ALVA Disruptive Credit Opportunities Fund

Disruptive Investment Thinking for a Disruptive World

The Fund capitalises on price dislocations across credit markets caused by technological disruption of industries.

Key Features

Strategy
Disruptive Long / Short Credit Fund

Target Return
Double digit per annum over 3-5 years

Fund Structure
Cayman domiciled Segregated Portfolio Company ("SPC")

Fund Manager
ALVA Capital LLP

Commitment Period
12 Months (soft) / 3 Months thereafter

Minimum Commitment
USD 1m / EUR 1m

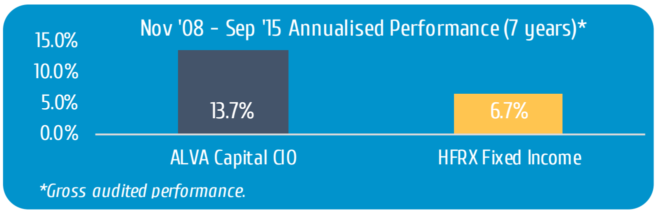
Fund Target Size
USD 500m

Management Fee / Performance Fee / Hurdle Rate
A Class – 1.25% / 15% / 6% *Limited to initial USD 50m
B Class – 1.5% / 20% / 3%

Fund Launched
01 February 2016

Firm

ALVA Capital LLP is a next generation investment manager, specialising in disruptive corporate credit. The two senior partners Alex Vaskevitch (CIO) and Andre Klotz (Research) bring together over 25 years of experience in credit investing and M&A in addition to a strong investment track record.



The inspiration for creating ALVA was the realisation that technological disruption is creating value dislocations in the corporate credit markets resulting in superior investment opportunities.

We bring real business experience to all of our investment decisions and are supported by a board of advisors who bring over 100 years' of blue chip corporate experience (Microsoft, Coca Cola).

ALVA is authorised and regulated by the UK Financial Conduct Authority ("FCA") since 2014.

Philosophy

We specialise in situations of **change** or **transition** where outcomes are less obvious and require a deeper understanding. Our long term view also requires alignment with our investors in risk appetite and commitment period.

We focus on value driven investments that have been deeply researched and fundamentally analysed. Our investment prerequisite is to always seek a superior ratio of expected return versus downside risk, typically 3x. This ensures risk is rewarded appropriately making idiosyncratic investments, not tied to an index or yield target.

When analysing a credit, we will underwrite the business and its assets as a going concern, giving us the ability to take a view on debt coverage and business valuation under several scenarios.

We view risk as potential downside versus the probability of the business reaching fundamental performance targets measured by Key Performance Indicators ("KPIs"). Risk and probabilities will be adjusted each time new information becomes available.

We encourage team work, intellectual honesty, use of logic and debate within the firm. We require transparency before making an investment and provide the same to our investors.

ALVA Disruptive Credit Opportunities Fund ("ADCO")

The ADCO fund's objective is to generate annualised double digit returns over 3–5 years while seeking to minimise risk. The fund invests globally in corporate credit securities taking both long and short positions.

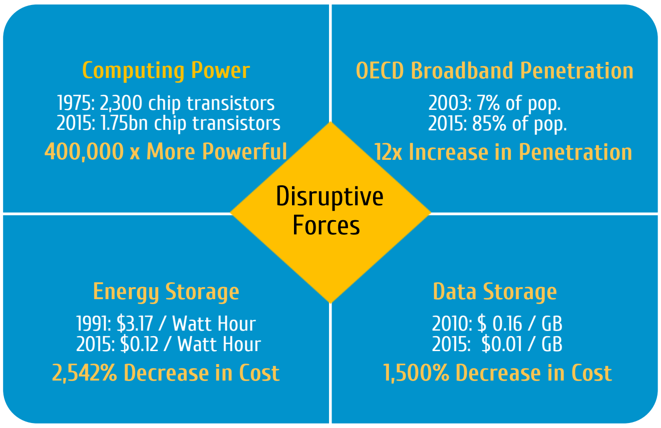
The fund targets value dislocations created in the credit markets resulting from disruption. The fund does not utilise leverage and invests in high conviction deeply researched securities across the capital structure.

We target up to 20 positions and the terms, structure and counterparties have been designed specifically to create the optimal investment vehicle to capitalise on disruptive credit opportunities.

Disruptive Forces

The advancement of technology is accelerating and has proven to be dramatically impacting traditional business models.

The forces behind this disruption (see chart below) provide the basis for the rise of the digital economy and the foundations to the sharing economy.



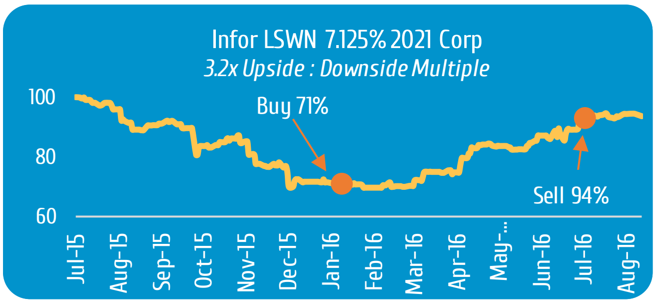
Sources L-R: Intel, OECD report, International Power Sources Conference, IDC.

Credit reprices when investors realise that the old asset heavy business is being replaced with a new nimble digital product or distribution network. Kodak, Blockbuster and RadioShack ("Ostriches") are some prime examples of business that did not respond appropriately and eventually disappeared. Conversely, Companies like Netflix, Amazon and Apple ("Ostridge hunters") have embraced these disruptive forces and have used them to their advantage.

The Opportunity

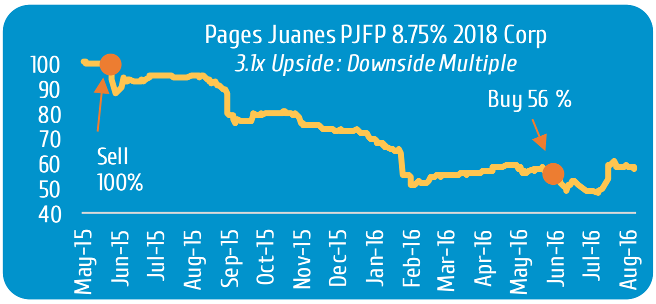
At ALVA we recognise that credit is the optimal asset class to exploit disruptive investment opportunities, both long and short. A typical credit investor base will be searching for yield and be less tolerant to underwriting a business in transition or funding a new digital venture.

Longs: Buying credit at prices between 50c-85c issued by companies that have undergone a disruption but show early signs of a turnaround and improvement in KPIs. While waiting for the KPIs to improve we typically generate a double digit cash yield as well as enjoying downside asset protection.



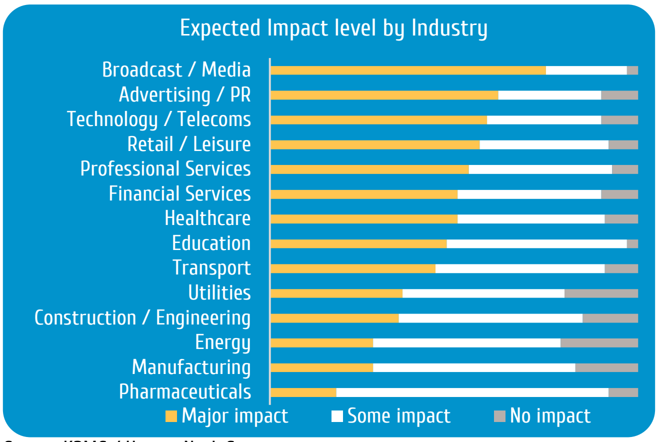
Source: Bloomberg August 2016.

Shorts: Selling credit at prices between 90c-100c issued by companies operating within an industry undergoing a disruption. KPIs indicating a secular decline across the industry impacting the business directly. Credit has a nominal par value which is a cap to our downside. While we wait for the trigger we pay out a coupon but have the potential upside all the way to zero.



Source: Bloomberg August 2016.

In a recent questionnaire conducted by KPMG & Harvey Nash asking 3,691 senior executives across all sectors about the impact of disruption in their sector, the majority openly admit their business is at risk. Over 60% of executives admit their business is currently experiencing disruption or expect a disruption within the next 2 years while 89% expect to lose market share within 10 years.



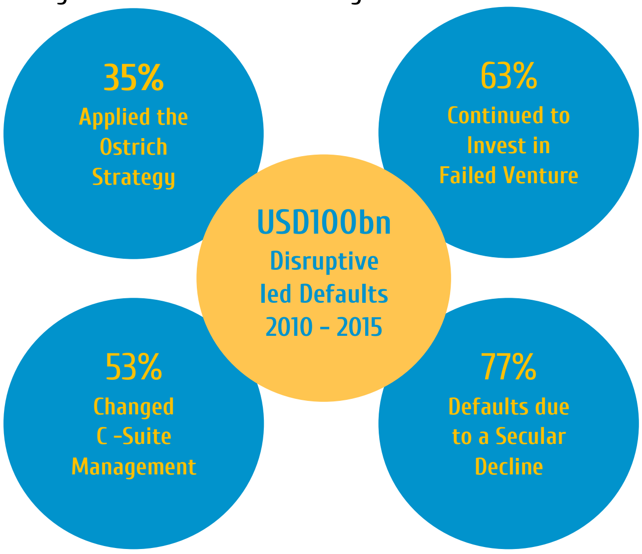
Source: KPMG / Harvey Nash Survey.

ALVA's proprietary research has identified over USD 994 billion of bonds outstanding to be disrupted within 2 years representing the total market opportunity both long and short. In some sectors leverage is high ranging between 1.8x – 6.6x where media and telecom represent over USD 400billion.

Industry	Expected Timing	Bonds Outstanding	Net Leverage
Broadcast / Media	Now	USD 161bn	4.0x
Advertising / PR	Now	USD 17bn	5.8x
Tech / Telecoms	< 2 years	USD 244bn	1.8x
Retail / Leisure	< 2 years	USD 156bn	2.4x
Prof Services	< 2 years	USD 80bn	3.9x
Financial Services	< 2 years	USD 197bn	6.6x
Healthcare	< 2 years	USD 111bn	2.3x
Education	< 2 years	USD 4bn	5.5x
Transport	< 2 years	USD 24bn	3.6x
Utilities	> 2 years	USD 59bn	4.1x
Construction	> 2 years	USD 78bn	3.1x
Energy	> 2 years	USD 221bn	3.0x
Manufacturing	> 2 years	USD 80bn	3.3x
Pharmaceuticals	> 2 years	USD 32bn	0.2x

Source: Company Financials, Bloomberg August 2016, KPMG / Harvey Nash Survey.

Disruptive related corporate bond defaults between 2010 – 2015 represent over USD 100bn of debt across 70 issuers. ALVA research reveals that over 35% of those businesses applied the Ostrich strategy and were too late to respond to industry decline. A further 77% of businesses did try to change but their entire industry had become obsolete.



The most interesting finding is that 63% of the businesses at some point decided to spend money in capex / R&D or acquisitions, further investing into legacy businesses. In some cases, there were multiple attempts of investment that were eventually written off. This is capital that should have been used to pay back bondholders, but given a lack of voting rights they were not involved in decisions impacting their position directly.

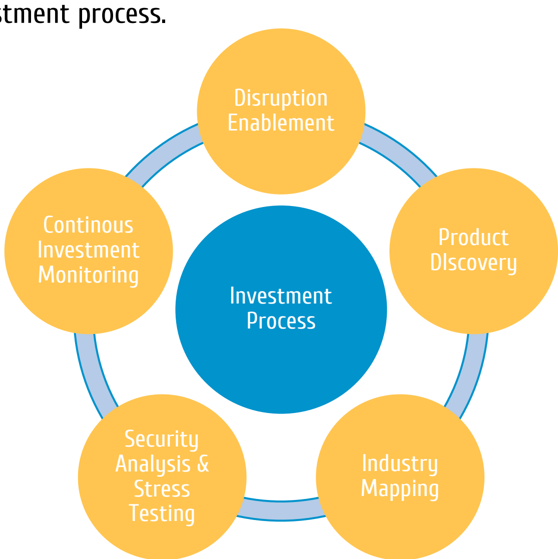
ALVA & Disruption

What makes ALVA capital unique and gives us the ability to exploit credit related disruption is the combination of the following key elements:

- We only search for opportunities arising as a result of change or transition, where the outcomes are less obvious and require deep fundamental understanding of the wider industry as well as credit investing.
- The ALVA investment team has been specifically selected and trained with this opportunity in mind.
- At ALVA we are willing to invest during a transformation cycle taking a view on KPI metrics, cooperating directly with management as well as industry experts through our network.
- We have developed proprietary research models and rely on our internal research in addition to being actively involved in the VC space gaining access to valuable knowledge about future technologies and upcoming products.

Investment Process and Timing

While searching for investment opportunities we follow an investment process that allows us to uncover and fundamentally analyse disruptive related credit opportunities. We have combined the traditional credit & distressed techniques with M&A and more forward thinking VC methodologies to create the Disruptive Credit investment process.



1. **Disruption Enablement:** Newly established technologies or regulation can enable new products or the creation of new platforms. At ALVA we monitor closely the release of cutting edge technology or regulation and asses its impact on traditional industries. At this stage we examine the quality and maturity of the new development as well as timing to impact.
2. **Product Discovery:** We monitor on a regular basis new product launches in infant stages, analysing their quality and potential ability to penetrate mass market. Consumers will not switch to a new product unless its reliable, safe and priced correctly.
3. **Industry Mapping:** Once specific industries have been detected as prone to disruption, we map the value chain and cash flow to assess the specific point where disruption will impact most. This stage is key and requires industry expert support.
4. **Security Analysis:** At this stage we create a list of all outstanding credit securities that are most exposed to a specific disruption and available for investment. Once these securities have been selected we will conduct a fundamental bottom up research and forecast KPIs for target issuers. This process highlights the difference in quality between issuers and identifies both long and the short investments.
5. **Investment Portfolio:** Each investment added to the portfolio should be significant enough to make an impact, but will not exceed 10%, typically ranging between 4-7%. The portfolio will be generating positive cash income and will not have direct exposure to interest rates or general market conditions.

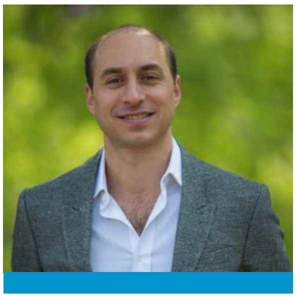
Risk Management

At ALVA risk is considered at the core of every investment decision. We will only invest where our conservative estimates indicate multiple upside versus our downside. Aligning our risk management policies to match the funds strategy we use a combination of target company performance indicators and market prices as our main signals for adding or reducing risk. We monitor the business performance across numerous quarters and make a decision each time new information becomes available.

The Fund invests in creditor friendly jurisdictions and imposes internal limits on exposure to any one industry and disruptive theme to 20% respectively. These parameters are backstopped by ongoing twice daily pricing followed by daily investment committee review.

Hedges are used to reduce tail risk or general market volatility as well as fully hedge currency and interest rate exposure. We limited the size of the fund to USD 500m allowing us to invest only in deeply research high conviction investments, sized appropriately to market supply and trading.

ALVA Senior Team Members



Alexander Vaskevitch

Partner, Chief Investment Officer

T: +44 (0)207 898 3201

E: alex@alvacapital.com

Andre Klotz

Partner, Head of Research

T: +44 (0)207 898 3202

E: andre.klotz@alvacapital.com

Paul Clement

Chief Operating Officer

T: +44 (0)207 898 3204

E: paul.clement@alvacapital.com

Contact us

For further information on this Fund, please contact:

Desmond Lawlor

Investor Relations

T: +44 2078983205

E: ir@alvacapital.com

Address

ALVA Capital

104a Baker Street

W1U 6TN

London

United Kingdom

www.alvacapital.com