

Q4 2022

INVESTOR PRESENTATION



# DELGATTO

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## DIAMOND FINANCE FUND

STRICTLY CONFIDENTIAL

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# DISCLAIMER

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Securities transactions are effected through Galaxy Digital Advisors LLC, a member of FINRA and SIPC.

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## INTRODUCTION

The Del Gatto Diamond Finance Fund (DDFF), is the leading non-bank lender to the midstream sector of the global diamond & jewelry industry.

“A key, persistent challenge facing the diamond industry [is] the financial stability of the midstream segment of the value chain. The most effective players have robust businesses, but the segment at large still needs to address chronic constraints. Chief among them are securing access to financing...”

- Bain & Company

December 2017<sup>1</sup>

"Since 2017 commercial banks have further pulled an additional \$5B from the global diamond sector."

### ALTERNATIVE FINANCING FOR DIAMOND & JEWELRY COMPANIES

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- Upon launching in 2018, Del Gatto became the first firm to provide an institutional financing option to the trade.
- Del Gatto benefits from a number of key market factors; dramatically reduced bank lending, fragmentation in their target audience segment, a stable and liquid asset to lend against.

### DISTINCT, KNOWLEDGE BASED APPROACH

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- Del Gatto provides financing by physically taking possession of the asset at LTV's between 65 - 75% of the liquidation value. Their clients pay an "Option Fee" monthly, in advance, which gives them the right to repurchase the collateral during the course of the month.
- This structure allows DDFF to securely provide fast and flexible capital that is otherwise very difficult to attain

### PLATFORM BUILT BY DIAMOND EXPERTS, FOR DIAMOND COMPANIES

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- Del Gatto is a finance company that is built by experts in the industry it serves. It is operated by long- standing and leading figures of the diamond & jewelry industry.
- Del Gatto has an advantage, as it's a trusted member of this global, yet tight knit community. It's Founder, Chairman & Chief Executive Officer, Christopher Del Gatto, is a Graduate Gemologist & former diamond cutter, with over 30 years of experience as a successful entrepreneur.

“We are reaching the point where there is insufficient liquidity to support the flow of diamonds through the supply chain. If the trade does not change its business practices and adapt to new realities, the diamond industry will suffer extreme financial and regulatory disruption.”

- Martin Rapaport  
June 2019<sup>1</sup>

“By mid 2022, DDFF has executed over 500 financings with over 225 companies.”

## APPROACH

Del Gatto has tractioned rapidly, becoming THE go to non-bank lender. Propelled by both their unique, frictionless approach, and respected team; some who are known as industry pioneers.

### **UNADDRESSED FUNDING GAP & CHANGING LEGISLATION**

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The introduction of the Basel Accords, and other regulatory changes have tightened banks lending capacity, and caused the migration of commercial banks toward more traditional industries, and away from secondary sectors, including diamonds. Due to this legislation, and other factors, this lending retreat is a long term quandary for the industry. Financing has fallen from almost \$17B to under \$6B since 2013. This is not sustainable for a sector that is particularly capital intensive.

### **ALTERNATIVE FINANCE MODEL**

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Del Gatto offers capital to the industry without the challenges faced by commercial banks. The structure of physical possession and ownership upon financing has dramatically reduced any risk.

# MARKET OPPORTUNITY

It is widely believed that commercial banks will continue to reduce lending, and that the diamond & jewelry industry will continue to search for stable & reliable sources of capital.

## STRONG INDUSTRY FUNDAMENTALS

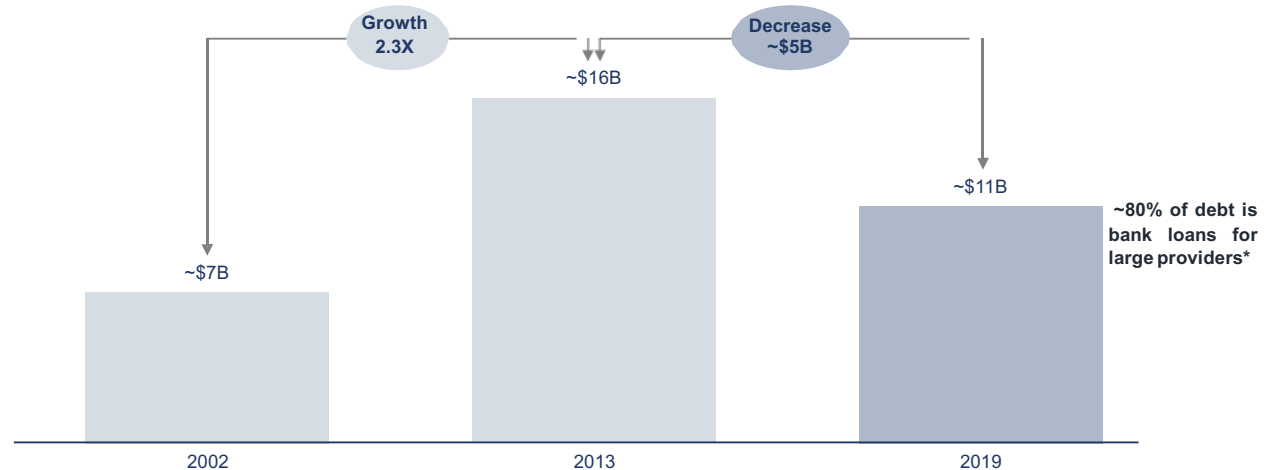
- The financing gap is growing.
  - Banking lending reached a high of \$16.8 billion in 2013 and dropped to \$11 billion in 2019<sup>4</sup>
  - DelGatto expects total lending may drop to \$4 billion by 2023
- Consistent demand for diamonds : One of the world's oldest industries, sales reached over \$82B in 2017, representing a 2% rate of growth. The industry continues to steadily grow, driven by markets such as India, China & the UAE.
  - The diamond industry is forecast to continue growing at a 1 - 2% rate annually.
  - Potential for additional growth: Generation Y and Z will represent approximately 55% of the 2025 luxury market, and will contribute 130% of market growth between now & then, offsetting a decline in spending by older consumers.
  - Resilience; Diamonds have time & time again led the luxury sector out of crisis In 2008/9 & again during Covid, stability in pricing as well as demand were standouts for the luxury sector.

## TRADITIONAL BANKS ARE WITHDRAWING

- Lending to the industry grew tremendously from 2002 until 2013, enabling the market to grow rapidly by utilizing this bank provided working capital. As capacity currently contracts, the industry will need to source and rely upon outside capital to survive.

"DDFF has allocated over \$500M since its launch in November of 2018."

## Diamond Industry Financing<sup>4</sup>



Includes securitizations and portion of peer to peer financings backed by bank debt; does not include off-balance sheet financings  
\*\*Large providers\* are companies with annual revenue >\$200m

# FINANCING PROCESS

The DelGatto financing process is scaleable and efficient

## FINANCING PROCESS

1 - Client submits borrower application form, and then sends in collateral for valuation.

2 - DDFF submits the form for KYC/AML approval and in parallel values the collateral, including receiving an outside bid on the items.

3 - DDFF presents the client with the finance amount and terms.

4 - Client accepts, signs the agreement and collateral is stored in the DDFF 3rd party facility.

5 - Funds are wired, minus the 1st month's option fee. Concurrently the Admin records the financing and collateral.

### Counterparty:

Del Gatto targets established companies along the entire diamond supply chain. Although today much of their business is referral and repeat, their administrator, Apex, completes full background checks that include KYC, and Anti Money Laundering procedures. DDFF rarely ever finances individuals. Counterparties are typically business that have been established for over 25 years.

### Price Stability:

Historically diamonds have been a stable and liquid asset. Even in volatile markets, diamonds have remained consistent. During the 2008/2009 crisis, 1-2 carat diamonds dropped less than 20% and began rebounding 90 days later\*. During the more recent crisis of Covid, diamond prices and demand remained stable. The knock on effect of the lack of supply actually created a positive outcome for many diamond companies during the pandemic.

### Repayment Risk:

If clients elect not to repurchase their items, DDFF benefits, as the collateral is already in its possession and worth on average, 130% of the financed value. The funds default rate since 2018 has been under 1%. However, every default has produced a realized NET gain, this was consistent even during the Covid pandemic.

### Reputational Risk:

DDFF only finances companies with long and established reputations. The close knit nature of the global diamond community is such that the managers know the business models of all of their counterparties, their sources and distribution network etc... DDFF turns down 40% of finance requests.



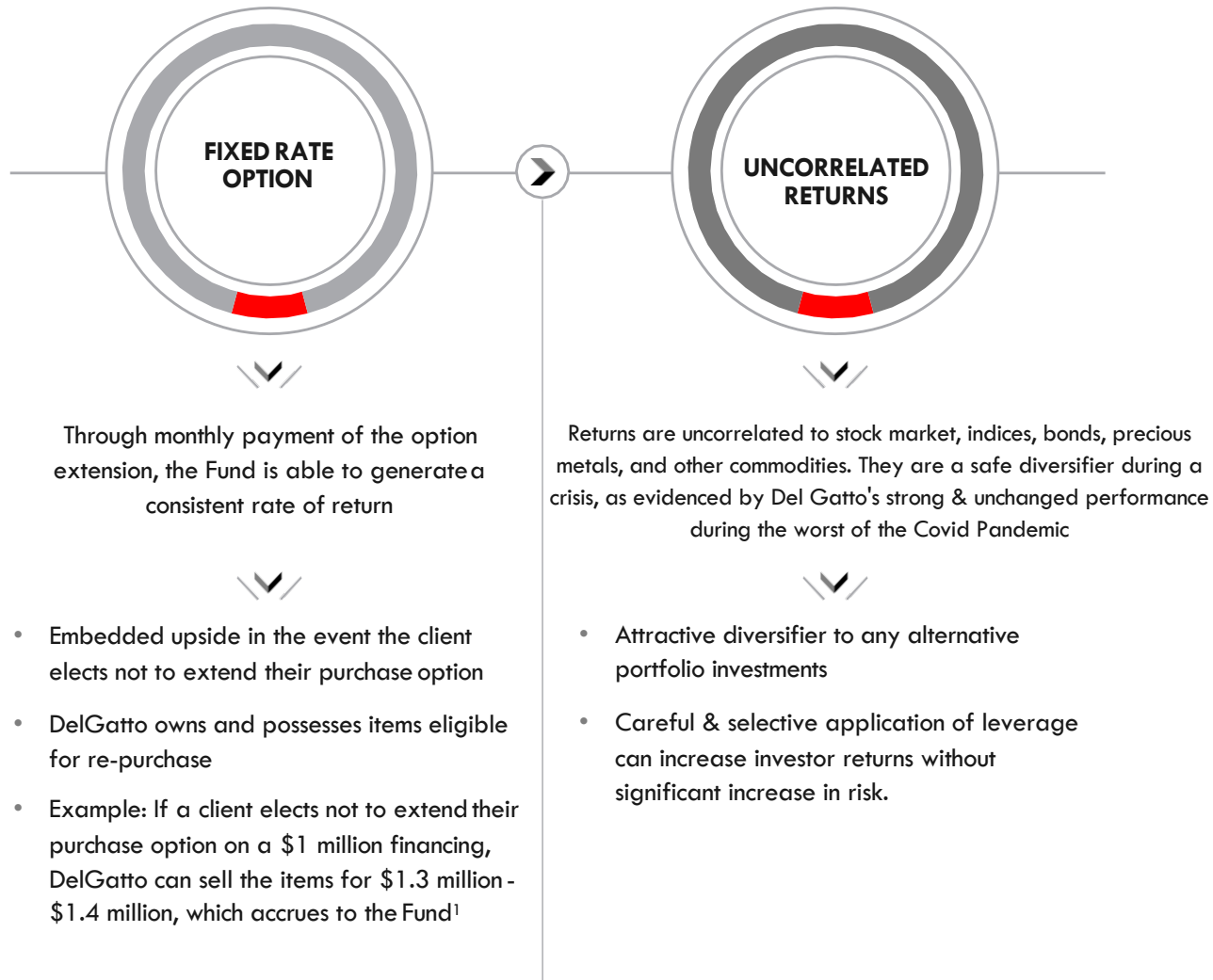
### Valuation:

Del Gatto's unique, institutional knowledge of diamonds and all of its sub categories are a critical advantage. Additionally, their ongoing daily market participation enables the team to have real time information from all of the world's diamond centers. Moreover, each agreement is only 12 months in length, ensuring that DDFF is never a long-term owner of any specific item.

# ALTERNATIVE STRUCTURE BENEFITS

A variety of benefits arise from the Purchase Option structure, as a finance mechanism.

Typical terms: Items are valued at LTV's of 65 - 75% of liquidation value. Rates are predominantly 1.25% per month, with smaller financings sometimes at 1.35 - 1.45%.





## SAMPLE PORTFOLIO CHARACTERISTICS

DelGatto intends to build a portfolio of financings with characteristics similar to those outlined below

<p><b>MIDSTREAM PARTICIPANTS</b></p> <ul style="list-style-type: none"><li>• Diamond manufacturers</li><li>• Diamond wholesalers</li><li>• Diamond miners</li><li>• Rough diamond traders</li><li>• High end retailers</li><li>• High end watch wholesalers</li><li>• High end jewelry manufacturers</li></ul>	<p><b>AMOUNT</b></p> <ul style="list-style-type: none"><li>• \$250,000 - \$20,000,000+</li></ul>
	<p><b>TERM</b></p> <ul style="list-style-type: none"><li>• 12 months or less</li></ul>
<p><b>COLLATERAL</b></p> <ul style="list-style-type: none"><li>• Polished Diamonds</li><li>• Rough Diamonds</li><li>• High end jewelry</li><li>• High end watches</li></ul>	<p><b>LTV</b></p> <ul style="list-style-type: none"><li>• 60% - 75%</li></ul>
	<p><b>ANTICIPATED RATE</b></p> <ul style="list-style-type: none"><li>• Monthly 1.25 % (majority) 1.35 - 1.50%</li><li>• Annual: 15% - 18%</li></ul>

## DEL GATTO DIAMOND FINANCE: ESG

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### **Summary of Del Gatto approach to ESG and sustainability**

- DDFF strongly believes that exemplary corporate governance and social responsibility is not only right ethically, but crucial to generating strong, long-term value in companies we transact with. Our aim is to benefit all stakeholders in these companies as well as the communities that they serve.
- We give considerable importance to Environmental, Social and Governance (“ESG”) issues during the evaluation and due diligence of finance opportunities, We seek to collaborate with management to implement improvements to create a best-in-class business practice.
- Consequently, we seek to continue our dialogue with all key stakeholders, not just in our business dealings, but in our trade more generally, to ensure we continually develop and address the key ESG issues that align with our industry.

### **Key ESG and sustainability topics in the international diamond trade**

- Since the onset of the global pandemic and the recent conflict in Ukraine, the ESG and sustainability themes continue to be of high importance in the trade. These recent events have only shone a brighter light on the industry’s furtherance of ESG initiatives.
- DDFF seeks to ensure that our counterparties integrate ambitious ESG targets in their business plans to demonstrate their commitment to these important measures.

### Action taken by the diamond industry:

- Environmental efforts:
  - o Reduction in consumption of energy, movement toward green energy sources to mitigate emissions and transition toward sustainable growth strategies. There has been a high degree of awareness in each stakeholder's role in reducing emissions.
  - o Adoption of sustainable materials in particular by midstream and downstream markets (e.g. the transition away from paper certificates – GIA recently adopted electronic certification and reduction in use of single-use plastics in packaging diamonds).
  
- Social efforts:
  - o Traceability: large increase in software availability combating conflict diamonds and guaranteeing origin of diamonds: e.g. De Beers' Tracr, Sarine and GIA Diamond origin. Upstream producers also providing certification of rough diamonds. DDFF is embarking on a robust program with Sarine regarding rough diamond financing.
  - o Diversity: Increase in programs supporting indigenous populations around the globe impacted by diamond mining. Such programs are now ubiquitous and form a key part of all mining operations worldwide.
  
- Governance efforts:
  - o Supply chain due diligence: This is now a pre-requisite for all stakeholders in the trade to be fully cognizant of the entire value chain. Traceability has played a large part in this, as well as increased awareness of KYC and other requirements needed to demonstrate knowledge of provenance from mine to finger.

## KEY MANAGEMENT

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### **Chris Del Gatto**

Over 20 years of experience in the diamond and fine jewelry field. As Founder of DELGATTO, he is widely regarded as one of the most important innovators in the modern jewelry industry – beginning his career at age 17 as a licensed gemologist of the Gemological Institute of America, a diamond cutter in Manhattan’s Diamond District by 18, and a partner in a diamond-cutting facility by 20.

### **R. Andres Lucas**

Began his career at ETG, a hedge fund, as a quantitative trader in 1996. In 2001, Mr. Lucas founded CLC Global Partners, a hedge fund with peak assets of over \$150M to take advantage of disparities in the discounts and premiums in the Closed-End Fund Market. Mr. Lucas served as a Portfolio Manager, Head of Operations and oversaw all Marketing efforts.

### **Mayur Mehta - Valuations Team**

A 30 year diamond industry veteran. Mr. Mehta began his career in Mumbai India, working for one of the premier diamond houses. He then moved to Tel Aviv where he managed that company’s operations for 5 years. Mr. Mehta is an expert with both rough & polished diamonds and is one of DDF’s leading valuation experts.

### **Rajiv Jain - Dubai Director**

Mr. Jain is a 25 plus year banking executive. With a focus historically on the diamond industry, he was formerly the head diamond banker for ABN Amro’s UAE market.

### **Pierre De Bosscher - Belgium Director**

Mr. De Bosscher has over 30 years experience in banking and lending to the diamond industry. Formerly the CEO of The Antwerp Diamond Bank (ADB), in its time one of the largest global lenders to the trade. Mr. De Bosscher oversaw the successful sale of ADB to KBC, the largest bank in Belgium.

### **George Mashinini - Director South Africa**

Mr. Mashinini has over a decade of relationships and experience within the African rough diamond trade.

### **Madeline McNichol - Director of Finance**

Team leader with extensive experience in inducting financial due diligence for leading global private equity funds. Experienced in working with small business owners and bankers to help borrowers achieve their goals.

## SUMMARY OF FUND TERMS

DelGatto provides structures for both domestic and foreign investors

<b>SUBSCRIPTIONS</b>	Monthly
<b>MINIMUM INVESTMENT</b>	\$1,000,000 USD
<b>LOCK</b>	1-year soft lock
<b>DIVIDEND</b>	50% of Profit Quarterly
<b>FEES</b>	Institutional Class (\$5M min. over an 18 month period) : 1% Management, 15% Performance with a hurdle. Standard Class : 2% Management, 20% Performance,
<b>REDEMPTIONS</b>	Monthly with 90 days notice, no more than 5% of fund AUM can go out on any given month
<b>ADMINISTRATOR</b>	Apex Fund Services
<b>AUDITOR</b>	Cohn Reznick
<b>LEGAL COUNSEL</b>	Mayer Brown
<b>THIRD-PARTY VAULT</b>	Ferrari Express inc.

## CONTACT INFORMATION

For more information,  
please contact:



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# APPENDIX

## SELECTED BIOGRAPHIES

### **CHRIS DEL GATTO – CHAIRMAN & CEO**

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Chris Del Gatto is a pioneer for the luxury market, specifically in the secondary marketplace, and has over 30 years of experience in the diamond and fine jewelry field. As Founder of DelGatto, he is widely regarded as one of the most important innovators in the modern jewelry industry. In 2001 while serving as partner of MRH Estate & Fine Jewelry, Chris discovered a void in the marketplace for a global supply chain of second hand (recycled) jewelry or diamonds. Chris launched Circa that same year. From 2001 until 2012, Chris served as the driving force behind the company's rapid growth under the title Chairman and CEO. In 2011, he sold majority to private equity. Chris left the company in November 2012 to create a portfolio of luxury brands. After merging with I Do Now I Don't in 2015, Chris launched his latest company, the eponymous DELGATTO, where he currently serves as Co-Founder, Chairman and Chief Executive Officer.

### **R. ANDRES LUCAS – CHIEF OPERATING OFFICER**

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R. Andres Lucas began his career with ETG, a hedge fund, as a quantitative trader in 1996. In 2001, Mr. Lucas began CLC Global Partners, another hedge fund whose focus is to take advantage of disparities in the discounts and premiums in the closed-end fund market. In 2006, Mr. Lucas started the Lanesborough Alternative Strategies Fund, a family office, that quantitatively sought opportunities in expiring listed options markets.

### **PIERRE DE BOSSCHER – SENIOR ADVISOR**

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Pierre De Bosscher serves as a senior advisor to DelGatto. Currently, Pierre serves as Managing Director of De Bosscher Consulting BVBA, which provides strategic and financial consulting services for the diamond industry including diamond companies, industry bodies, as well as local and international governments. Pierre is also the founder & CEO of ID-Diamonds BVBA, a Belgium-based diamond investment advisor; the company's objective is to promote diamonds as a new asset class within the alternative investment and real asset space by limiting risks and creating transparency for private and institutional investors. Pierre brings deep experience to his companies from his previous role divesting Antwerp Diamond Bank ("ADB") after its shareholder KBC Belgium decided to wind down ADB activities and integrate them as a business unit within KBC. At ADB, Pierre managed negotiation processes between vendors, potential investors, equity providers, big industrial groups, central banks, governments, and industry representatives. Most recently, Pierre was a Member of the SDiX International Advisory Board in Singapore.



# DUE DILIGENCE

DelGatto created an online data room for investor due diligence

DelGatto requires a non-disclosure agreement to access this information

## DATA ROOM CONTENTS

- Industry reports and articles
- Financing agreements
- Valuation reports
- Due diligence questionnaire (DDQ)
- Historic investor letters
- Fund documentation

The screenshot displays the DelGatto Data Room interface. On the left, a table of contents lists eight categories, each with a blue folder icon and a green checkmark: 1 Introduction, 2 Industry Data and News, 3 Financing Agreements, 4 Sample Redacted Agreements, 5 Valuation Reports, 6 Due Diligence Questionnaire, 7 Investor Letters, and 8 Fund Documentation. To the right, a detailed 'DelGatto Data Room Index' is shown, listing the following items: 1. Introduction (a. One-Page Overview, b. Investor Presentation); 2. Industry Data (a. GLG Report, b. The Global Diamond Industry 2019, c. Industry Articles (i. A Run For Its Money – July, ii. DFFF Presentation Draws, iii. ICIC Closing Antwerp Brar, iv. Union Bank of India Pulling, v. India's SJEPIC: 10% Declin, vi. ABN AMRO Closing Diam, vii. Exelco NV Files for Chaple); 3. Financing Agreements (a. Blank Sample Purchase Option A, b. Blank Consignment Agreement); 4. Sample Redacted Agreements. Below the index is a 'DUE DILIGENCE QUESTIONNAIRE' form with the DelGatto Diamond Finance Fund logo at the top, the text 'DUE DILIGENCE QUESTIONNAIRE' in the center, 'As of Q4 2019' at the bottom, and 'EXACTLY PRIVATE & CONFIDENTIAL' in the footer.