

Pollen Street Secured Lending plc

AN ALTERNATIVE CREDIT INVESTMENT TRUST

Investment Manager's Commentary

Pollen Street Secured Lending plc (the "Company") delivered a NAV return of 0.5% on an annualised basis in March, which is the equivalent to 0.04% in the month. This included taking a management overlay of 3.3% or £2.0m one-off increase to provisions by changing the IFRS 9 economic weighting to 100% downside (see below) as well as a 2.4% or £1.5m write down of a legacy equity position.

The manager has continued to focus on the existing portfolio and ensuring cash collections remain robust. Cash balances in the Company at the time of writing are over £90m having increased from £54m at the end of February. The manager has adopted a prudent approach to new lending with the expectation that the cash position will continue to build over the coming months as the portfolio reduces in size.

Credit Asset Provisions

Under IFRS 9, the Company calculates the Expected Credit Losses ("ECL") on its Credit Assets using forward looking estimates that are based on a range of economic scenarios. The economic outlook has materially changed following the onset of the Coronavirus Disease ("COVID") crisis so the Company has updated its estimate of ECL to allocate 100% of the weight to the downside scenario. This scenario was set as a downside in the Q4 review of the impairment model and is broadly consistent with the economic outlook indicated by our third-party economic advisers. This has led to a one-off provision of £2.0m for the Company.

Portfolio Impact

Whole Loans

- Whole loans represent 31% of the portfolio and is where the Company directly owns 100% of the loan.
- Consumer whole loans represent 20% of the portfolio of this 34% is secured on motor and 66% is unsecured.
- Cash collection on the portfolio has remained strong with collections in March and April in line with January and February. The manager has significantly reduced originations with two out of three programmes paused and the remaining programme originating limited volumes with much higher credit and income scores.
- This portfolio is mainly to US borrowers and is highly granular with more than 22,000 underlying loans and an estimated weighted average life of c.2 years.

Financial Information

Monthly NAV Return (Annualised)	0.47%
Monthly NAV Return	0.04%
YTD ⁽¹⁾ NAV Return	0.97%
ITD ⁽²⁾ NAV Return	27.99%
NAV Cum. Income	£714.1m
NAV Ex. Income	£700.4m
Market Capitalisation	£519.2m
Net Investment Assets	£942.8m
Maximum Allowable Leverage ⁽³⁾	150%
Total Net Debt to Equity Ratio	0.38x
12m Trailing Div. ⁽⁴⁾	48p
12m Trailing Div. Yield on Share Price	6.86%
Shares in Issue	74,177,289
Share Price	700p
NAV Cum. Income per Share	963p
NAV Ex. Income per Share	944p
Discount to NAV Cum. Income	(27.3%)

Fund Facts

Investment Manager	PSC Credit Holdings LLP
Sub Manager	Pollen Street Capital (US), LLC
Type of Fund	Closed Ended Investment Fund
ISIN	GB00BLP57Y95
Inception Date	30 May 2014
Dividend	Quarterly

⁽¹⁾ YTD: Year to Date

⁽²⁾ ITD: Inception to Date – Excludes Issue Costs

⁽³⁾ Leverage multiplies both gains and losses and may increase the risk of loss of investment during a downturn.

⁽⁴⁾ The 12m period includes the four most recent quarterly dividends

⁽⁵⁾ Forbearance statistic from one portfolio where the data is provided which represents circa half the balances

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I Investment Manager's Commentary (continued)

Whole Loans (continued)

- Property and SME whole loans make up 10% of the continuing portfolio. The SME segment has seen the biggest initial impact from the COVID restrictions with forbearance at 13%¹ and a circa doubling of arrears. This portfolio includes the runoff exposure to Funding Circle which accounts for c.4%. The Funding Circle portfolio has shown increased arrears over the course of April and we anticipate elevated impairments in this portfolio over the coming months.

Structured Loans

- Structured loans represent 62% of the portfolio and is where the Company's exposure is senior to that of the borrowers and/or platform.
- Property loans make up 29% of the portfolio, 74% are development finance loans to small and medium sized UK developers. The Company's exposure is senior to both the underlying developer's equity and the junior equity provided by the development finance lender we partner with. The average look through loan to value is 62% and therefore there is significant protection should market values decline. Most developments in the portfolio have continued construction through the lockdown as smaller developments have largely been able to progress work uninterrupted. While the Manager does expect some duration extension in the loans as property sales or refinancing activity are likely to be delayed, it does believe that the overall risk position is prudent and sound.
- Structured SME loans represent 19% of the portfolio. The key exposures are 42% to a US lender of short-term small business loans, 38% is to an Irish secured SME lender and 14% to a UK lender of short-term small business loans with personal guarantees. Whilst the SME sector has seen the biggest impact (as with whole loans) given the structured nature of the positions we do not foresee any capital write-downs at this stage.
- Structured consumer loans represent 14% of the portfolio. Cash collection has remained robust across the portfolio and the average advance rate on the facilities is 70%.
- A number of the structured borrowers have asked for temporary amendments to their facility to reflect the regulatory guidance on forbearance requests. We are assessing these individually.

Legacy Run Off

- The legacy book continues to run off and now only represents 5% of the portfolio. Whilst performance of this book has been poor to date and it is expected that impairments will increase over the coming months, the loans are now well seasoned, granular (average balance is below £4.2k) and pay interest and principal monthly and therefore will continue to run off relatively quickly and generate cash for the Company.

Equity

- The equity book has been reduced from £40m when Pollen Street took over the management of the Company to £21m today and therefore the risk it has on the portfolio's overall performance has been materially reduced. In the month a £1.5m write down was taken against a listed position in line with the mark to market movements. The remaining equity position valuations remain under review.

Annual Report and Accounts

The Company intends to publish its financial results for the year ended 31 December 2019 by the end of May 2020. This is in compliance with the Financial Conduct Authority's policy statement issued on 26 March 2020, pursuant to which the financial reporting deadline for listed companies has been extended by two months.

Conclusion

The Manager has maintained close and proactive engagement with all partners with forbearance having been applied sensitively and proportionately. It believes that this approach together with the structural protection and asset backing of the portfolio, along with the high-quality partners and the alignment of interest which has been created, positions the Company to perform robustly through these uncertain times.

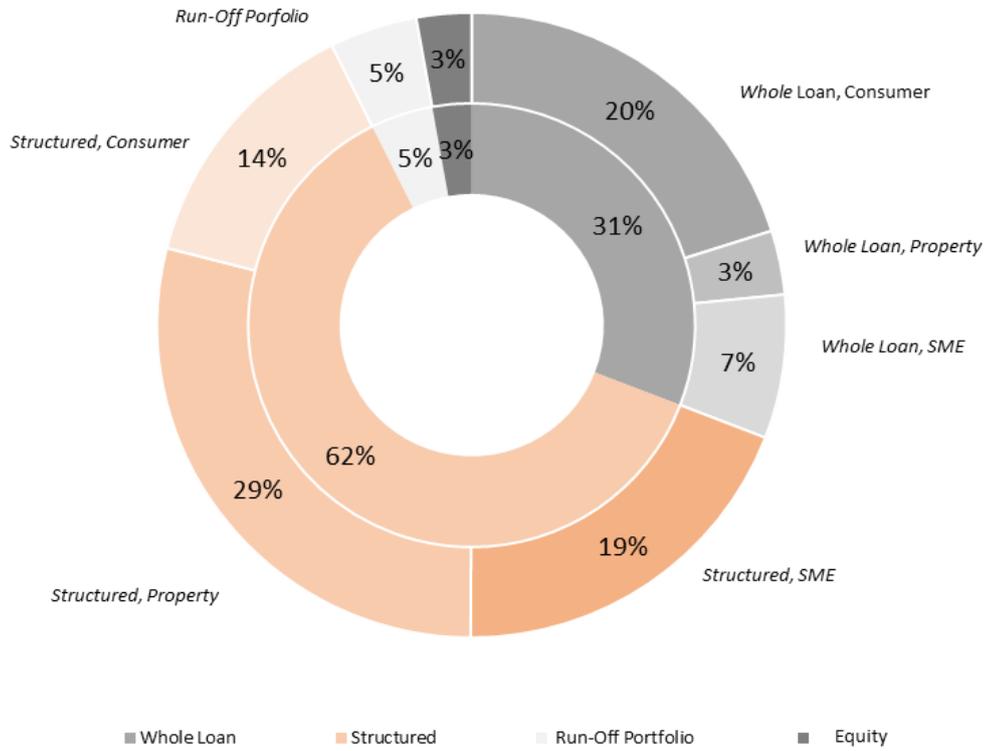
⁽¹⁾ Forbearance statistic from one portfolio where the data is provided which represents circa half the balances
 Source: PSC Credit Holdings LLP
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Portfolio (NAV Exposure)



Investment Assets net book value, excluding working capital and debt, stratified by structure and sector

(1) Forbearance statistic from one portfolio where the data is provided which represents circa half the balances
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Performance and Dividend History

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	Inception to Date ¹	
Total NAV Return	2014					0.16%	0.17%	0.22%	0.23%	0.48%	0.54%	0.50%	2.32%		
	2015	0.54%	0.59%	0.65%	0.41%	0.71%	13.1%	0.50%	0.49%	0.43%	0.56%	0.52%	0.20%	7.14%	
	2016	0.41%	0.38%	0.48%	0.43%	0.48%	0.17%	0.37%	0.43%	0.23%	0.27%	0.27%	0.12%	4.10%	
	2017	0.24%	0.38%	0.55%	0.45%	0.41%	0.29%	0.44%	0.14%	0.19%	(1.03%)	0.40%	0.55%	3.03%	27.99%
	2018	0.36%	0.43%	0.12%	0.41%	0.42%	(0.14%)	0.52%	0.50%	0.44%	0.52%	0.57%	0.78%	5.21%	
	2019	0.45%	0.31%	0.56%	0.44%	0.28%	0.48%	0.33%	0.82%	0.51%	0.50%	(0.07%)	0.52%	5.25%	
	2020	0.49%	0.43%	0.04%										0.97%	
Share Price Performance²	2014					7.25%	0.37%	(0.19%)	0.05%	(0.93%)	14.1%	9.26%	18.00%		
	2015	(0.93%)	0.09%	(1.79%)	(0.17%)	(5.41%)	(2.03%)	2.07%	(5.99%)	3.24%	(6.46%)	15.2%	0.70%	(14.66%)	
	2016	(6.85%)	(7.57%)	0.35%	6.03%	(5.69%)	(2.30%)	(2.94%)	15.2%	0.30%	(3.21%)	(8.79%)	7.75%	(20.66%)	
	2017	(2.13%)	1.66%	(3.14%)	11.36%	2.74%	0.74%	(0.34%)	(4.47%)	(4.73%)	(3.11%)	10.3%	3.43%	2.00%	(30.00%)
	2018	1.23%	(3.88%)	(3.78%)	4.59%	0.13%	0.75%	-	(3.73%)	0.65%	(0.38%)	3.60%	(0.37%)	(1.60%)	
	2019	3.12%	(1.57%)	(0.37%)	4.07%	1.42%	(1.40%)	0.47%	(1.18%)	(3.34%)	3.46%	(1.19%)	0.24%	3.49%	
	2020	0.48%	3.84%	(19.17%)										-15.66%	
Dividend Per Share (Pence)	2014					-	-	-	-	-	6.00	-	6.00		
	2015	-	12.50	-	-	16.50	10.5 ³	-	-	-	18.50	-	58.00		
	2016	13.7 ⁴	-	-	11.50	-	-	11.00	-	-	11.00	-	-	47.20	
	2017	11.00	-	-	12.00	-	-	12.00	-	-	12.00	-	-	47.00	266.20
	2018	12.00	-	-	12.00	-	-	-	12.00	-	-	12.00	-	48.00	
	2019	-	12.00	-	-	12.00	-	-	12.00	-	-	12.00	-	48.00	
	2020	-	-	12.00										12.00	

¹ Inception to Date – Excludes Issue Costs but in June 2015 NAV return includes a 0.55% premium from a TAP issue. Until May 2017 this was reported as 0.77%, which did not include the TAP issue

² Based on issue price of 1000p

³ 8.5p per share was declared to the original C Shareholders prior to conversion

⁴ The July 2015 C Share was 9.5p

I Background & Investment Objective

Pollen Street Secured Lending plc is a UK listed investment trust whose investment objective is to provide shareholders with an attractive level of dividend income through exposure to investments in alternative finance and related instruments.

The Company specialises in investing in small size private credit assets across SME, consumer (secured and unsecured), real estate and trade finance asset classes through strategic partnerships which encompass marketplace lending platforms, balance sheet lenders and other non-bank loan originators. The Company invests in the USA, Europe and Australasia and actively seeks opportunities in other markets.

The Company believes that this specialism has the potential to provide attractive returns for investors on a risk-adjusted basis. Changes in the focus of mainstream lenders together with the implementation of new models that utilise data, analytics and technology more effectively, provide an opportunity to deliver better products to borrowers while generating attractive returns for the Company.

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I Glossary

NAV Cum. Income - The value of investments, cash and other assets, including current year revenue, less liabilities.

NAV Ex. Income - The value of investments and cash and other assets, excluding current year revenue, less liabilities.

NAV Return - The theoretical total return on shareholders' funds per share reflecting the change in Net Asset Value (NAV) per share.

Share Price - Closing mid-market share price at month end (excluding dividends reinvested).

Premium (Discount) - The amount by which the price per share of an investment trust is either lower (at a discount) or higher (at a premium) than the NAV Cum. Income per share, expressed as a percentage of the NAV Cum. Income per share.

Market Capitalisation - Month end closing mid-market share price multiplied by the number of shares outstanding at month end.

Total Net Debt to Equity – The total debt of the Company, whether incurred directly or indirectly through a subsidiary or an SPV established by the Company, and any investment fund which is managed by the Investment Manager, the Sub-Manager or their affiliates and in which the Company invests (on a look-through basis, proportionate to the percentage interest the Company retains in the most junior tranche of such investment fund), net of total cash held by the Company, divided by the Company's Net Asset Value.

Maximum Allowable Leverage - The maximum value of the total net debt to equity is 1.5 times.

Annualisation Methodology – Monthly returns have been calculated by multiplying the actual number of days in the year divided by the actual number of days in the month.

ECL- the expected credit losses under IFRS 9 calculated to be consistent with the Prudential Regulation Authority's and Financial Reporting Counsel's guidance that was published on the 26 March 2020 which indicates the Company should not automatically treat a payment holiday as evidence that a loan should be assigned to stage 2 or stage 3. Instead, the Manager is working closely with each platform to review the forbearance initiatives and arrears status and understand the most likely outcome

I Important Information

Data in this newsletter is at or to the final day of the calendar month identified in the heading of the newsletter's front page unless otherwise stated. In addition to this quarterly newsletter, the Investment Manager also produces a monthly newsletter. Issued in the United Kingdom by PSC Credit Holdings LLP.

For the purposes of this newsletter, Europe refers to the United Kingdom, mainland Europe or both.

Past performance should not be seen as an indication of future performance. The value of investments and any income may fluctuate and investors may not get back the full amount invested. The views expressed are those of PSC Credit Holdings LLP at the time of writing, are subject to change without notice and do not constitute investment advice. Whilst PSC Credit Holdings LLP has used all reasonable efforts to ensure the accuracy of the information contained in this newsletter, we cannot guarantee the reliability, completeness or accuracy of the content.

This newsletter is provided for the purpose of information only, and if you are unsure of the suitability of this investment you should take independent advice.

Net Asset Value (NAV) performance is not linked to share price performance and shareholders may realise returns that are lower or higher in performance.

This newsletter is provided for information purposes only and should not be construed as constituting an offer, solicitation, invitation or inducement to buy or sell shares in Pollen Street Secured Lending plc.

This newsletter includes forward-looking statements. These forward-looking statements include all matters that are not historical facts, statements regarding the Company's and/or the Investment Manager's intentions, beliefs or current expectations concerning, among other things, the Company's results of operations, financial condition, liquidity, prospects, growth, strategies and the sector in which the Company operates. By their nature, forward-looking statements involve risks and uncertainties. You are cautioned that forward-looking statements are not guarantees of future performance and that the Company's actual results of operations, financial condition and the development of the sector in which the Company operates may differ materially from those made in or suggested by the forward-looking statements contained in this newsletter. Each of the Company and the Investment Manager expressly disclaims any obligation to update or revise any forward-looking statement contained herein to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based unless required to do so by law or any appropriate regulatory authority, including the Financial Services and Markets Act 2000 (as amended), the Prospectus

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Rules, the Disclosure Guidance and Transparency Rules, the Market Abuse Regulation and the Listing Rules.

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