

# Capital Four - Strategic Lending Fund K/S

c/o Intertrust (Denmark) ApS  
Sundkrogsgade 21  
DK-2100 Copenhagen

CVR no. 36 90 16 67

## **Annual report for 2023**

Adopted at the annual general  
meeting on 18 April 2024



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Emil Skov  
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 2023.

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 2023 and of the results of the limited partnership's operations for the financial year 1 January - 31 December 2023.

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, 22 March 2024

### **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 January - 31 December 2023, 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 2023 and of the results of the company's operations for the financial year 1 January - 31 December 2023 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' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical 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, in our view, 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 in Management's Review.

Copenhagen, 22 March 2024

EY Godkendt Revisionspartnerselskab  
CVR no. 30 70 02 28

Anders Duedahl-Olesen  
State Authorised Public Accountant  
mne24732

## Company details

**The company** Capital Four - Strategic Lending Fund K/S  
c/o Intertrust (Denmark) ApS  
Sundkrogsgade 21  
DK-2100 Copenhagen

CVR no. 36 90 16 67

Reporting period: 1 January - 31 December 2023  
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  
DK-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**

Although Pan-European transaction volumes in 2023 remained at a lower level compared to 2022, the lower middle market in the Nordics and Northern Europe displayed more resilience. This is in part due to the substitution of banks, who continued to be reluctant to lend and increased their risk-appetite only gradually. However, primary transaction activity was overall retrenched. Buy-and-build activity remained to be the key driver for deal flow, as sponsors are seeking to create additional value before their portfolio companies are being brought to market for exit. Margins have normalized compared to the elevated levels observed in 2022, with opening leverage ratios going down compared to 2022 and deals are structured with solid ICRs.

The investors return (IRR) on investments in 2023 measured since inception, gross of costs and expenses was 7.90% (at cost). TVPI (gross) is at 1.29x. The fund currently holds five holdings, of which three investments are covered by the Distressed Team.

### **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**

No events have occurred after the balance sheet date which could significantly affect the company's financial position.

## Accounting policies

The annual report of Capital Four - Strategic Lending Fund K/S for 2023 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 2023 is presented in TDKK.

### **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.

### **Balance sheet**

#### **Assets**

##### **Fixed asset investments**

Investments in associates consists of investments in unlisted 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 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 comprise 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>2023</u> TDKK	<u>2022</u> TDKK
Profit/loss on investment activities		-2,205	-22,964
Other external expenses		-3,570	-4,589
<b>Ordinary operating profit/loss</b>		<b>-5,775</b>	<b>-27,553</b>
Financial income		346	0
Financial costs		-3	-228
<b>Profit/loss before tax</b>		<b>-5,432</b>	<b>-27,781</b>
Tax on profit/loss for the year		0	0
<b>Profit/loss for the year</b>		<b><u>-5,432</u></b>	<b><u>-27,781</u></b>
 <b>Distribution of profit</b>			
Retained earnings		-5,432	-27,781
		<b><u>-5,432</u></b>	<b><u>-27,781</u></b>
Staff expenses	1		

## Balance sheet 31 December

	<u>Note</u>	<u>2023</u> TDKK	<u>2022</u> TDKK
<b>Assets</b>			
Investments in associates	2	24,458	25,077
Bank loans		<u>324,531</u>	<u>325,078</u>
<b>Fixed asset investments</b>		<u><b>348,989</b></u>	<u><b>350,155</b></u>
<b>Total non-current assets</b>		<u><b>348,989</b></u>	<u><b>350,155</b></u>
Other receivables		<u>3,904</u>	<u>3,741</u>
<b>Receivables</b>		<u><b>3,904</b></u>	<u><b>3,741</b></u>
Other securities and investments		<u>32,794</u>	<u>41,557</u>
<b>Securities</b>		<u><b>32,794</b></u>	<u><b>41,557</b></u>
<b>Cash</b>		<u><b>5,998</b></u>	<u><b>5,834</b></u>
<b>Total current assets</b>		<u><b>42,696</b></u>	<u><b>51,132</b></u>
<b>Total assets</b>		<u><u><b>391,685</b></u></u>	<u><u><b>401,287</b></u></u>

## Balance sheet 31 December

	<u>Note</u>	<u>2023</u> TDKK	<u>2022</u> TDKK
<b>Equity and liabilities</b>			
Share capital		1,000,000	1,000,000
Revaluation reserve		4,904	8,871
Retained earnings		<u>-613,951</u>	<u>-608,519</u>
<b>Equity</b>	<b>3</b>	<b><u>390,953</u></b>	<b><u>400,352</u></b>
Other payables		<u>732</u>	<u>935</u>
<b>Total current liabilities</b>		<b><u>732</u></b>	<b><u>935</u></b>
<b>Total liabilities</b>		<b><u>732</u></b>	<b><u>935</u></b>
<b>Total equity and liabilities</b>		<b><u><u>391,685</u></u></b>	<b><u><u>401,287</u></u></b>
Contingent liabilities	4		
Subsequent events	5		

## Notes

### 1 Staff costs

There are no employees in the limited partnership.

### 2 Investments in associates

	<u>2023</u>	<u>2022</u>
	TDKK	TDKK
Cost at 1 January 2023	17,555	1,434
Additions for the year	3,348	16,207
Disposals for the year	0	-86
Cost at 31 December 2023	<u>20,903</u>	<u>17,555</u>
Revaluations at 1 January 2023	7,522	-1,434
Disposals for the year	0	86
Revaluations for the year, net	-3,967	8,871
Write-downs of investments for the year	0	-1
Revaluations at 31 December 2023	<u>3,555</u>	<u>7,522</u>
<b>Carrying amount at 31 December 2023</b>	<b><u>24,458</u></b>	<b><u>25,077</u></b>

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 PayPerWash International ApS and furthermore a multiple model for Isadora Holding I 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 (100% TDKK)	Profit/loss for the year (100% TDKK)
PayPerWash International ApS	Jyllinge	37%	-3,388	-1,879
Isadora Holding I AB	Malmö	50%	83,899	233,696

### 3 Limited partners' capital

	Share capital TDKK	Revaluation Reserve TDKK	Retained earnings TDKK	Total TDKK
Equity at 1 January 2023	1,000,000	8,871	-608,519	400,352
Revaluation for the year	0	-3,967	0	-3,967
Net profit/loss for the year	0	0	-5,432	-5,432
<b>Equity at 31 December 2023</b>	<b>1,000,000</b>	<b>4,904</b>	<b>-613,951</b>	<b>390,953</b>

The limited partnership's capital is divided into limited partnership interest of DKK 1 of a nominal value of TDKK 1.

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 TDKK 15,938 for further investment in the company.

### 5 Subsequent events

On March 21 2024 the Limited Partnership obtained approval from the Danish Financial Supervisory Authority for the enforcement of a share pledge and the subsequent take-over of a portfolio company as a result of a restructuring.

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## Søren Søgaard

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## Niels Christian Wedell-Wedellsborg

Chairman  
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## Anders Duedahl-Olesen

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