

**SYGNUS**

CREDIT INVESTMENTS

**MANAGEMENT  
DISCUSSION  
& ANALYSIS**



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FOR THE YEAR ENDED **JUNE 30, 2020**

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# Sygnus Credit Investments Limited

## Audited Annual Financial Results for the Financial Year Ended June 30, 2020

Castries, St Lucia | Friday, August 28, 2020

Sygnus Credit Investments Ltd (“SCI” or “the Company”) is pleased to report on the audited financial results for the year ended June 30, 2020, as outlined in this Summary Management Discussion and Analysis. This Summary Management Discussion and Analysis should be read in conjunction with the audited financial statements for the Year Ended June 30, 2020.

### SUMMARY MANAGEMENT DISCUSSION AND ANALYSIS

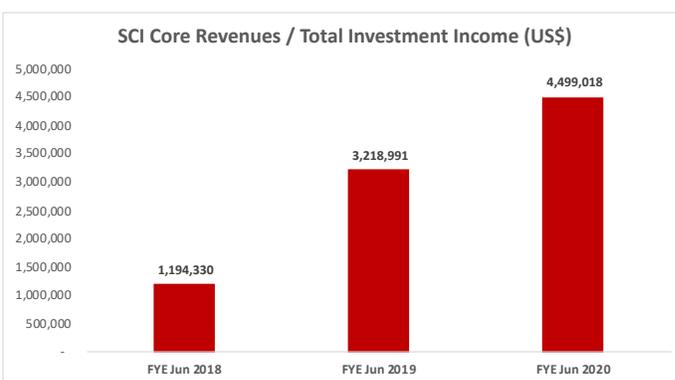
#### Results of Operations

Sygnus Credit Investments Limited reported record core revenues and core earnings, and marginally lower than record net profits for the financial year ended June 30, 2020. Subsequent to the audited financial statements, the Board of Directors will consider an interim dividend payment at a meeting to be held on September 4, 2020.

SCI’s results were driven by a record origination of private credit investments across the Caribbean region, in keeping with its mandate to drive the velocity of financing for middle-market companies, via the alternative investment channel. The results were partially adversely impacted by the one-off conversion of J\$1.2 billion to USD being part proceeds of new JMD debt that was raised and part proceeds of JMD investments that were exited during the third quarter. The results were also impacted by the one-off unscheduled investment exit of US\$10.30 million during the third quarter, due to the onset of COVID-19. The impact of the global Covid-19 pandemic on SCI’s business is an ongoing evaluation process as the crisis unfolds. However, SCI remains well positioned from a liquidity, funding profile and capital standpoint to play a major role in financing the recovery and growth of Caribbean middle-market firms, while proactively managing the risks of its diversified portfolio of investments.

SCI’s core revenues, or total investment income, grew by 39.8% or US\$1.28 million to a record US\$4.50 million, for the financial year ended June 30, 2020 (“FYE Jun 2020”). This compares with US\$3.22 million for the financial year ending June 30, 2019 (“FYE Jun 2019”). Ninety-nine point eight percent of core revenues were comprised of net interest income. Timing differences between the interest expense associated with new debt, and interest income earned from the deployment of that debt into new investment commitments, adversely affected the growth of core revenues. These differences should normalize over time.

	FYE Jun 2020	FYE Jun 2019
Summary Results of Operations	US\$	US\$
Interest Income	5,382,777	3,168,047
Interest Expense	(890,759)	-
Net Interest Income	4,492,018	3,168,047
Participation Fees	7,000	50,944
<b>Total Investment Income</b>	<b>4,499,018</b>	<b>3,218,991</b>
Total Operating Expenses	1,469,944	1,010,133
<b>Net Investment Income</b>	<b>3,029,074</b>	<b>2,208,858</b>
Loss on Sale of Investments	(8,370)	-
Fair Value Gain (Loss)	74,640	135,429
Net Foreign Exchange Gain (Loss)	(1,039,375)	(219,011)
Provision for Expected Credit Losses	(101,592)	(74,645)
<b>Profit for the Year</b>	<b>1,954,377</b>	<b>2,050,631</b>
Taxation Credit	18,416	-
<b>Profit Attributable to Shareholders</b>	<b>1,972,793</b>	<b>2,050,631</b>
<b>Earnings Per Share</b>	<b>0.56¢</b>	<b>0.59¢</b>
<b>Net Investment Income Per Share</b>	<b>0.87¢</b>	<b>0.63¢</b>



SCI’s core earnings, or net investment income, grew by 37.1% or US\$820.2 thousand to a record US\$3.03 million for FYE Jun 2020, versus US\$2.21 million for FYE Jun 2019.

Net profit attributable to shareholders was US\$1.97 million for FYE Jun 2020, marginally below the record US\$2.05

million for FYE Jun 2019 by 3.8% or US\$77.8 thousand.

Earnings per share (EPS) was 0.56 US cents for FYE Jun 2020 vs 0.59 US cents for FYE Jun 2019. Core earnings per share, or net investment income per share (NII) was a record 0.87 US cents vs 0.63 US cents for the prior year.

## **Sygnus Credit Investments Limited**

### **Audited Annual Financial Results for the Financial Year Ended June 30, 2020**

#### Total Operating Expenses

Total operating expenses increased by US\$459.8 thousand or 45.5% to US\$1.47 million for FYE Jun 2020 versus US\$1.01 million for FYE Jun 2019. This increase was driven primarily by higher management fees which rose by US\$298.8 thousand or 42.3%, in accordance with a 60.0% growth in assets under management. Management fees are charged at a rate of 1.9% of assets under management.

Management fees were 68.4% of operating expenses, amounting to US\$1.01 million vs US\$707.2 thousand for FYE Jun 2019, accounting for 70.0% of operating expenses.

Excluding management fees, operating expenses increased by US\$161.0 thousand, or 53.1% to US\$464.0 thousand vs US\$303.0 thousand for FYE Jun 2019. This increase was primarily driven by corporate service fees, commitment fees and registration fees. Corporate services fees reflected accrual expenses for a new contract with a related party covering the provision of accounting and other corporate services. Commitment fees reflected one-time expenses relating to the establishment of bank credit lines during the financial year.

#### Fair Value Gain / Loss

Fair value gains on profit sharing private credit investments, were US\$74.6 thousand for FYE Jun 2020 vs US\$135.4 thousand for FYE Jun 2019. The reduced gains reflected higher interest rates and widening credit spreads due to the global COVID-19 pandemic.

#### Net Foreign Exchange Gain / Loss

Net foreign exchange loss was US\$1.04 million for FYE Jun 2020 versus the loss of US\$219.0 thousand reported for FYE Jun 2019. The FYE Jun 2020 loss was primarily driven by the one-off conversion of J\$1.2 billion to USD being part proceeds of new JMD debt that was raised and part proceeds of JMD investments that were exited, during the third quarter. Net FX loss during the third quarter was US\$714.4 thousand amid a volatile FX market. As a result of the conversion, SCI's net JMD exposure was reduced from US\$13.81 million equivalent in FYE Jun 2019 to US\$3.17 million equivalent for FYE Jun 2020.

#### Provision for Expected Credit Losses (ECL) / Impairment Allowance on Financial Assets

The ECL for FYE Jun 2020 increased to US\$101.6 thousand vs US\$ 74.6 thousand for FYE Jun 2019. During the third quarter of FYE Jun 2020, 1 Portfolio Company's investment with a value of US\$1.43 million was moved to Stage 3 or the default category. This reclassification was done as the private credit investment terms for this Portfolio Company are being changed / restructured to better align its business prospects with the current global COVID-19 pandemic.

The restructuring exercise was still ongoing as at FYE Jun 2020 and represented SCI's first restructuring since inception after two and a half years without any credit related issues. The discounted value of the collateral for this Portfolio Company was larger than SCI's outstanding investment, which resulted in nil ECL being reflected for this investment as at FYE Jun 2020. The non-performing investment rate (NPI) was 2.7% of SCI's total Portfolio Company investments. 1 Portfolio Company with a value of US\$1.24 million falls under the enhanced monitoring category, with an ECL of US\$18.65 thousand. SCI does not have any realized losses from defaulted investments.

#### Total Revenues and Total Expenses

SCI's total revenues were comprised of core revenues, or total investment income (interest income and participation fees), plus the non-core revenue items comprising fair value gains, net foreign exchange gains and gain on sale of investments. Total revenues were US\$4.57 million for FYE Jun 2020, versus US\$3.35 million for FYE Jun 2019.

Similarly, SCI's total expenses were comprised of core operating expenses, plus the non-core items comprising net foreign exchange losses, fair value losses, provision for expected credit losses and loss on sale of investments. Total expenses were US\$2.62 million for FYE Jun 2020, versus US\$1.30 million in FYE Jun 2019. Non-core revenues and non-core expenses may fluctuate significantly from time to time based on market conditions.

#### Efficiency and Management Expense Ratios

SCI's core activities generated an efficiency ratio of 32.7% for FYE Jun 2020, vs 31.4% for FYE Jun 2019 and was well within the target threshold level of 40%. This ratio is computed by total operating expenses to total investment income. Total

## Sygnus Credit Investments Limited

### Audited Annual Financial Results for the Financial Year Ended June 30, 2020

operating expenses as a percentage of total assets under management, or management expense ratio (MER) was 2.4% for FYE Jun 2020 vs 2.6% the prior year. This ratio was well within the target level of 2.85%. Both ratios have remained below their target threshold levels for each of the past three financial years since inception.

#### Private Credit Investment (PCI) Activity

SCI had a record year of private credit investment activity across the Caribbean. At the FYE Jun 2020, SCI's investment in Portfolio Companies grew by 57.8% to a record US\$53.60 million versus US\$34.00 million in FYE Jun 2019. The number of Portfolio Company investments increased to a record 25 from 19 in the previous year. Portfolio Company investments include finance lease receivables on the balance sheet and is included in all investment activity.

	FYE Jun 2020	FY Jun 2019
Summary of Investment Activity	US\$	US\$
Fair Value of Investment in Portfolio Companies	53,595,750	33,966,572
New Investment Commitments During Period	54,725,233	20,700,420
Dry Powder to be Deployed*	5,505,973	6,467,692
Number of Portfolio Company Investments (#)	25	19
Average Investment per Portfolio Company	2,143,830	1,787,714
Weighted Average Term of Portfolio Company Investments (years)	2.1	1.9
Weighted Average Fair Value Yield on Portfolio Companies (%)	12.3%	12.3%
Non Performing Portfolio Company Investments**	1	Nil
Non-performing Investments Ratio	2.7%	Nil
* Does not include undrawn credit facilities ~US\$10.7 million		
**In the process of restructuring the terms of 1 Portfolio Company		

\* represents short term investment that was exited at maturity date, and later re-invested

#### Portfolio Company Investment Commitments

SCI originated and financed new investment commitments valued at a record US\$54.73 million during FYE Jun 2020 vs US\$20.70 million in FYE Jun 2019, gross of investment exits, amortizations. **Significant Exit:** During the third quarter of the financial year, there was an unscheduled early exit valued at US\$10.3 million. This large exit was primarily driven by COVID-19 developments, which temporarily delayed the use of funds by the Portfolio Company. The early exit was mutually agreed between SCI and the Portfolio Company. Fair value of investments in Portfolio Companies would have been larger had it not been for this significant unscheduled exit.

#### Weighted Average Investment Tenor and Investment Yield

At FYE Jun 2020, the weighted average tenor of Portfolio Company investments increased to 2.1 years vs 1.9 years at FYE Jun 2019. The weighted average fair value yield on Portfolio Companies was 12.3% in FYE Jun 2020, the same as FYE Jun 2019.

#### Allocation by Industry and Country of Incorporation

SCI's Portfolio Companies were diversified across a record 10 major industries in FYE Jun 2020, up from 8 the preceding year. Excluding Dry Powder, the top four industry allocations were Infrastructure (19%), Manufacturing (18%), Hospitality (15%) and Distribution (11%).

SCI expanded its regional footprint to a record 7 Caribbean territories in FYE Jun 2020, up from 5 the prior year, with its first investments in the Bahamas, and the SSS Islands (Saba, St Martin and St Eustatius) of the Dutch Caribbean. Portfolio Companies from Jamaica accounted for the highest allocation of SCI's Portfolio at 50%, coming down from 59% the prior year.

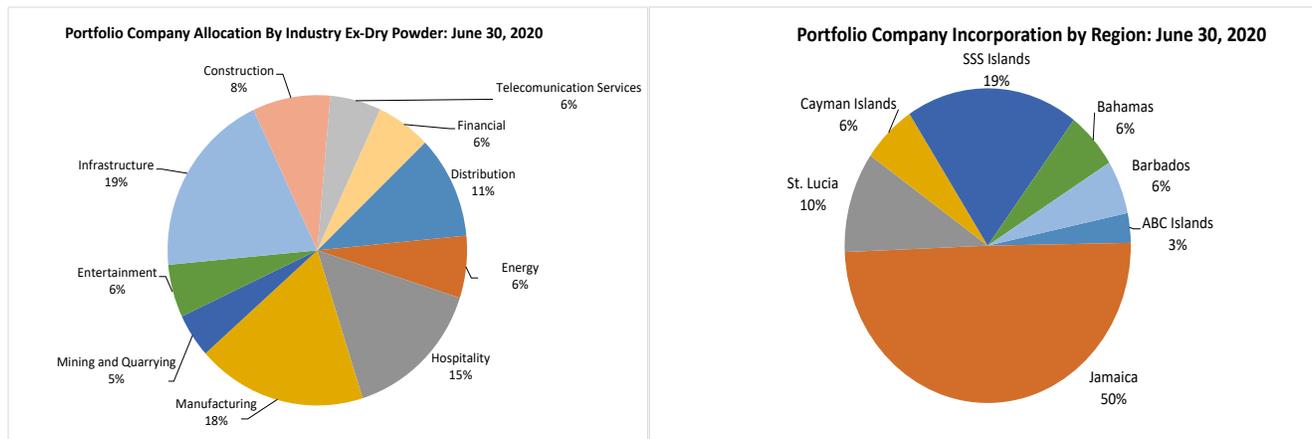
#### Liquidity and Capital Resources

At the end of FYE Jun 2020, SCI had US\$5.51 million in Dry Powder on its balance sheet. In addition, SCI had US\$10.7 million in undrawn credit facilities, and thus had adequate available capital to finance new private credit investment opportunities. In terms of capital raising activities, during the second and third quarter of the financial year, SCI successfully raised the equivalent of US\$14.87 million in its first ever JMD and USD debt issuance, via private placements. During the fourth quarter, SCI also raised US\$10.00 million via a short-term bridge note (US\$5.00 million undrawn). SCI also had two revolving credit

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### Audited Annual Financial Results for the Financial Year Ended June 30, 2020

facilities that were negotiated during the first and second quarter of the financial year. These various debt facilities were used to grow SCI's balance sheet and helped to fund its record growth in origination activities across the Caribbean region.



### Balance Sheet

At the end of FYE Jun 2020, SCI had US\$61.04 million in total assets, up US\$22.89 million or 60.0% over last year, mainly comprising of a record US\$53.60 million in 25 Portfolio Companies, US\$5.51 million in Dry Powder, and US\$1.94 million in other assets.

During the second and third quarter SCI had total liabilities of US\$23.37 million for FYE Jun 2020, versus US\$559.38 thousand the prior year. The major components of the FYE Jun 2020 liabilities were US\$14.87 million in notes payable, US\$6.51 million in loans and borrowings and US\$1.98 million in accounts payable and accrued liabilities.

### Shareholders' Equity

Total shareholders' equity increased to US\$37.67 million at the end of FYE Jun 2020, versus US\$37.59 million at the end of FYE Jun 2019.

### COVID-19: Impact, Risk Management and Opportunities

#### Summary COVID-19 Impact

The following table summarizes the impact of COVID-19 on SCI which occurred during the last four months of FYE Jun 2020.

Item	Comments
Fair Value Impact	Covid-19 induced spread widening and rise in interest rates lead to lower fair values on assets carried as fair value through the income statement at FYE Jun 2020
Non-performing Investment	First non-performing private credit investment occurred during the third quarter, driven by impact on mining industry from COVID-19 lockdowns. The terms of the private credit instrument are being restructured to better match the Portfolio Company's prospects given the current environment. Portfolio company, which had stopped operations due to closure of the bauxite and alumina plant, has resumed operations. There is no realized loss associated with this investment at FYE Jun 2020.
Unscheduled Investment Exit	During the third quarter in March 2020, there was a US\$10.3 unscheduled investment exit from a hospitality asset as proactive mitigation against COVID-19.

The Caribbean region continues to reel from the effects of the global COVID-19 pandemic, with varying degrees of impact on the economies in which SCI's Portfolio Companies operate. While the assessment of the overall impact of COVID-19 is ongoing, SCI continues to rely on the deep knowledge, experienced team and proven investment philosophy that has been developed by its Investment Advisor and Investment Manager. The uncertainty from COVID-19 remains high and is likely to persist for some time, but we believe SCI has developed a number of sustainable competitive advantages and is thus well-positioned to navigate the COVID-19 environment. In addition, SCI's Portfolio across the Caribbean is primarily concentrated in industry leading middle-market firms and projects with excellent management teams, which are necessary pre-requisites for navigating through the COVID-19 pandemic.

## **Sygnus Credit Investments Limited**

### **Audited Annual Financial Results for the Financial Year Ended June 30, 2020**

SCI continues to focus on three key priorities during this COVID-19 period.

- proactively managing the risk of its private credit portfolio, that is, minimizing “realized” credit losses, versus “expected credit losses”, as the latter will fluctuate based on market conditions, but the former is permanent loss of shareholder value;
- maintaining ample liquidity and a flexible capital structure to support existing Portfolio Companies while playing offense on selective new investments with strong downside protection and;
- deepening current partnerships and building new relationships to grow the business beyond the duration of COVID-19.

#### Proactive Risk Management

As part of a three-phase risk management process, SCI continues to maintain frequent and proactive engagement with the executive management of its Portfolio Companies to monitor and assess COVID-19 risks. This process began at the onset of COVID-19 during the third quarter of FYE Jun 2020. During fourth quarter of FYE Jun 2020 SCI developed a short term COVID-19 assistance program (CAP) that was provided to Portfolio Companies that met certain prescribed criteria, which is the second leg of the three-phase process.

The third phase involves designing and executing longer-term plans for Portfolio Companies whose private credit investment terms need amending via a restructuring exercise, given the economic circumstances. This is done collaboratively with the management teams, principals or sponsors of each Portfolio Company. SCI will focus on credit-enhancing amendments and new investments by principals or sponsors, or, on incremental investments on attractive terms, where SCI may contribute to a solution alongside capital support from the principals or sponsors. While no two transactions are the same, SCI’s flexibility and nimbleness allows for the structuring of win-win outcomes. As discussed earlier in the MD&A, 1 Portfolio Company’s investment terms were being restructured as at FYE Jun 2020.

#### Liquidity, Capital Structure and Pipeline

As of FYE June 2020, SCI continued to be well positioned from a liquidity, funding profile and capital standpoint. SCI’s total Dry Powder (US\$5.51 million plus US\$10.70 million in undrawn credit facilities) to total assets (US\$61.04 million) ratio was 26.5%, which was a comfortable level to fund its operating expenses and pending new investment commitments as at FYE Jun 2020.

SCI had a debt-to-equity ratio at FYE Jun 2020 that was approximately 0.6X, lower than is typical for alternative investment or traditional financing firms. This provides SCI with flexibility in the current COVID-19 environment.

SCI continues to be systematic in its approach to originating private credit investments across the Caribbean region. The focus remains on building a pipeline of niche opportunities to enhance shareholder value, and being a differentiated solutions provider, through our core competencies of:

- deep cross-sector expertise to diligence and manage risk exposures
- the ability to underwrite complexity
- the scale and certainty of capital to underwrite larger commitments
- the speed of execution we bring to our Portfolio Companies

SCI’s current pipeline of enhanced risk-adjusted return opportunities remains robust, and we are committed to playing a leading role in financing the rebuilding and recovery of middle-market companies across the Caribbean.

#### Partnership Approach

SCI continues to see an unprecedented opportunity to deepen existing relationships and forge new partnerships with industry leading companies by being a differentiated solutions provider. This includes collaborating with a wide cross section of traditional financial firms, to support companies that will survive the current pandemic environment and lead the economic recovery beyond the pandemic.

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**Top Ten Shareholders as of FYE Jun 30, 2020**

<b>Top Ten Shareholders</b>			
<b>No</b>	<b>Shareholders</b>	<b>Shareholdings</b>	<b>% Holdings</b>
1	ATL GROUP PENSION FUND TRUSTEES NOMINEE LTD	27,271,991	7.8%
2	MF&G TRUST & FINANCE LTD	20,144,000	5.8%
3	NATIONAL INSURANCE FUND	20,000,000	5.7%
4	JMMB FUND MANAGERS LTD - T1 EQUITIES FUND	19,460,000	5.6%
5	JCSD TRUSTEE SERVICES LTD - SIGMA EQUITY	11,898,735	3.4%
6	JCSD TRUSTEE SERVICES LTD - SIGMA GLOBAL EQUITY	11,809,955	3.4%
7	HEART TRUST / NTA PENSION SCHEME	8,189,300	2.3%
8	GASSAN AZAN	7,285,700	2.1%
9	JAMAICA MONEY MARKET BROKERS LTD FM10	6,933,400	2.0%
10	WILDELLE LIMITED	5,500,000	1.6%
	<b>Subtotal</b>	<b>138,493,081</b>	<b>39.6%</b>
	<b>Total</b>	<b>350,087,563</b>	<b>100.0%</b>

**Shareholdings of Directors, Senior Managers & Connected Parties as of FYE Jun 30, 2020**

<b>Shareholdings of Directors, Senior Managers &amp; Connected Parties</b>				
<b>No</b>	<b>Director</b>	<b>Shareholdings</b>	<b>Connected Parties</b>	<b>% Holdings</b>
1	Clement "Wain" Iton	95,200	N/A	0.03%
2	Linval Freeman	10,000	Donna Freeman Kristifer Freeman Kimberly Freeman	0.003%
3	Ian Williams	1,000,000	Ladesa Williams	0.29%
4	Hope Fisher	Nil	N/A	Nil
5	Damian Chin	Nil	N/A	Nil
6	Peter Thompson	Nil	N/A	Nil
7	Dr. Ike Johnson	95,300	N/A	0.03%
<b>Shareholdings of Directors, Senior Managers &amp; Connected Parties</b>				
<b>No</b>	<b>Senior Management</b>	<b>Shareholdings</b>	<b>Connected Parties</b>	<b>% Holdings</b>
1	Sygnus Capital Management	5,300,000	Dr. Ike Johnson	1.5%
2	McNamara Corporate Services	Nil	N/A	Nil