fund from its lending activities, which itself derives from average historic returns; based on target pay-out ratio of 90% (capital reinvested)

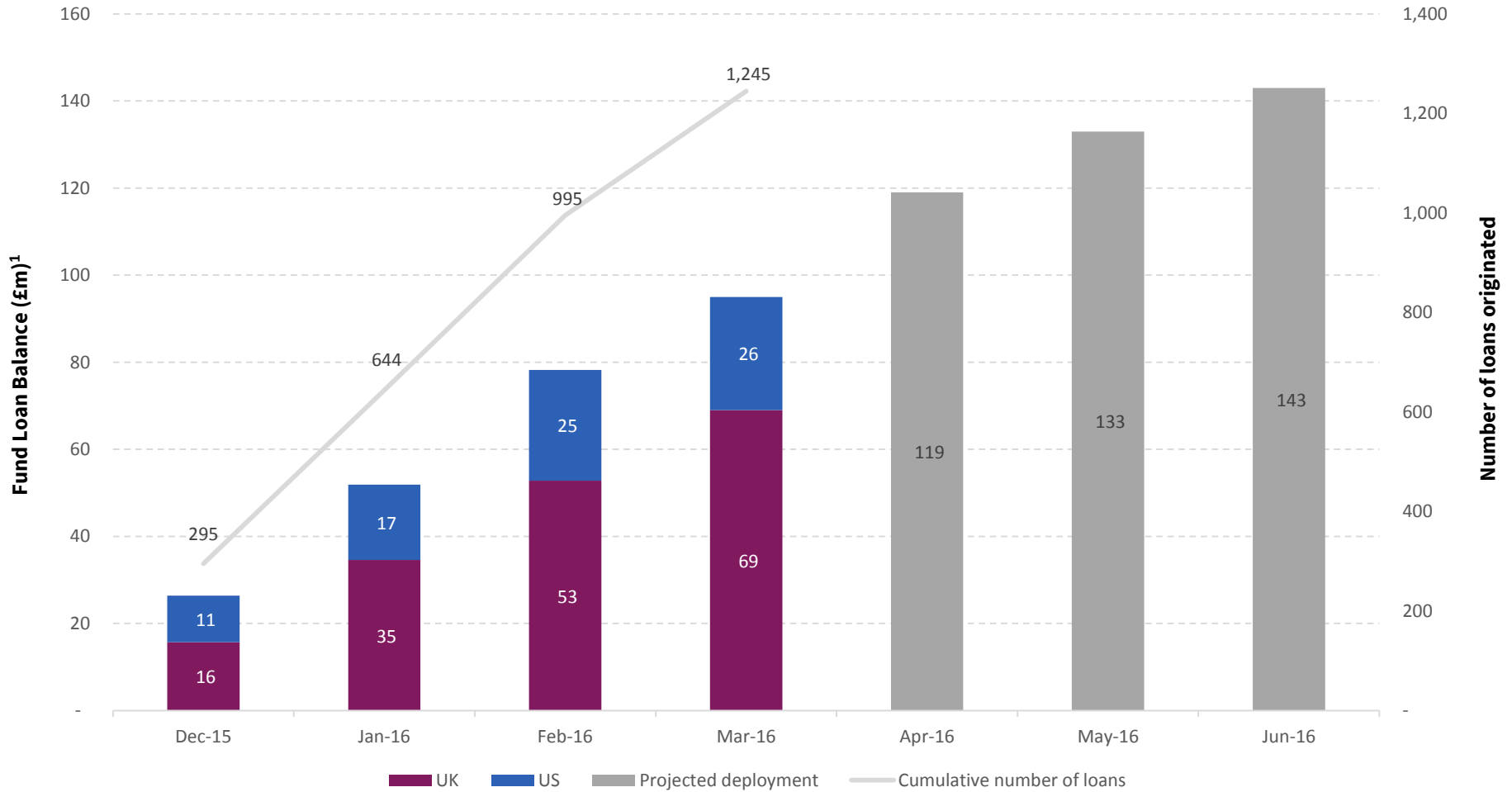
3. Servicing fees will be payable by the company to Funding Circle

# Key Portfolio Data as at 31 March 2016



Source: Funding Circle

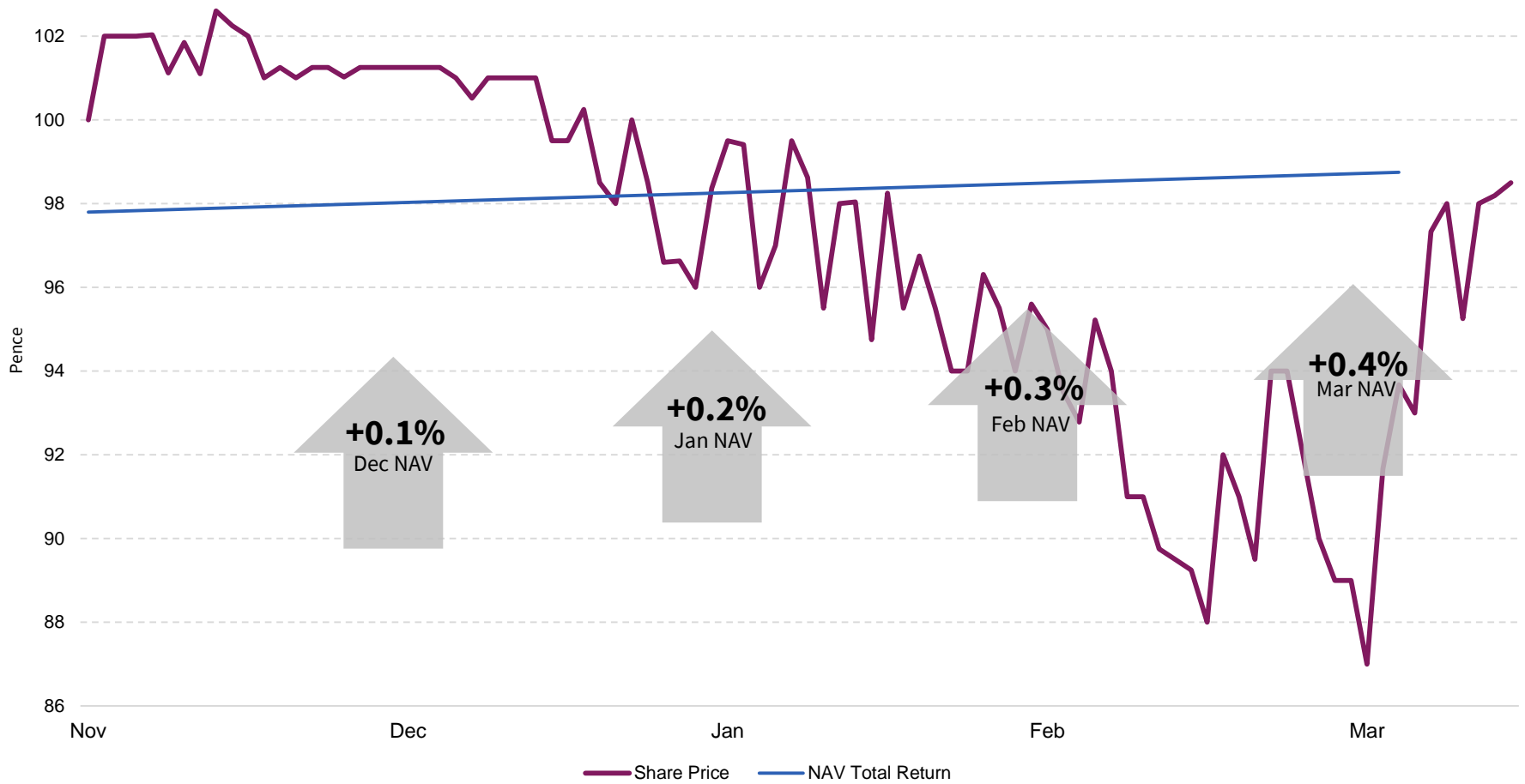
# Fund Deployment



Source: Funding Circle

1. Used GBP/USD FX of 1.42 and GBP/EUR FX of 1.27

# Performance to Date



Source: Funding Circle

# Differentiated and complementary to other listed vehicles



Focus	SME P2P lending	General P2P lending	General P2P lending
Sector <sup>1</sup>	<p>SME 100%</p>	<p>Consumer 81% SME 9% Other 10%</p>	<p>Consumer 70% SME 30%</p>
Region <sup>1</sup>	<p>UK 65% US 30% Europe 5%</p>	<p>US 67% Europe 27% Other 6%</p>	<p>US 79% UK 18% Europe 3%</p>
Management Fee	0% (+ 1% Platform Servicing Fees)	1% of NAV + 15% Performance fee <sup>2</sup> (+ Platform Servicing Fees)	1% of NAV + 15% Performance fee <sup>2</sup> (+ Platform Servicing Fees)
Leverage Policy	0.25x NAV (or up to 0.5x NAV with approval of the Board)	Aggregate leverage not to exceed 1.5x NAV	Aggregate leverage not to exceed 1.5x NAV
Target Annual Dividend Yield	6 – 7%	6 – 8%	8%
Target Total Return	8 – 9% once fully invested and levered	N/A	> 10% once fully invested

Source: Company filings

Note: P2PGI and Victory Park SPL have mandates to acquire equity stakes in P2P platforms

1. As per latest reported monthly factsheets (as of February 2016). Target allocations for Funding Circle.

2. Subject to the High Water Mark with no hurdle rate



# EIB Have Already Announced Their Support...



**EIBtheEUBank** @EIB · 28 Sep 2015  
UK companies set to benefit from EIB backing peer-to-peer lending  
[@FundingCircleUK #SMEs #EFSI on.ft.com/1OBVb10](#)



**Funding Circle UK** @FundingCircleUK · 28 Sep 2015  
EIB is stepping up support for SMEs and is looking to the Funding Circle marketplace. Find out more [@FinancialTimes on.ft.com/1LgxZi6](#)

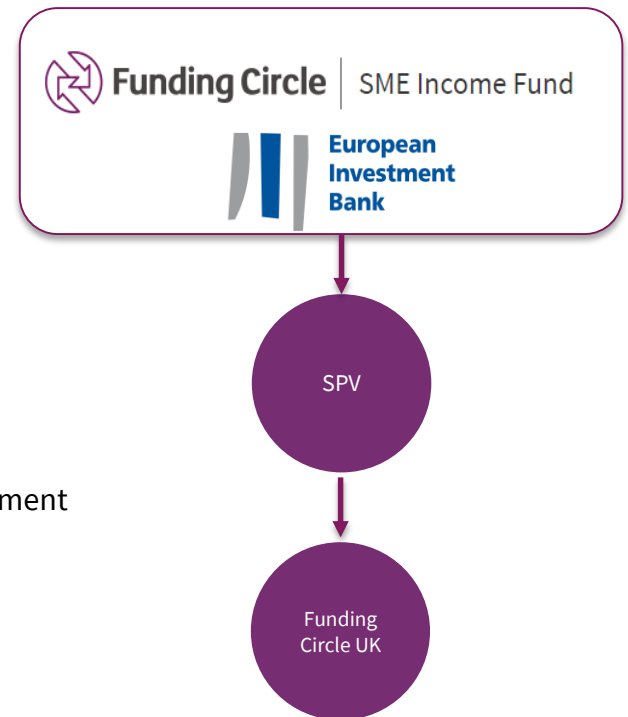
**£125m total facility** involving £100m investment from the EIB and £25m investment from the Fund

**SPV structure**, with 7 year final maturity including 2 year re-investment period

**Collateral** originated through Funding Circle UK platform

**Approved by EIB Board** in December'15 (subject to final credit approvals before closing)

**H1 2016** expected transaction close



# Board of Directors of Funding Circle SME Income Fund

Independent	 <p><b>Richard Boleat</b> <i>Chairman of the Board</i></p>	<ul style="list-style-type: none"> <li>• Chairman of CVC Credit Partners European Opportunities since Jun-2013, and of Yatra Capital for 5 years</li> <li>• Specialises in hedge, private equity, corporate credit and real estate funds, SPVs and investment management groups</li> <li>• Licensed and regulated by the Jersey Financial Services Commission, and a Fellow of the Institute of Chartered Accountants in England &amp; Wales</li> </ul>
	 <p><b>Jon Bridel</b></p>	<ul style="list-style-type: none"> <li>• Non-executive director of a number of listed funds including Alcentra European Floating Rate Income Fund Limited, The Renewables Infrastructure Group Limited, Sequoia Economic Infrastructure Income Fund Limited and Starwood European Real Estate Finance Limited which are listed on the main market of the LSE</li> <li>• Previously Managing Director of Royal Bank of Canada's investment businesses in the Channel Islands</li> <li>• Chartered Accountant with extensive international credit experience and headed up SME Lending at CBA, South Australia</li> </ul>
	 <p><b>Richard Burwood</b></p>	<ul style="list-style-type: none"> <li>• Non-Executive Director of the RoundShield Fund (European asset-backed special opportunities fund providing financing to small and mid-cap businesses) since Jan-2014 and the TwentyFour Income Fund (UK and European asset-backed fund) since Jan-2013</li> <li>• Was previously investment manager at Man Fund Management (Guernsey) and Executive Direction and Portfolio Manager at EFG Financial Products Guernsey</li> </ul>
	 <p><b>Fred Hervouet</b></p>	<ul style="list-style-type: none"> <li>• Non-executive director for a number of hedge funds, private equity &amp; credit funds (including structured debt, distressed debt and asset backed securities), for both listed (SFM on LSE, Euronext) and unlisted vehicles</li> <li>• Managing Director and Head of Commodity Derivatives Asia for BNP Paribas including Trading, Structuring and Sales until Sep-2013, and prior to that was involved in two multi-billion multi- strategy hedge funds</li> <li>• Member of the UK Institute of Directors, a member of the Guernsey Chamber of Commerce and a member of the Guernsey Investment Fund Association</li> </ul>
Funding Circle	 <p><b>Samir Desai</b> <i>CEO &amp; Co-Founder</i></p>	<ul style="list-style-type: none"> <li>• Global CEO and co-founder of Funding Circle</li> <li>• Prior to founding Funding Circle was an Executive at Olivant, a private equity investor in financial services businesses in Europe, the Middle East and Asia</li> <li>• Prior to this, Samir was a management consultant at BCG advising a number of major UK and global banks and insurers on strategy, new product initiatives, and operational efficiency</li> </ul>

Source: Funding Circle

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# Funding Circle Helps Fund Creditworthy Businesses



	Typical UK	Typical US	Typical CE
<b>Av. Loan size</b>	c.£60k (min: £5k – max: £1m) <sup>1</sup>	c.\$137k (min: \$25k – max: \$500k)	€65k (min: €10k – max: €250k)
<b>Median turnover</b>	c.£475k (min: £50k)	c.\$1.7m	€630k (min: € 100k)
<b>Av. # years trading</b>	c.10 (min: 2)	c.10 (min: 2)	13 (min: 2)
<b>Interest rate range</b>	6 – 18.2%	5.49 – 27.79%	3.79 – 21.78%
<b>Average duration</b>	c.45 months (min: 6 – max: 60 months)	c.40 months (min: 12 – max: 60)	34 months (min: 6 – max: 60 months)
<b>Security</b>	Unsecured/secured, with personal guarantee <sup>2</sup>	Secured, with personal guarantee	Unsecured with personal guarantee

Source: Funding Circle

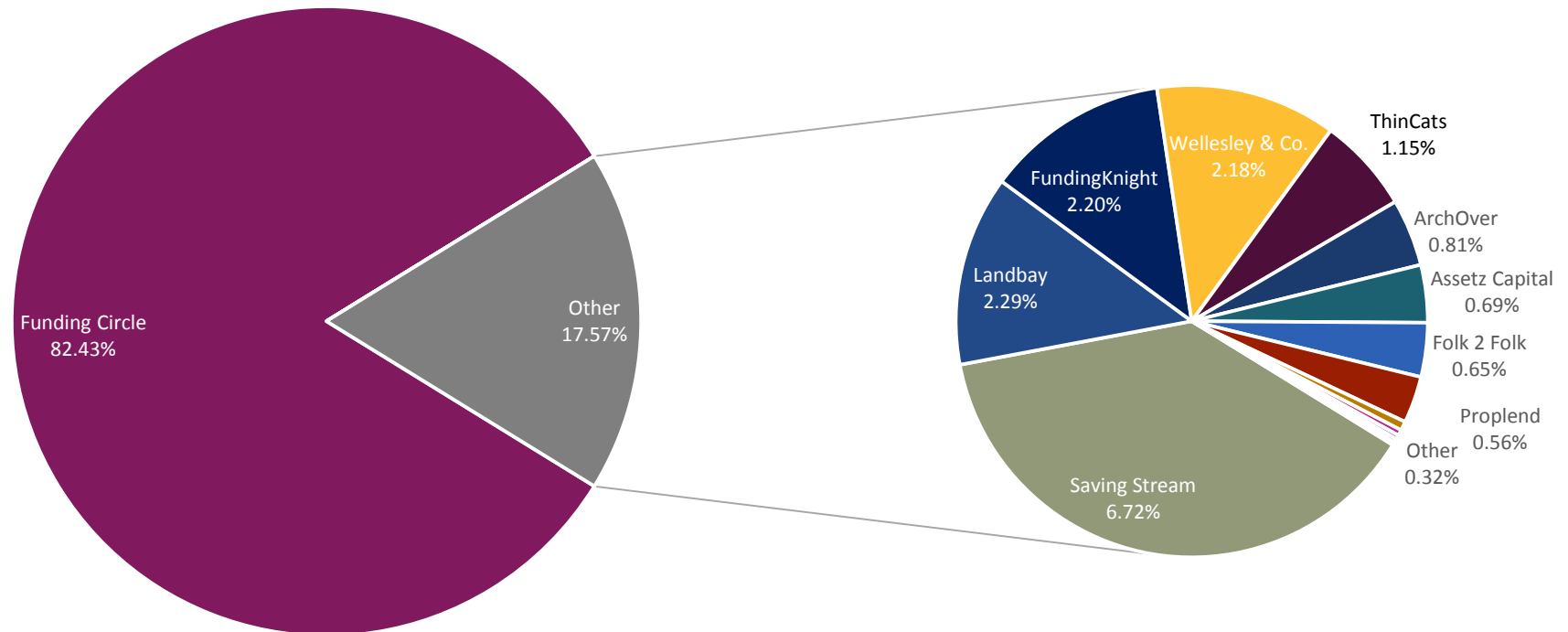
Note: Figures based on Loans Originated from January 2014 to June 2015 (UK), February 2013 to June 2015 (US) and since inception (CE)

1. Minimum size for non-limited businesses is £25,020 and maximum for property loans is £3m

2. Personal guarantees are generally required on secured and property development banks, with guarantees not generally required for commercial or investment mortgages

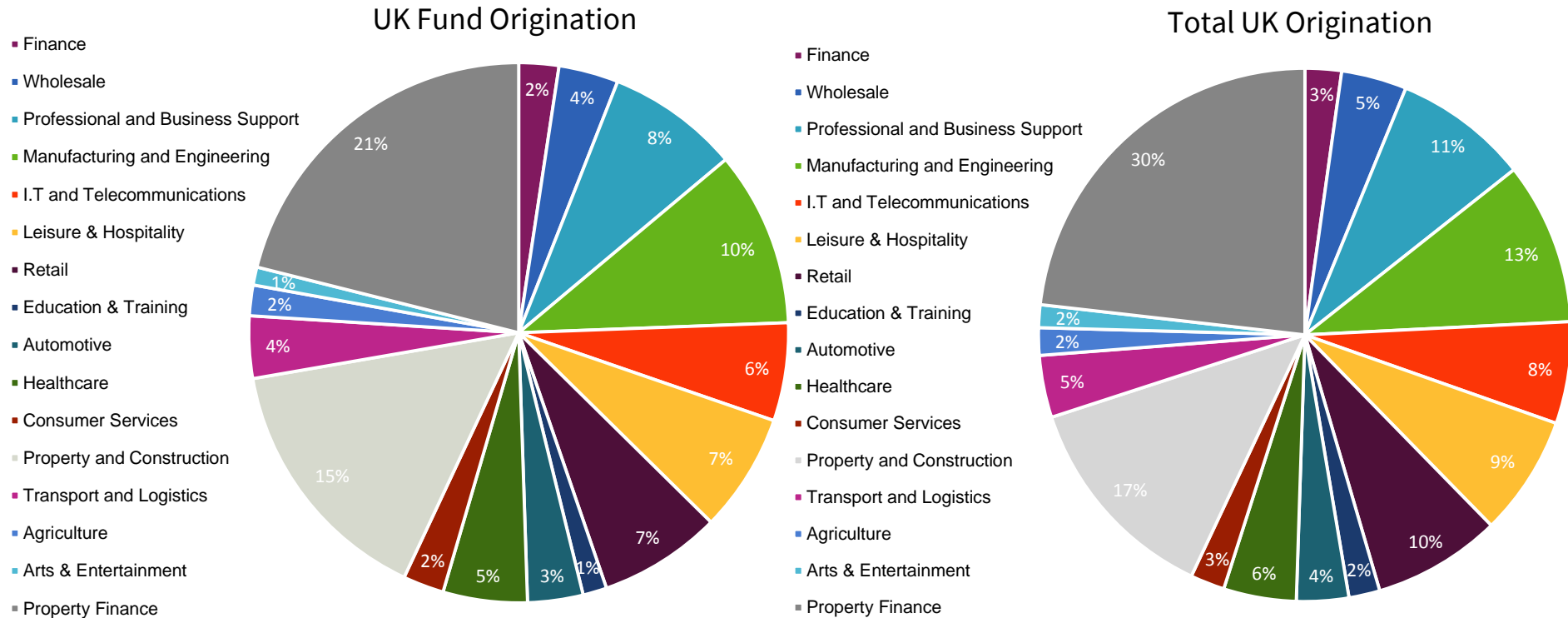
# The Largest Alternative Business Lending Platform in the UK

Relative market share (cumulative volume of loans originated to SMEs by leading alternative business lending platforms)



Source: <http://www.altfi.com/data/indices/UKvolume>; time period: from inception until 22 February 2016, excludes loans originated by Lendinvest and Wellesley as these are purely property related and therefore not an appropriate comparable

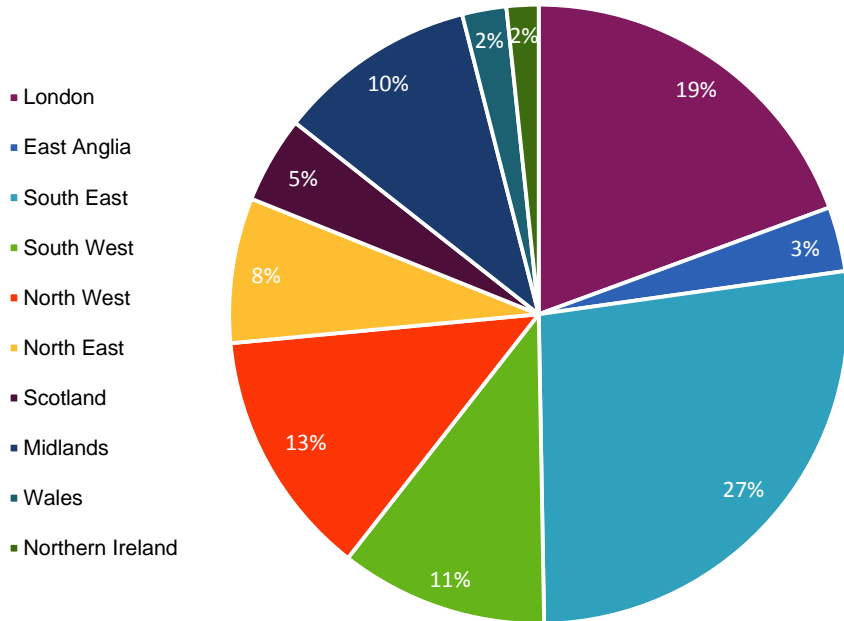
# UK Fund Data vs Total UK Platform Origination: Industry Sector - 03/12/2015 – 31/03/2016



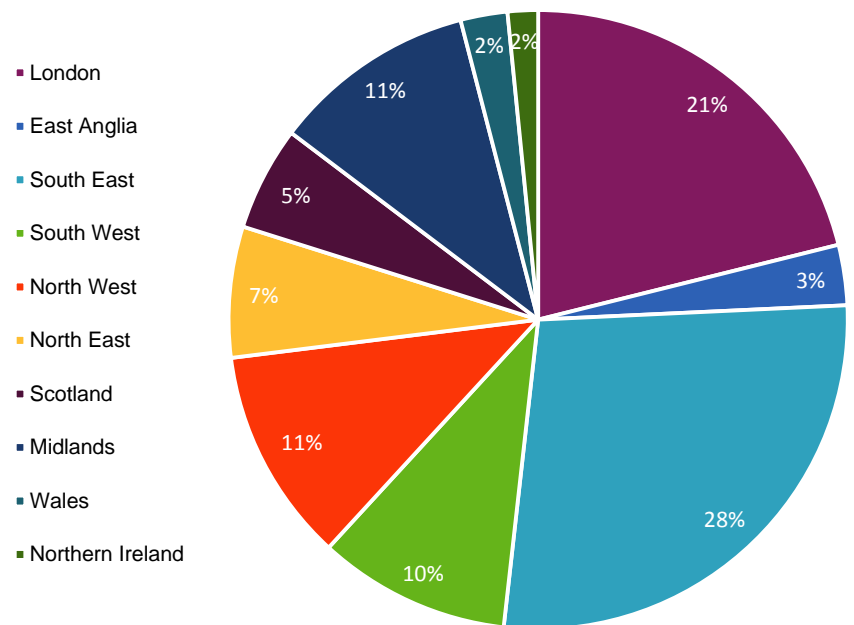
Source: Funding Circle

# UK Fund Data vs Total UK Platform Origination: Region - 03/12/2015 – 31/03/2016

## UK Fund Origination



## Total UK Origination



Source: Funding Circle

# US Competitive Landscape for Loans to Small Businesses<sup>1</sup>



Specialty Finance

Banks

	Product	Speed	Rate	Security	Focus	Fees
Funding Circle	Term loan	Less than 1 Week	5.49% - 27.79%	Secured	100% SME	1.49% - 4.99%
LendingClub	Term loan	Less Than 1 Week	5.00% - 30.00%	Secured/ Unsecured	Consumer + SME	1.1% - 5%
OnDeck	Working capital financing	Less Than 1 Week	19.99% - 50%+	Secured/ Unsecured	SME	Over 10%
Kabbage	Working capital financing	Less Than 1 Week	20% - 90%	Unsecured	Consumer + SME	High
IOU Central	Merchant cash advance	Less Than 1 Week	High Rate	Unsecured	SME	High
CAN CAPITAL	Merchant cash advance	Less Than 1 Week	High Rate	Unsecured	SME	High
Specialty Finance	Various	3 to 6 Months	Low Rate	Secured	Mixed	High
Banks	Various	3 to 6 Months	Lowest Rate	Secured	Mixed	1% - 4%

Source: Funding Circle

1. Indicative financing terms for specific companies sourced from publicly available information on those, companies websites. Indicative financing terms for specialty finance providers and banks based on terms customary but not always available at those institutions.



# Funding Circle, Lending Club & Prosper have formed the first marketplace lending trade association

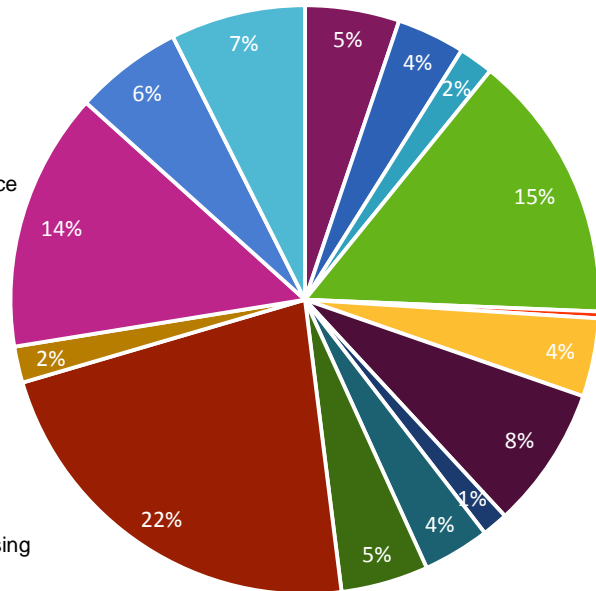


- This month, Funding Circle, Lending Club & Prosper announced the formation of the **Marketplace Lending Association (MLA)** as the founding members.
- To support the responsible growth of marketplace lending, the MLA has established the **Marketplace Lending Operating Standards**, a code of business conduct addressing **investor transparency, responsible lending, governance and controls**, and **risk management**.
- The MLA also plans to educate policymakers and other stakeholders to inform sound policy development that supports the **prudent growth of the marketplace lending industry, as it expands access to affordable credit**.

# US Fund Data vs Total US Platform Origination: Industry Sector 03/12/2015 – 31/03/2016

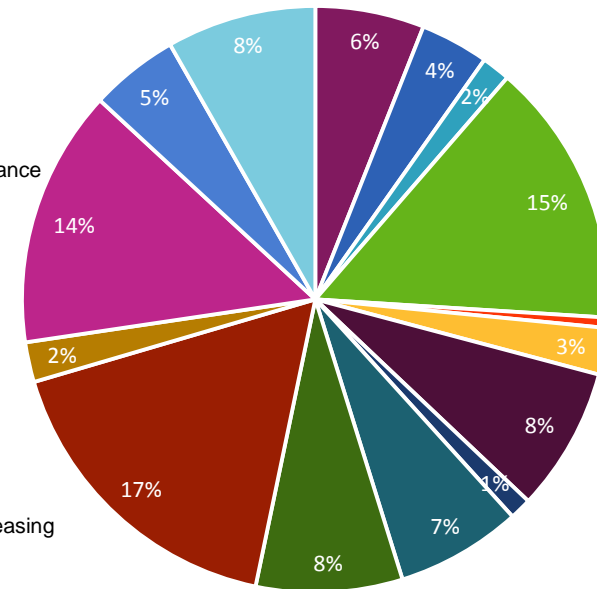
- Accommodation and Food Services
- Administrative and Support
- Arts, Entertainment, and Recreation
- Construction
- Educational Services
- Finance and Insurance
- Health Care and Social Assistance
- Information
- Manufacturing
- Other Services (except Public Administration)
- Professional, Scientific, and Technical Services
- Real Estate and Rental and Leasing
- Retail Trade
- Transportation and Warehousing
- Wholesale Trade

US Fund Origination



- Accommodation and Food Services
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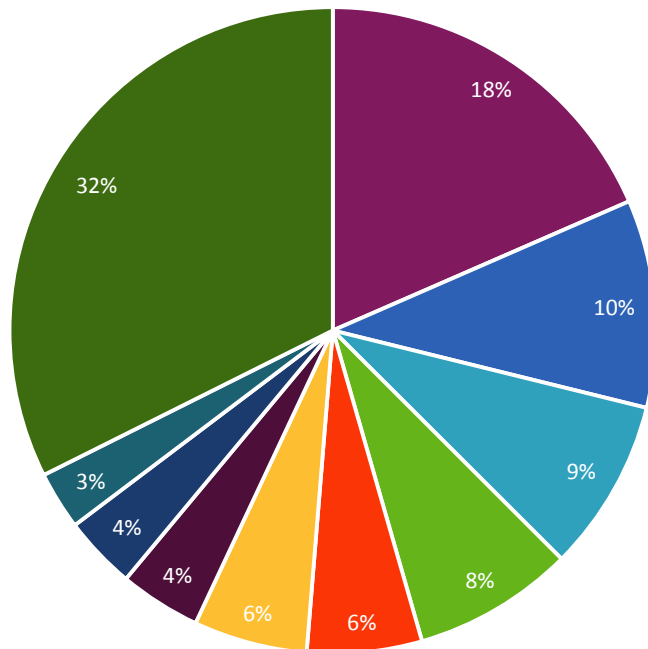
Total US Origination



Source: Funding Circle

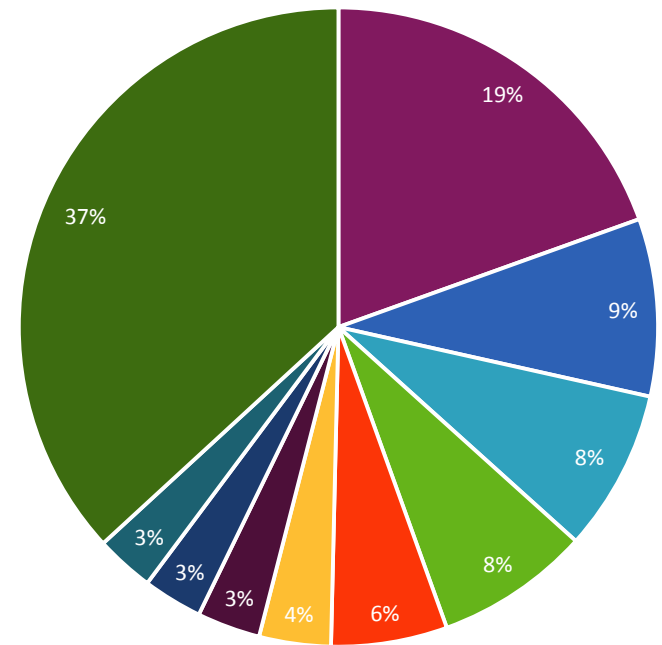
# US Fund Data vs Total US Platform Origination: Region 03/12/2015 – 31/03/2016

US Fund origination (Top 10 States)



- California
- New York
- Florida
- Texas
- New Jersey
- Illinois
- Georgia
- Washington
- North Carolina
- Other

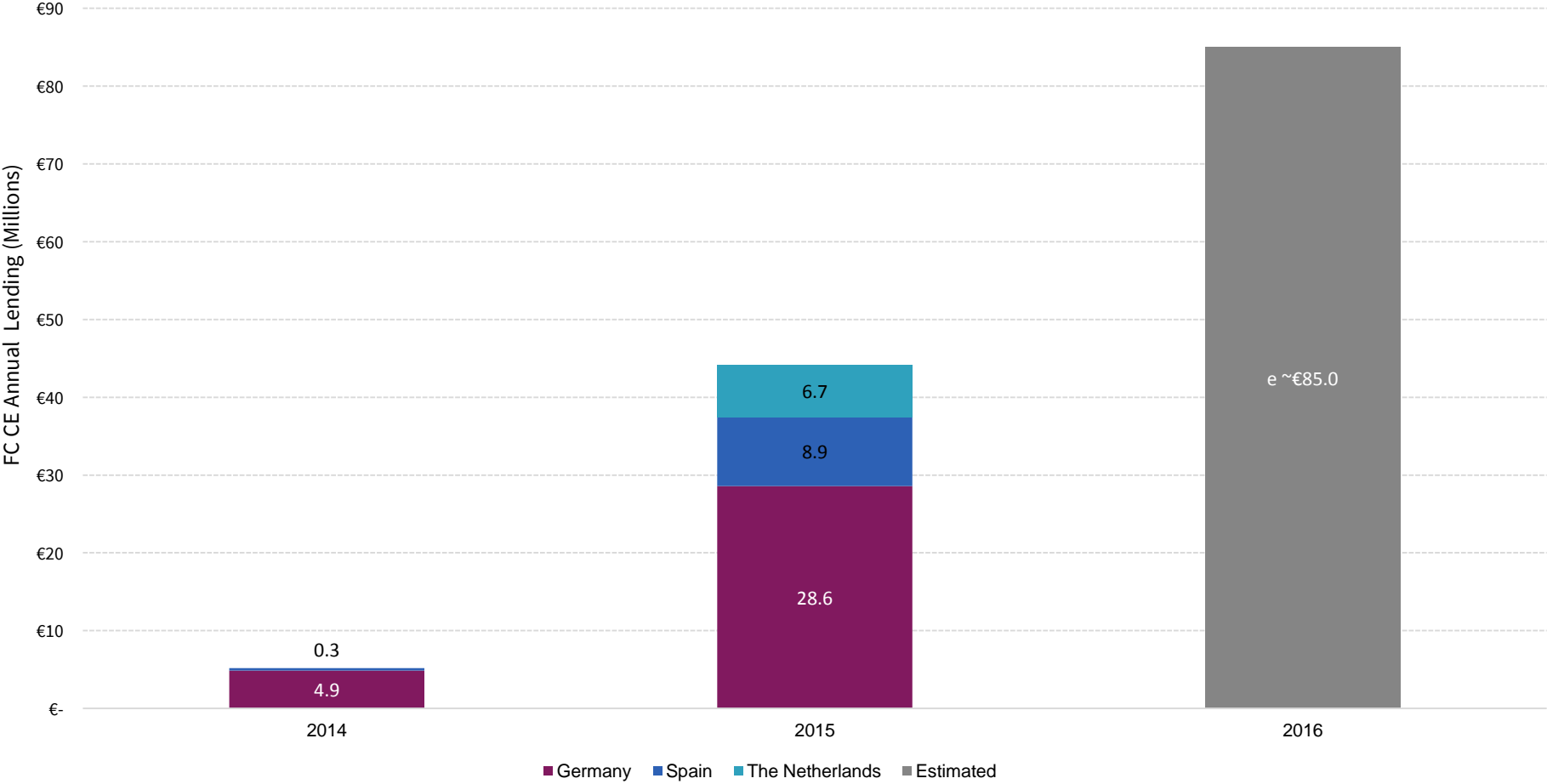
Total US origination (Top 10 States)



- California
- Florida
- Texas
- New York
- Illinois
- New Jersey
- Colorado
- Maryland
- Georgia
- Other

Source: Funding Circle

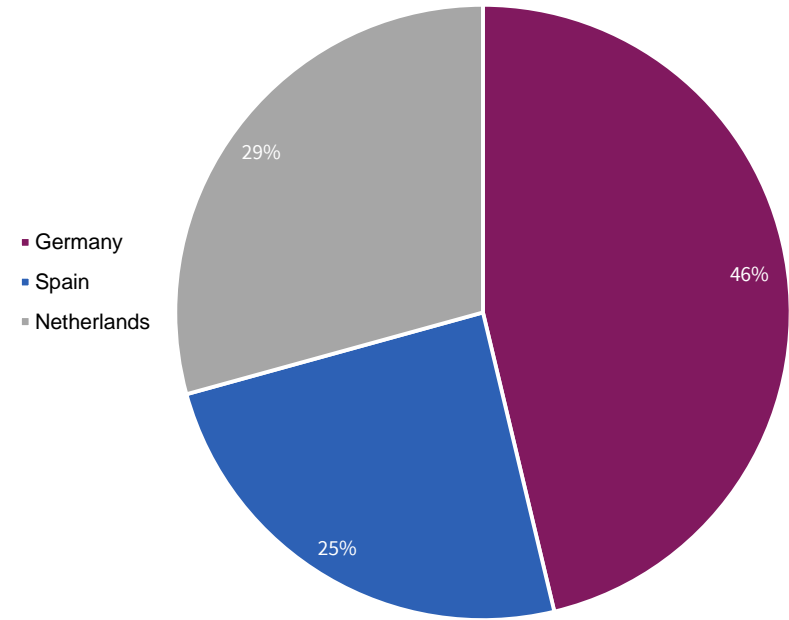
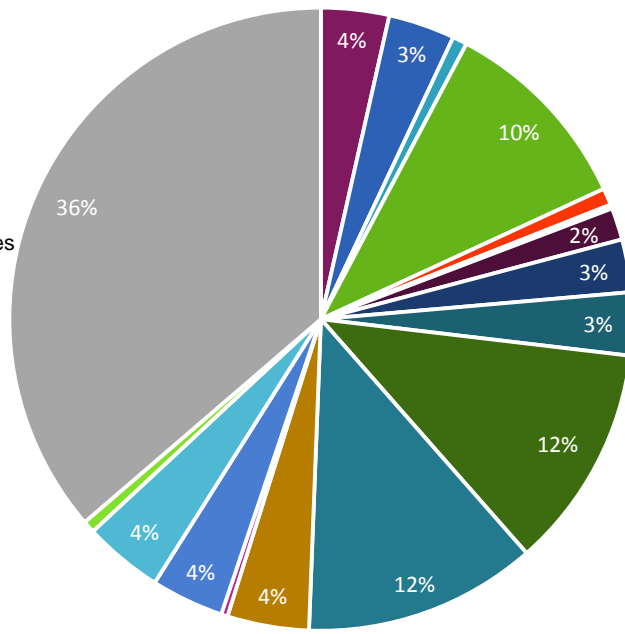
# Funding Circle Continental Europe Growth



Source: Funding Circle

# Total CE Platform Origination: Industry Sector and Country: 01/01/2016 – 31/03/2016

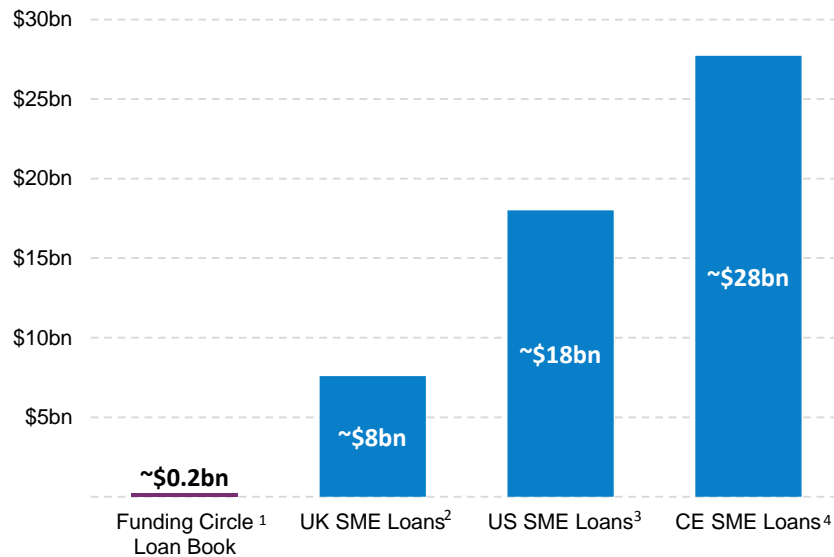
- Accommodation and food service activities
- Agriculture, forestry and fishing
- Arts, entertainment and recreation
- Construction
- Education
- Electricity, gas, steam and air conditioning supply
- Financial and insurance activities
- Human health and social work activities
- Information and communication
- Manufacturing
- Other services activities
- Professional, scientific and technical activities
- Real estate activities
- Rental and leasing activities
- Transporting and storage
- Water supply, sewerage, waste management and remediation activities
- Wholesale and retail trade, repair of motor vehicles and motorcycles



Source: Funding Circle

# Large Addressable Market Ripe for Disruption

## Large Addressable Market in all Geographies



- Credit tightening and regulatory changes have restricted supply of bank funding to SMEs
- Bank process is typically long (up to 2 months in the US, 4 months in the UK)

Source: Funding Circle

1. Funding Circle, Q4 '15 global originations

2. FFIEC CRA National Aggregate Reports

3. Bank of England Bank stats

4. ECB Statistical Warehouse

5. <http://www.economist.com/news/finance-and-economics/21612251-small-businesses-look-alternatives-banks-leave-them-lurch-dont-bank?fsrc=scn/tw/te/pe/dontbankonthebanks>

The Economist

## Traditional banks retreat from the segment



Bank lending in the EU decreased significantly  
“(…) new bank lending to small firms in the euro area plummeted 35% between 2008 and 2013<sup>5</sup>”

SMEs are hit hard, especially in peripheral economies

“Around 99% of all non-financial companies in the EU are SMEs<sup>5</sup>. (...) They (...) have suffered acutely as [bank lending has] shriveled during the euro crisis”

# Contents

- 1 Funding Circle
- 2 Funding Circle SME Income Fund
- 3 UK, US and CE Overview
- 4 Risk Management

# An Experienced Global Risk & Analytics Team



**Jerome Le Luel**  
*Global Chief Risk Officer*

- 20 years experience in risk management and credit analytics
- Prior: Global Head of Risk Analytics at Barclays and Chief Risk Officer at Barclaycard, Head of credit and analytics at Capital One
- Areas of focus: oversight of global risk functions and business analytics

## Business Aligned Risk Management



**Rahul Pakrashi**  
*UK Chief Risk Officer*

- 14 years experience in credit risk management
- Prior: HSBC, American Express, Morgan Stanley, Discover Financial Services, and Oliver Wyman
- Area of focus: UK portfolio risk management



**Manpreet Dhot**  
*US Chief Risk Officer*

- 15 years experience in credit risk management
- Prior: Chief Credit Officer - Amex PR & IDC, Director - Amex Small Business Modelling, Director - Amex Collections Modelling & Analytics
- Area of focus: US portfolio risk management



**Torsten Nahm**  
*CE Chief Risk Officer*

- 9 years experience in credit risk management
- Prior: Commerzbank, Allianz, KPMG, Oliver Wyman
- Area of focus: Continental Europe portfolios risk management

## Global Support Teams



**Kevin Houghton**  
*Global Head of Credit Quality*

- 19 years experience SME credit underwriting and risk management. First Funding Circle employee.
- Prior: Ascent Finance
- Areas of focus: oversight of manual underwriting credit quality, policy and procedures



**Rosaline Laverley**  
*Global Head of Enterprise Risk*

- 13 years experience operational risk management, financial crime and risk governance
- Prior: Bank of America, Morgan Stanley, IBM
- Areas of focus: oversight of enterprise risk governance, and second line of defence for operational risk and financial crime



**Vipul Chhabra**  
*Global Head of Customer Analytics*

- 15 years experience in risk & analytics
- Head of Marketing Analytics, Barclaycard UK, Capital One, Citigroup
- Areas of focus: marketing and pricing optimisation, reporting, capital market analytics

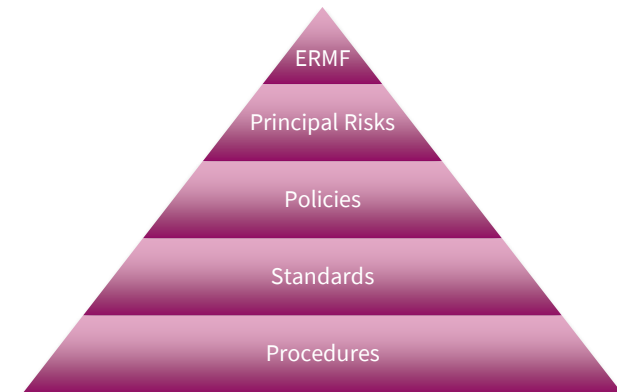


# Funding Circle Risk Management Approach

The Enterprise Risk Management Framework ('ERMF') approved by the Board defines a common approach to risk management, with clarity on the 'what' and the 'how', which will be supported by everybody across the company.

The objective is to deliver a strong control environment with the following characteristics:

1. Strong tone from the top and a culture supporting the management of controls
2. Clear individual accountability and responsibility for the management of controls
3. Key processes clearly understood and material risks identified and assessed
4. Risk appetite is established for the variable outcomes in these risks
5. Comprehensive controls are established and operated to remain within risk appetite.
6. Controls are smartly designed and automated to be both effective and efficient.
7. Any issues or events outside of risk appetite are identified and escalated
8. Programmes for the remediation of control gaps are established and implemented
9. A feedback loop of 'lessons learned' is used to continually improve controls
10. Assurance is provided on the reliability of control solutions



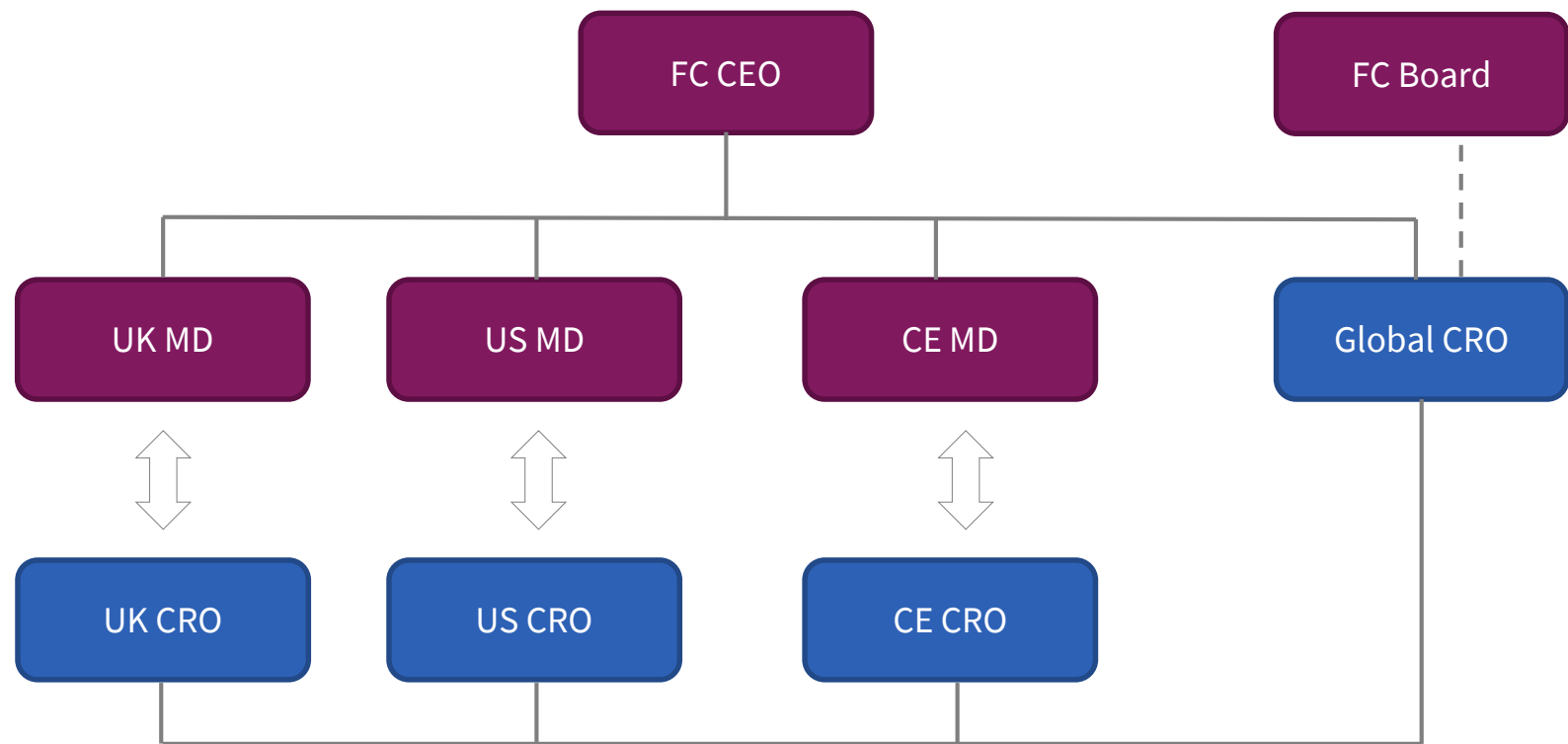
A clear policy hierarchy is created to connect each control procedure to the ERMF principles

# Funding Circle Risk Appetite

Principal Risks	Risk Appetite Statement
Strategic Risk	Funding Circle will make efficient use of its available resources to build a sustainable, diversified and profitable business that can successfully adapt to environment changes
Reputation & Conduct Risk	Funding Circle will not engage in activities that detract from its goal of being a trusted and reputable financial services company with products, services and processes designed for customer success and delivered in a way that will not cause customer detriment or regulatory censure
Operational Risk	Funding Circle will operate well managed processes with reliable performance and effective controls preventing significant and non-anticipated operational risk losses
Credit Risk Management	Although Funding Circle does not own credit risk, credit risk of loans will be managed on behalf of investors with the utmost care and attention to deliver credit performance in line with expectations

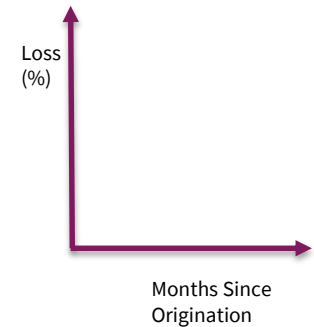
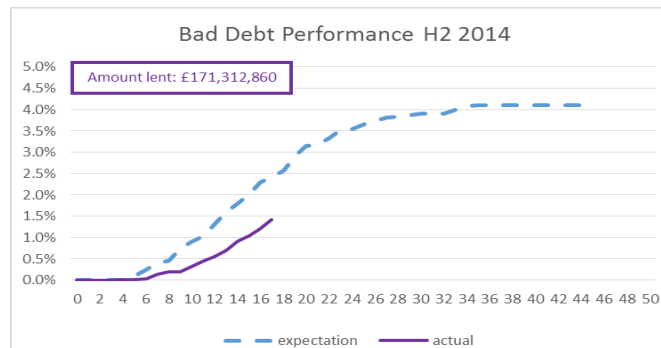
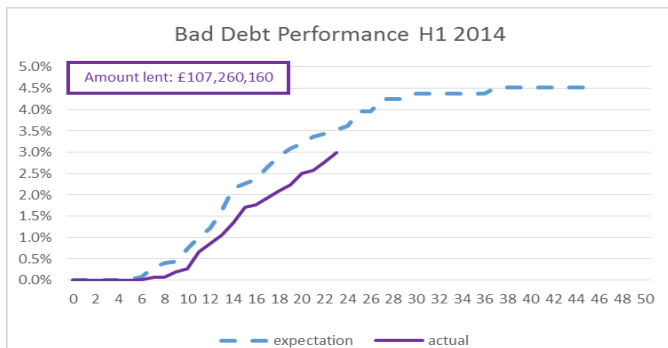
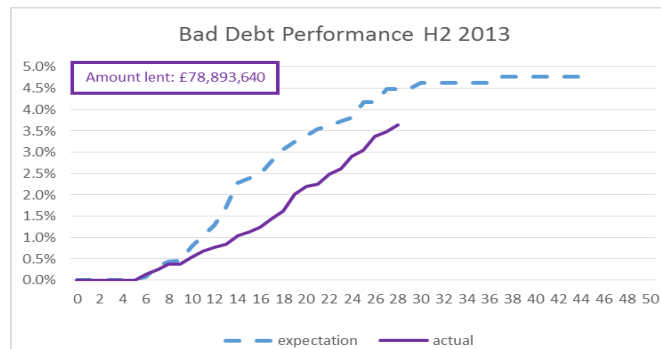
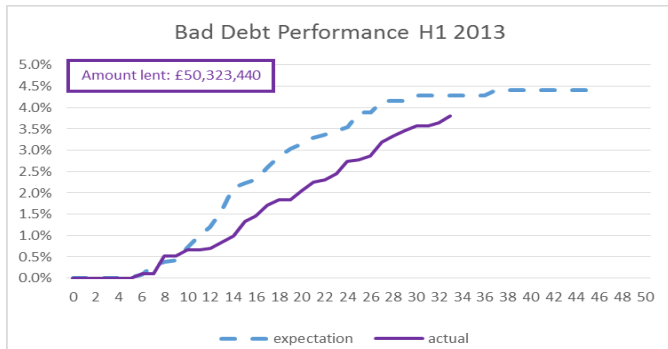
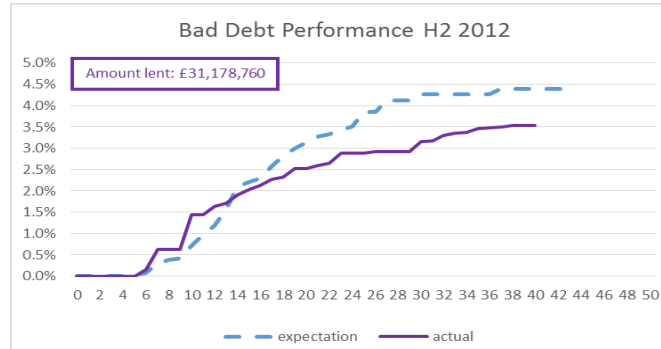
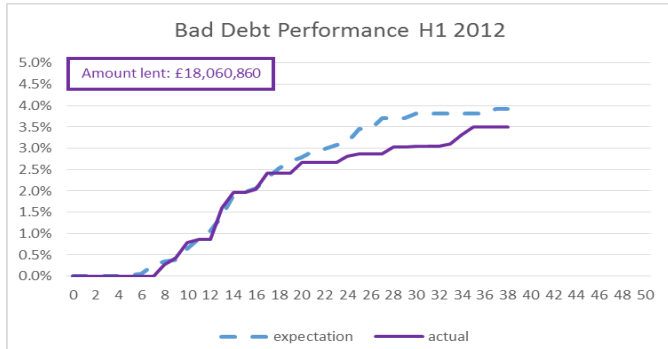
**To achieve our risk appetite, we will embed a risk management process into business decisions at every level of the organization** that enables us to identify and assess those risks, determine the appropriate risk response, and then monitor the effectiveness of the risk response and any change to the risk profile.

# Funding Circle Global Organization Structure Ensures Consistency and Independence of the Risk Function



Source: Funding Circle

# Credit Performance In Line With Expectations



Source: Funding Circle

# Under a Stressed Scenario, Investors May Still Gain Positive Returns of >5%

## Stress Tests Show Positive Returns Even Under PRA Stress Test

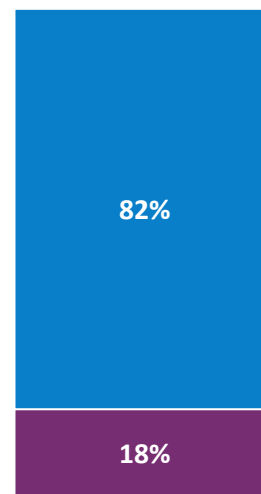
- **UK loan portfolio stress tested by independent third party (Hymans Robertson, December 2014)**
- **The outstanding loan-book (excl. property) as of Aug-2014 was stressed under the same scenario used to stress test bank and building society portfolios**
- Under the Prudential Regulation Authority test losses increased by 65%
- Returns net of fees and expected losses on this portfolio were forecast to fall from 6.7% to 5.6%
- Experian's expectation on a typical UK SME portfolios is that in an economic downturn losses will increase by 50%<sup>1</sup>

### Main macroeconomic variables:

- **GDP: drop by 4% (cumulative)**
- **Interest rate: increase from 0.5% to 4.2%**
- **Inflation: from 1.8% to 6.2%**

## Loss Coverage Ratios of 5-7 Times (Total loans originated in H1 2014)

Entire bar represents gross interest on entire cohort



UK

- Net Interest After Expected Losses
- Expected Losses

Source: Funding Circle

Note: The Prudential Regulation Authority (PRA) is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. Based on lending as of Dec-2014

1. Expectations on a typical UK SME portfolio (according to Experian's data insolvencies of UK SMEs with 6-100 employees increased by 50% in the 08/09 recession)

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