



SYGNUS

CREDIT INVESTMENTS

**MANAGEMENT
DISCUSSION
& ANALYSIS**

**Pioneering Private Credit
in the Caribbean**

FOR THE YEAR ENDED **JUNE 30, 2023**

SYGNUS | CREDIT INVESTMENTS

Pioneering Private Credit in the Caribbean

FYE | Earnings Call
JUNE 30, 2023

MONDAY

SEPTEMBER

4

2023

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Sygnus Credit Investments Limited

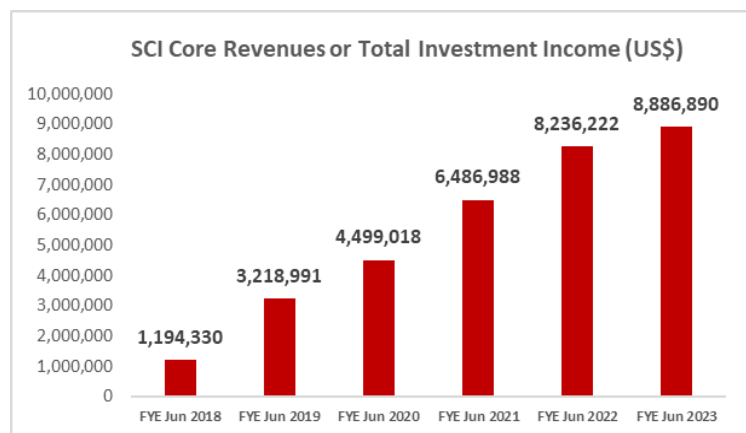
Audited Annual Financial Results for the Financial Year Ended June 30, 2023

Sygnus Credit Investments Limited (“SCI” or “the Group”) is pleased to report on its audited financial results for the year ended June 30, 2023 (“FYE June 2023”). The audited financial results are accompanied by a summary management discussion and analysis (“MD&A”) which is to be read in conjunction with the audited financial statements. The summary MD&A was prepared by management to provide shareholders with additional insights into the operations of the Group. It may contain forward-looking statements based on assumptions and predictions of the future, which may be materially different from those projected.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of Operations

Sygnus Credit Investments Limited’s sixth financial year was marked by record total investment income of US\$8.89 million, record net profits of US\$5.13 million and growth in its private credit portfolio beyond the US\$150.0 million threshold for the first time. SCI concluded the full integration of Acrecent Financial Corporation (“AFC” or “Acrecent”) into its operations effective the end of the financial year, while increasing its stake from an initial 93.7% to 95.0% during the June quarter. AFC experienced its highest ever origination and deployment of capital during the period. The Group paid US\$2.55 million in dividends to shareholders during the year, bringing total dividends paid since its first dividend in October 2018 to US\$10.35 million, equivalent to 17.0% of share capital. In keeping with its promise to shareholders, the Group launched a 3-year share-buyback program of up to US\$9.0 million during the June quarter, with initial repurchases of 2,614,799 ordinary shares amounting to US\$246.0 thousand, executed over the last three trading days of FYE June 2023. SCI’s Board of Directors will meet to consider an interim dividend payment in September 2023.



Caribbean rating agency, CariCRIS, reaffirmed SCI’s credit ratings of jmBBB+ and CariBBB- with a stable outlook in August 2023. The effort to diversify SCI’s financing mix, by tapping US\$100 million in credit facilities from international financing partners, continued to progress well, as discussions are continuing. In an effort to continue growing and expanding the business and finance SCI’s substantial pipeline of private credit opportunities, particularly from the Jamaican territory, the Group is awaiting final approval from regulatory authorities to launch a multi-tranche public offering of preference shares. The Group is in the process of substantially deepening its private credit business in specific English-speaking Caribbean territories, while the Puerto Rican private credit business is scheduled to launch its biggest financing product during the 2023/24 financial year.

SCI’s results for FYE June 2023 were underpinned by a larger portfolio of private credit investments relative to the similar period last year, sustained and focused efforts in investment origination and the structuring of investments with adequate downside protection aimed at effectively managing risk exposures. The impact of the global COVID-19 pandemic on the Caribbean region has subsided significantly. However, the lingering macro-economic impact of the pandemic, a higher inflation environment accompanied by higher interest rates and subsequent risks to economic growth, coupled with ongoing geopolitical risks, require the Group to stay vigilant in its overall monitoring of portfolio companies. Notwithstanding, SCI’s private credit portfolio and robust pipeline of opportunities, remain resilient and well positioned to navigate this uncertain period.

	FYE June 2023	FYE June 2022
Summary Results of Operations	US\$	US\$
Interest Income	14,085,331	10,217,443
Interest Expense	(5,949,995)	(3,112,690)
Net Interest Income	8,135,336	7,104,753
Participation and Commitment Fees	379,203	42,697
Puerto Rico Credit Fund Investment Income	372,351	1,098,772
Total Investment Income	8,886,890	8,246,222
Total Operating Expenses	3,803,689	2,979,980
Net Investment Income	5,083,201	5,266,242
Fair Value Gain (Loss)	886,491	2,878,590
Net Foreign Exchange Gain (Loss)	146,069	(405,221)
Impairment Allowance on Financial Assets	(844,920)	(3,820,134)
Profit for the Period	5,270,841	3,919,477
Taxation Charge	(136,203)	(96,373)
Profit Attributable to Shareholders	5,134,638	3,823,104
Earnings Per Share	0.87¢	0.65¢
Diluted Earnings Per Share	0.82¢	0.65¢
Net Investment Income Per Share	0.86¢	0.89¢

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SCI's core revenues, or total investment income, grew by 7.8% or US\$640.7 thousand to a record US\$8.89 million for FYE June 2023. This compared with US\$8.25 million for the financial year ended June 30, 2022 ("FYE June 2022"). This performance was driven primarily by growth in the private credit portfolio, which generated record net interest income of US\$8.14 million driven by higher yields, and record participation and commitment fees which jumped by more than 7-fold to US\$379.2 thousand. The higher interest income more than offset higher interest expenses, which was driven by increased levels of debt capital and a higher cost of debt. Note that net interest income included interest expense related to financing of the Acrecent acquisition, but there was no corresponding interest income revenue item, since AFC didn't meet the accounting requirements for consolidation. Thus, there was an apparent "gapping" of net interest income, reflecting lower than would be expected interest income.

The Puerto Rico Credit Fund ("PRCF") investment income effectively compensates for this apparent "gapping" in net interest income due to AFC and represented the value flowing through to SCI from the financials of the Puerto Rico business. This value was marked-to-market and carried as part of the total fair value represented in the audited financial statements. PRCF investment income was US\$372.4 thousand compared with US\$1.10 million in FYE June 2022. The lower figure was primarily driven by one-off tax related adjustments in June 2023 and upfront provisioning in June 2023 related to record deployment of assets driven by record origination activity. SCI increased its investment in Acrecent by acquiring an additional 1.3%, thus increasing its stake to 95.0%. The additional shares were acquired at the same price as the initial 93.7% stake in February 2022. The full integration of Acrecent was completed effective the end of the financial year, with the company optimized for growth and expansion as of July 1, 2023.

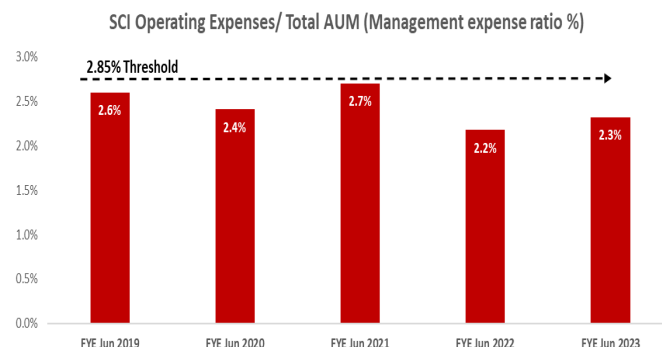
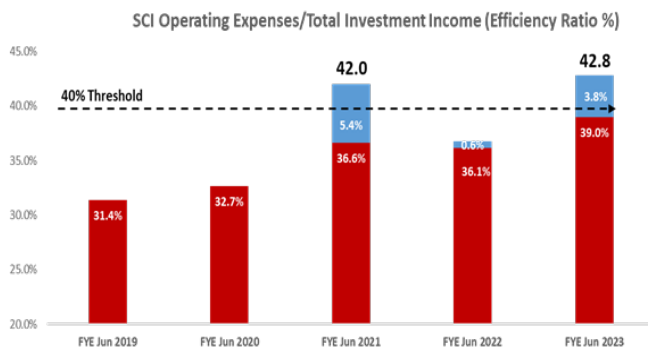
SCI's net investment income or core earnings, fell by 3.5% or US\$183.0 thousand to US\$5.08 million for FYE June 2023 compared with US\$5.27 million for FYE June 2022, as total operating expenses grew slightly faster than total investment income.

Net profit attributable to shareholders grew by 34.3% or US\$1.31 million to a record US\$5.13 million for FYE June 2023, compared with US\$3.82 million for FYE June 2022. This growth was driven by a combination of record total investment income, the recognition of foreign exchange gains this financial year compared with foreign exchange losses in FY June 2022, and substantially lower impairment allowance on financial assets this financial year compared with FY June 2022.

Earnings per share (EPS) was 0.87 US cents for FYE June 2023 versus 0.65 US cents for FYE June 2022. Diluted earnings per share was US\$ 0.82 cents for FYE June 2023 versus US\$0.65 cents last year. Net investment income per share (NIIPS) was US\$0.86 cents versus US\$0.89 US cents last year.

Total Operating Expenses

Total operating expenses increased by 27.6% or US\$823.7 thousand to US\$3.80 million for FYE June 2023, versus US\$2.98 million for FYE June 2022. This increase was driven primarily by higher management fees and corporate services fees related to larger assets under management, performance fees related to exceeding the hurdle rate and higher professional fees. Management fees and corporate services fees were a combined 73.4% of operating expenses for FYE June 2023 relative to 76.2% last year. The performance fees were US\$119.5 thousand or 3.1% of operating expenses relative to US\$50.94 thousand for FYE June 2022, accounting for 1.7% of operating expenses. Professional fees were US\$215.8 thousand relative to US\$91.69 thousand last year. The growth in professional fees reflected one-off consultancy costs for US\$75.00 thousand, increased costs for auditing, and legal costs.



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Excluding management fees, corporate services fees and performance fees, operating expenses were US\$892.04 thousand for FYE June 2023, up US\$232.9 thousand or 35.3% when compared to US\$659.12 thousand in FYE June 2022.

Efficiency and Management Expense Ratios

SCI's core activities generated an efficiency ratio of 42.8% for FYE June 2023 versus 36.1% for FYE June 2022, marginally exceeding the threshold level of 40.0%. The efficiency ratio is measured by total operating expenses to total investment income. This year's result was impacted by the incurring of Performance Fees (1.3%) and Professional Fees (2.4%), chiefly related to SCI's capital raising activities during the year. SCI's management expense ratio (MER) increased marginally to 2.3% versus 2.2% last year and was well within the threshold level of 2.85%.

Fair Value Gains or Losses

Fair value gains on profit sharing private credit investments for FYE June 2023 were US\$1.18 million, a decline of US\$2.89 million versus US\$4.07 million recorded in FYE June 2022. The FY 2022 total primarily reflected one-off gains on one portfolio company. This year's figure primarily reflected a lower amount of new fair value assets being added to the balance sheet, which more than offset the fair value losses from adverse movement in interest rates against the existing assets on the balance sheet. Interest rate movements may cause material fluctuations in fair value gains or losses from period to period. SCI had US\$22.63 million in fair valued private credit investments versus US\$25.86 million in the prior year. The reported fair value gains of US\$1.18 million in the audited financial statements reflected US\$805.9 thousand on private credit investments and the US\$372.4 thousand attributable to the Puerto Rico Credit Fund investment income.

Net Foreign Exchange Gains or Losses

Net foreign exchange gains of US\$146.1 thousand for FYE June 2023, was a reversal of net foreign exchange losses of US\$405.2 thousand reported for FYE June 2022. The movement in foreign exchange gains and losses was a general reflection of realized gains or losses on FX transactions (buying or selling) and unrealized gains or losses from the Group's net exposure to Jamaican dollars, which fluctuate based on movements in the JMD/USD exchange rate. SCI's JMD liabilities exceeded its JMD assets by 4.7%, versus 3.4% last year, which means that its balance sheet had a net negative exposure to the JMD, similar to its net negative exposure at FYE June 2022. SCI does not have a foreign currency trading business.

Change in Impairment Allowance on Financial Assets (IAFA)

The change in impairment allowance on financial assets for FYE June 2023 was a lower increase of US\$886.5 thousand versus an increase of US\$3.82 million for FYE June 2022. The lower allowance for this year primarily reflected fewer non-performing assets relative to last year when SCI took the full provision on a hospitality Portfolio Company in the Cayman Islands. The Portfolio Company was subsequently completely charged-off during the September quarter of this financial year. SCI is still pursuing all options in relation to the Cayman Islands asset. The FYE 2023 figure primarily reflected higher allowances for a Portfolio Company in the mining and quarrying industry. Impairment allowances are a non-cash unrealized charge, and reverses if an investment is exited without any realized credit losses or charge-offs. Over the past six years since SCI began operating, it has realized an annualized loss rate of less than 0.3% on the estimated US\$251.0 million of capital deployed across the Caribbean region.

Total Revenues and Total Expenses

Total revenues were comprised of core revenues, or total investment income plus the non-core revenue items of fair value gains, net foreign exchange gains and gain on sale of investments. Total revenues were US\$9.77 million for FYE June 2023 compared with US\$11.12 million for FYE June 2022.

Similarly, SCI's total expenses were comprised of core operating expenses, plus the non-core items of net foreign exchange loss, fair value loss, change in impairment allowance on financial assets and loss on sale of investments. Total expenses were US\$4.50 million for FYE June 2023 and versus US\$7.21 million for FYE June 2022. Non-core revenues and non-core expenses may fluctuate significantly from time to time based on market conditions.

Dividends

The group paid US\$2.55 million (US\$0.00431 per share) in dividends during the FYE June 2023 versus US\$3.10 million (US\$0.00524 per share) during the prior financial year. Total dividends paid since SCI's initial public offering in October 2018 amounted to US\$10.35 million or 17.0% of SCI's share capital. The board of Directors will meet in September 2023 to consider a dividend payment.

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Share Buyback Program

In alignment with the Group's commitment to delivering shareholder value, and its promise to shareholders as contained in SCI's articles of association, the company launched its share buy-back program in June 2023. A total of 2,614,799 shares were repurchased on the open market, comprising 136,525 USD ordinary shares and 2,478,274 JMD ordinary shares. This amounted to approximately US\$246,000 in total spend thus far. The transactions were executed over the last three trading days of the financial year. Going forward, our mandate of strategic repurchases resulting in accretive value to shareholders will continue to guide our buyback program. The buyback program will last for a period of 3 years from the launch and will be for an amount up to US\$9.0 million dollars. SCI will continue to make strategic repurchases resulting in accretive value to shareholders on an ongoing basis.

Delisting of Cross Listed Shares

SCI delisted its cross-listed JMD ordinary shares and cross-listed USD ordinary shares from the USD main market and the JMD main market of the Jamaica Stock Exchange during the Q3 March 2023 quarter. This action was taken given very low transaction volumes on the cross-listed market which was not meeting the intended purpose of facilitating investors free movement between JMD and USD shares. The Company will save the cost of the annual listing fees.

Private Credit Investment (PCI) Activity

SCI's investment in Portfolio Companies grew by 23.6% or US\$28.97 million to a record US\$151.48 million inclusive of the US\$24.88 million PRCF investment. Excluding the PRCF, the portfolio grew by 28.7% or US\$28.24 million to US\$126.59 million, up from US\$98.35 million last year. The number of Portfolio Company investments excluding the PRCF, increased from 30 to 39 investments. Prior to the FYE June 2023, SCI increased its stake in the Acrecent Financial Corporation acquisition to 95.0%, up from 93.7% (note: not consolidated into SCI). The full integration of AFC into SCI concluded at the end of the financial year, with AFC's balance sheet reflecting the new structure effective July 1, 2023, and only contains net earning assets. AFC had US\$70.7 million invested in 124 portfolio company investments at the end of June 2023. As part of the integration, administered assets are no longer a part of AFC's balance sheet. AFC had US\$77.30 million in administered assets off the balance sheet in addition to its balance sheet assets at FYE Jun 2022.

Summary of Investment Activity	FYE June 2023	FYE June 2022
	US\$	US\$
Fair Value of Investment in Portfolio Companies	151,476,730	122,509,031
Excluding PRCF	126,592,453	98,349,856
New Investments Commitments During Period	31,172,693	49,221,591
Dry Powder to be deployed*	4,464,694	8,470,884
Number of Portfolio Company Investments (#)	39	30
Average Investment per Portfolio Company	3,245,960	3,278,329
Weighted Average Term of Portfolio Company Investments(Years)	1.3	1.8
Weighted Average Fair Value Yield on Portfolio Companies	14.8%	13.3%
Non-performing Portfolio Company Investments (NPI)	2	2
Non-performing Investments Ratio	1.4%	2.3%

All the calculated metrics exclude investment in Puerto Rico Credit Fund (PRCF) of US\$24.88M on the balance sheet

PRCF represents SCI's 95% ownership in the Puerto Rico Credit Fund

**Excludes credit lines of US\$651.8K*

Portfolio Company Investment Commitments and Origination

SCI financed new investment commitments valued at US\$31.17 million for FYE June 2023 compared with US\$49.22 million for FYE June 2022. The Company continues to see great demand for private credit investments, especially with regards to acquisition financing. SCI's investment origination is broadening its scope across various industries and regions, capitalizing on the enhanced visibility and established relationships facilitated by its investment in Puerto Rico. Speaking of Puerto Rico, a record US\$65.1 million in deployment across AFC's portfolio characterized the size of the opportunity and pipeline in the Spanish-speaking territory.

Weighted Average Investment Tenor and Investment Yield

At the end of FYE June 2023, the weighted average tenor of Portfolio Company investments declined to 1.3 years relative to 1.8 years in the corresponding June 2022 period. This reduction was mainly attributable to new investments made during the period which had shorter term maturities, which was advantageous to the business as it continued to reprice new investments

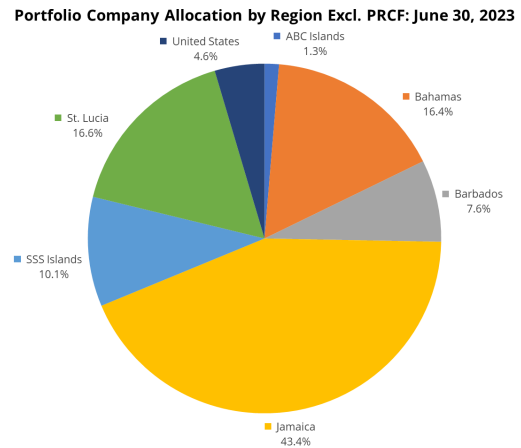
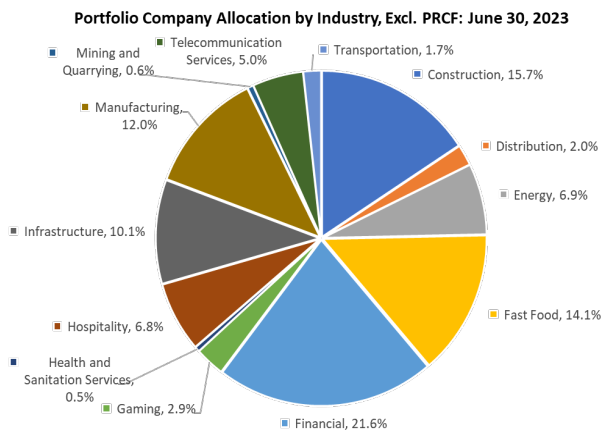
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at market rates in a higher interest rate environment. The weighted average fair value yield on Portfolio Companies increased to 14.8% compared with 13.3% last year. SCI's investment yield is expected to continue benefitting from the current high interest rate environment on a go forward basis. In Puerto Rico, AFC's weighted average yield was just north of 11.0% with an average tenor of approximately 1.5 years, compared with an average yield north of 10.0% and an average tenor of under 3.0 years at the similar period last year.

Non-performing Investments (NPI) Ratio

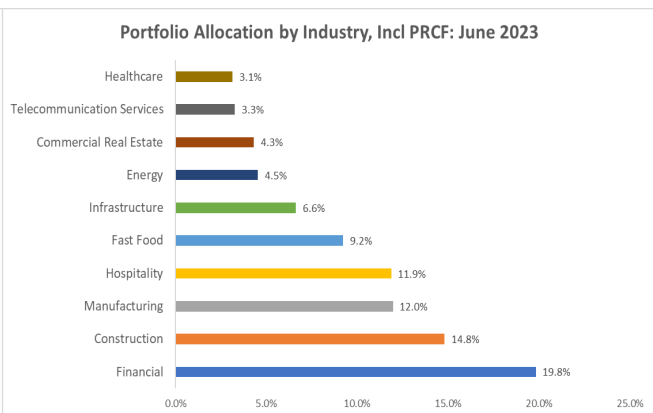
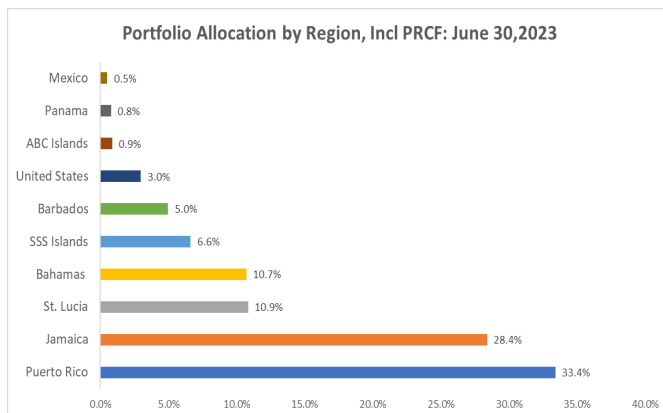
SCI's non-performing investment ratio for FYE June 2023 was 1.3% of its total private credit investment portfolio, compared with 2.3% for FYE June 2022.



Allocation by Industry and Region

SCI's total investment in Portfolio Companies, exclusive of PRCF, was diversified across a record 13 major industries and 7 territories, compared with 11 industries and 8 territories for FYE Jun 2022. The newest industry exposures during the year were to a portfolio company in the health and sanitation business in Jamaica, and a transportation business in the Bahamas. Jamaica represented the largest territory allocation at 43.4%, while financial services represented the largest industry at 21.6%.

For the combined portfolio, inclusive of PRCF's underlying holdings, investments were diversified across 22 industries (the most significant represented below) and 10 territories. Portfolio companies from Puerto Rico (33.4%) accounted for the highest allocation of SCI's combined portfolio, followed by Jamaica at 28.4%, St. Lucia at 10.9% and Bahamas at 10.7%. Assets from Panama, and Mexico were legacy assets that were "ring-fenced" during the acquisition and are being closed out.



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Liquidity and Capital Resources

Dry powder on the Group's balance sheet was US\$4.47 million, comprising of short-term instruments and cash. The Company also had undrawn revolving credit lines with minor balances. SCI continued progressive discussions with international financing partners to access credit facilities which would advance SCI's scaling of its business segments and expansion of new revenue streams. SCI is targeting US\$100.0 million in international credit facilities to meet the vast pipeline of opportunities in the regional private credit space. SCI has sought approval to launch a multi-tranche public offering of preference shares early during the new financial year to continue building and expanding its private credit business. This particular capital raise will primarily be targeting pipeline opportunities originating from the Jamaican territory.

Balance Sheet Summary

At the end of FYE Jun 2023, SCI had a record US\$163.86 million in total assets, an increase of US\$27.1 million or 19.8% over the corresponding period last year. This was mainly comprised of US\$151.48 million in private credit investments including US\$24.88 million attributed to the Puerto Rico Credit Fund, US\$22.63 million in investments measured at fair value through profit and loss, US\$103.70 million in investments measured at amortised cost and US\$263.2 thousand in finance leases measured at amortised cost. The growth in SCI's total assets was financed by capital raised through its multi-series debt instruments and preference shares.

SCI had total liabilities of US\$94.06 million at FYE June 2023, up from 69.33 million at FYE June 2022. The major components of liabilities were US\$77.07 million in notes payable and US\$7.96 million in loans & borrowings. Total shareholders' equity increased by US\$2.33 million or 3.5% to US\$69.81 million. SCI's debt to equity was 1.08x, below management's target threshold of 1.25x and below a limit of 2.0x, while debt to total assets was 0.49x, below the threshold level of 0.50x. Both ratios were reflective of a lowly leveraged balance sheet, in keeping with global best practices for private credit companies. The balance sheet was further enhanced by an asset coverage ratio of 1.78x, which was above the minimum target threshold level of 1.50x, again in keeping with global standards.

Summary Balance Sheet Information	FYE Jun 2023	FYE Jun 2022
	US\$	US\$
Cash and Cash Equivalents	4,464,694	8,470,884
Un-deployed Cash / Dry Powder	4,464,694	8,470,884
Investments Measured at FV through P&L	22,628,408	25,856,260
Investments Measured at Amortised Cost	103,700,846	70,892,544
Finance Lease Measured at Amortised Cost	263,200	1,601,052
Investment in Portfolio Companies	126,592,454	98,349,856
Investment in Puerto Rico Credit Fund	24,884,276	24,159,175
Total Investments in Portfolio Companies	151,476,730	122,509,031
	155,941,424	130,979,915
Other Assets:		
Investment Income Receivable	5,199,704	3,675,584
Other Receivables	907,424	525,090
Due From Related Parties	1,812,232	1,612,232
Deferred Tax Asset	3,650	1,146
Total Assets	163,864,434	136,793,967
Share Capital	60,883,532	60,883,532
Treasury shares	(242,950)	-
Retained Earnings	9,166,471	6,578,937
Total Shareholders' Equity	69,807,053	67,462,469

Covid-19 Impact, Risk Management and Opportunities

The Caribbean region has recovered from the effects of the global COVID-19 pandemic, with varying degrees of impact on the economies in which SCI's Portfolio Companies operate. The negative effects of the global pandemic have been replaced by new risks, namely a high inflation environment occasioned by multi-decades high interest rates providing headwinds for future global economic growth.

While the assessment of the overall impact of the current economic headwinds 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.

SCI continues to focus on three key priorities during this post covid adjustment period:

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- 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 its robust pipeline of investment opportunities across the Caribbean.
- deepening current partnerships and building new relationships across the Caribbean to widen its regional footprint and grow the business well beyond the duration of the current economic headwinds.

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Top Ten Shareholders			
No	Shareholders	Shareholdings	% Holdings
1	ATL GROUP PENSION FUND TRUSTEES NOMINEE LTD	27,271,991	7.8%
2	SJIML A/C 3119	25,425,700	7.3%
3	JCSD TRUSTEE SERVICES LTD - SIGMA EQUITY	21,977,915	6.3%
4	JMMB Fund Managers Ltd T1 - Equities Fund	19,460,000	5.6%
5	MF&G Asset Management Ltd	13,035,000	3.7%
6	Sagicor Pooled Equity Fund	12,729,600	3.7%
7	Heart Trust/NTA Pension Scheme	10,801,500	3.1%
8	Sagicor Equity Fund	10,735,900	3.1%
9	Sagicor JPS Employees Pension Plan	8,918,700	2.6%
10	Jamaica Money Market Brokers Ltd FM10	6,933,400	2.0%
	Subtotal	157,289,706	45.2%
	Total	348,239,700	100.0%

Shareholdings of Directors, Senior Managers & Connected Parties				
No	Director	Shareholdings	Connected Parties	% Holdings
1	Ian Williams	998,835	Ladesa Williams Zane Williams	0.3%
2	Hope Fisher	0	N/A	0.0%
3	Damian Chin	0	N/A	0.0%
4	Peter Thompson	0	N/A	0.0%
5	Dr Ike J. Johnson	95,300	N/A	0.0%
6	Linval Freeman	200,000	Donna Freeman Kristifer Freeman Kimberly Freeman	0.1%
7	Horace Messado	783,884	Lisa-Gaye Camille Messado	0.2%
	Subtotal	2,078,019	N/A	0.60%
Shareholdings of Connected Parties				
1	Sygnus Capital Group Limited	6,581,100	Dr Ike J Johnson	1.9%
	Total	348,239,700	N/A	100.00%