



H2/2022 SUMMARY

During 2022, the Prestige team together with the Fund's Finance Arranger remained steadfast in its efforts to generate liquidity for Prestige Alternative Finance Fund Limited ('PALTF') and this has been its primary objective during 2022. The Finance Arranger has engaged with wholesale debt-based groups, such as investment banks and infrastructure banks, to partially or entirely re-finance specific core portfolio performing assets. This has been successful previously on a number of transactions over a number of years.

In fact, during the second half of 2022, PALTF has managed to refinance GBP 12.4 million worth of projects despite a significant spike in the UK interest rates during the third quarter of the year. This increase in interest rates made such transactions more expensive or entirely unviable given the overall cost of debt vis-a-vis existing funding.

In consequence, although these discussions remain ongoing, the Fund's Finance Arranger pivoted towards 'equity-based groups' such as infrastructure funds and private equity funds which appear to be moderately faster in deal transactions and have a higher level of interest given the nature of the underlying core portfolio assets.

Moreover, the four-fold increase in global energy prices has enabled the Finance Arranger to revisit their valuation models of the plants. Despite having certain project valuations increase, the capitalisation of interest allowed on these projects subsequently increased their loan balance having a neutral effect on their Loan to Value ratio.

The Investment Management team continued with its enhanced oversight over the performance of the loan portfolio and have implemented a number of processes and procedures to keep improving the communication and cooperation between both entities. Whilst assessing the capacity of these projects to meet their existing contractual obligations, the Investment Management team undertook an extensive provisioning exercise and assessed the provisioning requirements of the projects in PALTF.

This analysis concluded that the Fund should increase its monthly provisioning requirements to GBP 5.8 million during the second half of 2022. This took into consideration specific projects that are expected to be refinanced at a discount to their current debt or have a low probability of full or partial recovery. Total provisioning on PALTF as at 31/12/2022 amounted to GBP 35.8 million of which GBP 19.9 million was written off in December 2022.

Most of these impairments reflect legacy exposures that were completed in a previous era of management / control at the Fund's Finance Arranger and whose origination process fundamentally relied far more on the underlying borrower.

Prestige Alternative Finance Fund Limited

Registered Office:

Waystone Corporate Services (Cayman) Limited, PO Box 1344, Suite 5B201, 2nd Floor, One Nexus Way, Camana Bay, Grand Cayman, KY1-1108, Cayman Islands

E: info@prestigefundmanagement.ky

www.prestigefundmanagement.ky

www.prestigefunds.com

Directors:

Ms Ebony Myles-Berry (Cayman), Mr Iain Fulton (UK) and Mr Craig Reeves (UK)

Cayman Islands Monetary Authority (CIMA) Registration Number:

16040

Company Registration Number:

SH-220502

LIQUIDITY GENERATION EVENTS H2/2022

During H2, the Fund's Finance Arranger has been in extensive discussions with various parties interested in purchasing several assets and plants. PALTF generated GBP 12.4 million during H2/2022 by means of three loan refinancing transactions.

In September 2022 the Fund generated GBP 316 thousand as part of the sale of a 'Non-Core' Asset in Portfolio 2.

In October 2022 the Fund generated GBP 2.1 million as part of the sale of a 'Core' Asset in Portfolio 1.

In December 2022 the Fund generated GBP 10 million as part of the sale of another 'Core' Asset that also made part of Portfolio 1. Following lengthy negotiations, the directors of the plant agreed a settlement and repayment plan with a multinational financial services group to acquire the plant and operate it. This comes as part of a significant investment to incorporate the Anaerobic Digestion plant (AD) into an expanded energy site to produce green hydrogen gas. Although, the plant was sold for a discount of around GBP 1.55 million relative to its full value, the Fund generated GBP 10 million upon completion. A further GBP 4 million may be received in the future depending on the performance of the plant.

PORTFOLIO IMPAIRMENTS H2/2022

As mentioned above, following the successful refinancing of one of the 'Core' assets in Portfolio 1 that generated an immediate GBP 10 million for PALTF, the Fund had to write off circa GBP 1.55 million from the full value of the asset that couldn't be recovered. This decision was taken between the purchaser and the Fund's Finance Arranger in view of rising interest rates. The Investment Management team decided that this was the best alternative for the Fund in order to prioritise immediate liquidity over absolute returns.

During H2 the Fund has written off a further GBP 546 thousand against a single legacy 'Non-Core' Asset in the portfolio as part of its ongoing impairment strategy. However, this asset has a dedicated, specialist turnaround / workout team who have worked incredibly hard to recover and improve some potential value with a view to ultimately sell part or all of this asset to external investors and funders.

In December 2022, the Investment Manager decided to utilise part of the existing provision held by the Fund to write off a problematic loan including the accrued interest since inception totalling circa GBP 17.8 million. Since 2016, the Fund's Finance Arranger has been in various negotiations and restructuring talks with various parties of another AD Plant, finding ways of restructuring and obtaining the correct planning consent. However, over the years this has proved very difficult as the application came under large scrutiny by the local residents living around the plant, and objections from a number of the statutory consultees. Unfortunately, the global pandemic also had its effect on this project delaying all initiatives of the Finance Arranger further. During 2022 the application was resubmitted but got refused again leading the Finance Arranger to engage with other professionals in the sector, however, the advice provided was that this is not sustainable and the cost benefit analysis of continuously rebutting the objections was not justified further.

Prestige Alternative Finance Fund Limited

Registered Office:

Waystone Corporate Services (Cayman) Limited, PO Box 1344, Suite 5B201, 2nd Floor, One Nexus Way, Camana Bay, Grand Cayman, KY1-1108, Cayman Islands

E: info@prestigefundmanagement.ky

www.prestigefundmanagement.ky

www.prestigefunds.com

Directors:

Ms Ebony Myles-Berry (Cayman), Mr Iain Fulton (UK) and Mr Craig Reeves (UK)

Cayman Islands Monetary Authority (CIMA) Registration Number:

16040

Company Registration Number:

SH-220502

Therefore, at the end of 2022, the Finance Arranger decided that the best alternative was to stop appealing the planning decisions and put the site into Administration in attempt to avoid further cash outflow and a larger bad debt provision.

Any funds recovered on the sale of equipment were needed to pay off outstanding creditors, hence, in December 2022, the Investment Manager decided to utilise the existing Fund provision and write off the full balance of this loan for GBP 17.8 million.

The rise in interest rates called for the future cash flows from the Fund's Preference Shares associated with the Finance Arranger to be discounted at a higher rate. This consequently reduced the preference shares valuation and an impairment of GBP 4.3 million was required to align their value within the existing market conditions.

Overall, PALTF has written off a total of GBP 24.2 million throughout H2/2022.

OUTLOOK 2023

Most of the Fund's 'core' portfolios continue to perform in line with expectations, many of which receive UK government subsidies. Currently, the Fund's Investment Manager and Finance Arranger operate with the largest combined team and expertise in their respective operating history and continue to monitor all portfolio holdings closely. The Fund will continue to build and maintain a prudent impairment reserve for non-performing portfolio holdings. However, as a result of the various 2022 impairments, this should ultimately lead to a cleaner, simpler portfolio of more performing core and less non-performing and non-core holdings.

We expect that PALTF's assets under management will continue to reduce in size to settle pending redemption requests.

The team is working exceptionally hard to generate significant liquidity during H1/2023 from a combination of trade sales and re-financings of existing assets. However, given the specialist nature of the underlying assets these transactions are slow and complex to complete. Currently, many of the Fund's portfolio assets are being actively marketed to multinational groups and several deal transaction term sheets are currently under review by the Fund's Finance Arranger which could see upwards of GBP 60 – 100 million of NAV assets being sold during 2023.

The macro-economic environment for the core portfolio remains strong from a combination of the global energy 'transition' process and the inelasticity of energy consumption following the general increase in global energy prices post COVID-19 pandemic.

The Investment Management team continues to believe in private debt strategies as an increasingly important allocation factor to include in Investor portfolios, particularly from a global macro environmental perspective.

The Investment strategy of PALTF satisfies one of the major challenges that society needs to overcome in the near future and will help the UK economy to continue becoming energy independent.

We thank Investors for their continued patience and understanding around this challenging period of transition.

Regards,
Prestige

Prestige Alternative Finance Fund Limited

Registered Office:

Waystone Corporate Services (Cayman) Limited, PO Box 1344, Suite 5B201, 2nd Floor, One Nexus Way, Camana Bay, Grand Cayman, KY1-1108, Cayman Islands

E: info@prestigefundmanagement.ky
www.prestigefundmanagement.ky
www.prestigefunds.com

Directors:

Ms Ebony Myles-Berry (Cayman), Mr Iain Fulton (UK) and Mr Craig Reeves (UK)

Cayman Islands Monetary Authority (CIMA) Registration Number:

16040

Company Registration Number:

SH-220502

NOTE: This document is issued and approved by Prestige Alternative Finance Fund Limited (PALTF). It is not a solicitation or invitation to invest or financial advice. Investors should only rely on the Information Memorandum of PALTF and always seek independent professional financial advice when considering an investment. PALTF is an Alternative Investment Fund as defined under the Alternative Investment Fund Management Directive (AIFMD) and is registered by the Cayman Island Monetary Authority (CIMA). PALTF is managed by PFM, which is a Cayman based Fund Management company registered with the Cayman Island Monetary Authority (CIMA). This document has also been approved by PFM.

PALTF is an experienced investor fund, and potential investors should seek professional independent financial advice prior to making any decision to invest. Please also refer to the Information Memorandum of PALTF before making any final investment decisions.

This collective investment scheme may only be offered in Switzerland to qualified investors in accordance with Art. 10 of the Collective Investment Schemes Act (CISA) and Art. 4 para. 3-5, Art. 5 para. 1, Federal Act on Financial Services (FinSA). The representative in Switzerland is OpenFunds Investment Services AG, Seefeldstrasse 35, 8008 Zurich. The paying agent in Switzerland is Società Bancaria Ticinese SA, Piazza Collegiata, 6501 Bellinzona. The prospectus and the Key Information Document (KID), the fund contract as well as the annual and semi-annual reports can be obtained free of charge from the representative in Switzerland. In respect of units offered in Switzerland, the place of performance is at the registered office of the representative. The place of jurisdiction is at the registered office of the representative or at the registered office or place of residence of the investor.

In case of any discrepancy between the English text version and any translation thereof, the English version shall prevail and be regarded as binding. Unless advised otherwise, all sources of data are those of Prestige. © 2023

Prestige Alternative Finance Fund Limited

Registered Office:

Waystone Corporate Services (Cayman) Limited, PO Box 1344, Suite 5B201, 2nd Floor, One Nexus Way, Camana Bay, Grand Cayman, KY1-1108, Cayman Islands

E: info@prestigefundmanagement.ky

www.prestigefundmanagement.ky

www.prestigefunds.com

Directors:

Ms Ebony Myles-Berry (Cayman), Mr Iain Fulton (UK) and Mr Craig Reeves (UK)

Cayman Islands Monetary Authority (CIMA) Registration Number:

16040

Company Registration Number:

SH-220502