

We recommend a net buy allocation of £7.50 (i.e., £7,500,000.00) into a portfolio-acquisition strategy focused on purchasing diversified pools of SME credit exposures rather than originating single-name risk. The core objective is to dilute current leverage and stabilize cash generation by acquiring senior, short-duration, self-liquidating instruments (primarily receivables, inventory-backed facilities, and senior secured term debt), with a dedicated sub-allocation to Life Science SME credit where structural scarcity of capital supports lender-friendly terms. The strategy is executed through repeatable portfolio buys from non-core sellers (banks, specialty finance firms, and funds), emphasizing diversification, data transparency, and enforceable collateral.

Starting Point and Problem Statement

The current portfolio leverage profile remains the binding constraint. Equity-duration exposures and refinancing sensitivity have increased the cost of carrying leverage and reduced strategic flexibility. The priority is to introduce high-cash-pay, senior, collateralized assets with predictable amortization, thereby improving debt service capacity and lowering look-through LTV over time. A portfolio-acquisition model is preferred to single-asset underwriting because it enables faster deployment into diversified pools, reduces idiosyncratic risk, and creates scale economics in servicing, monitoring, and recoveries.

Recommendation and Capital Plan

We propose deploying £7.50 over a 12–18 month investment period, split 70% diversified SME credit portfolios (£5.25) and 30% Life Science SME debt portfolios (£2.25). This is explicitly a buy program. The “portfolio buy” focus is central: we acquire parts of SMEs’ capital structures via pooled exposures (e.g., trade receivables, invoice finance books, asset-based lending books, senior secured loan pools), rather than buying entire companies or taking concentrated equity stakes. The allocation is sized to be meaningfully accretive to cash yield and risk profile, but small enough to remain operationally tight, iterative, and scalable.

Strategy Overview: What We Buy

Diversified SME Credit Portfolios (Core Sleeve, 70%)

We target granular pools of senior SME exposures with short weighted average life and high visibility on collections. Typical assets include:

Trade receivables / invoice finance portfolios (self-liquidating, high turnover, data-rich)

Asset-based lending portfolios secured against receivables, inventory, and equipment

Senior secured SME term loans with amortization and covenant packages

Select distressed or “non-core” seller books where pricing implies conservative loss assumptions

The underwriting thesis is that portfolios purchased from motivated sellers can be acquired at attractive yields due to balance-sheet constraints, risk-weighting, or

strategic exits, rather than fundamental borrower deterioration. The return is generated primarily from cash pay and discount-to-par capture, not from credit beta.

Life Science SME Debt Portfolios (Opportunity Sleeve, 30%)

We focus on pools of senior secured Life Science SME credit exposures, prioritizing businesses with contracted revenues (tools, diagnostics services, CRO/CDMO, and capital-efficient platforms) rather than binary clinical risk. Where we do take exposure to therapeutics, we require stronger structural protections (first lien, tighter covenants, higher pricing, and greater collateral coverage). Portfolio purchases in this segment are often mispriced due to generalized risk aversion, creating an opportunity to buy seniority and structure at compelling yields.

Sourcing: Repeatable Portfolio Buys

We will source portfolios from:

Banks exiting non-core SME books due to capital treatment and concentration constraints

Specialty finance firms recycling capital or divesting seasoned pools

Private credit funds managing redemptions, vintage rotation, or mandate changes

Administrators/servicers of run-off portfolios

Competitive advantage is created through (i) fast execution (data rooms, standardized purchase agreements), (ii) strong servicing partnerships, and (iii) rigorous tape-level analytics to price risk at the pool level.

Underwriting and Pricing

We underwrite at two levels: pool-level economics and borrower-level stratification. Each portfolio is evaluated through historical performance (loss curves, delinquency roll rates, recoveries, dilution for receivables), collateral eligibility criteria, concentration caps, and servicing quality. Target economics are:

Gross portfolio yield: 10–12% for core diversified SME portfolios; 12–14% for Life Science pools

Net cash yield (post fees/servicing): 7–9% once stabilized

Weighted average life: 12–30 months for receivables/ABL pools; 24–48 months for term-loan pools

Conservative loss assumptions: base case cumulative losses of 2–4% for core pools and 3–6% for Life Science pools, with stress cases materially higher

We will preferentially buy at a discount to par when portfolios are seasoned, enabling returns from both cash collections and accretion. We avoid portfolios where performance relies on aggressive refinancing markets or covenant-lite documentation.

How the Strategy Dilutes Leverage

This strategy dilutes leverage by adding assets that:

Generate contracted, high-cash-pay income quickly (improving debt service coverage)

Self-liquidate via collections and amortization (returning capital without relying on exits)

Sit senior in the capital stack with enforceable collateral (improving downside outcomes)

Our stated aim is to reduce look-through LTV by 5–8 percentage points over 18–24 months through: (i) redirecting portfolio cash yield to pay down senior liabilities, (ii) recycling principal collections into similarly structured assets only when leverage targets are met, and (iii) avoiding long-duration equity exposures during the deleveraging phase.

Timeline and Execution Plan

0–3 months: Build pipeline and screening

Sign NDAs with 10–15 potential sellers/servicers

Standardize diligence checklist and purchase docs

Complete two pilot bids to calibrate pricing discipline

3–12 months: Deployment into 3–6 portfolio purchases

Deploy ~60–80% of capital into diversified pools

Maintain concentration limits by geography, sector, and obligor

Implement servicing and reporting cadence (weekly collections, monthly performance packs)

12–24 months: Stabilization, recycling, and optimization

Reach steady-state cash yield targets

Rotate out underperforming segments, increase allocations to best-performing pools

Expand seller relationships and negotiate repeat-forward flow options

KPI Framework (Investment Committee and Investor Reporting)

Portfolio-level KPIs

Net cash yield: 7–9% at steady state

Collection efficiency: >95% of expected collections (receivables pools)

30+ day delinquency ratio: maintained below agreed pool thresholds (set per asset type)

Annualized net loss rate: <3% core sleeve; <5% Life Science sleeve

Recovery rate on defaults: >75% core sleeve; >70% Life Science sleeve

Concentration: top 10 obligors <15% of any pool; single sector <20% (unless explicitly approved)

Deleveraging KPIs

Portfolio debt service coverage improvement quarter-on-quarter

Look-through LTV reduction of 5–8 pts over 18–24 months

Principal returned (collections/amortization) as % of invested capital: 25–35% by end of year two (depending on pool mix)

Risk Framework and Mitigants

Key risks: underwriting error at the pool level, servicing underperformance, and macro-driven SME stress. Mitigants:

Tape-level analytics with conservative loss and dilution assumptions

Strong servicing partners with aligned incentives and transparent reporting

Structural protections (collateral eligibility tests, reserves, trigger-based amortization)

Granular diversification; no reliance on a single borrower outcome

Staged deployment with pilot acquisitions before scaling

Conclusion: A Smaller, Scalable Buy Program Built for Repeatability

A £7.50 portfolio-acquisition program focused on purchasing pools of SME credit exposures provides a direct path to leverage dilution through early cash yield, amortization, and senior collateralized positioning. By prioritizing diversified portfolio buys—including a targeted Life Science SME debt sleeve—we seek to improve cash generation, lower portfolio volatility, and reduce look-through LTV by 5–8 points over 18–24 months, while targeting a 7–9% net cash yield and disciplined downside outcomes. The model is designed to scale: once performance data validates assumptions, the

platform can expand through repeat-forward flow agreements and larger pool acquisitions without changing the core risk philosophy.