



FASANARA CAPITAL

*"Learn how to see. Realize that everything
connects to everything else."*

Leonardo da Vinci



FASANARA CAPITAL

Fasanara Capital for MACROVoices

Investing in a Digital Future

December 2021

Confidential



MACROVoices
with hedge fund manager Erik Townsend



Signatory of:

PRI Principles for
Responsible
Investment

TCFD TASK FORCE ON
CLIMATE-RELATED
FINANCIAL
DISCLOSURES

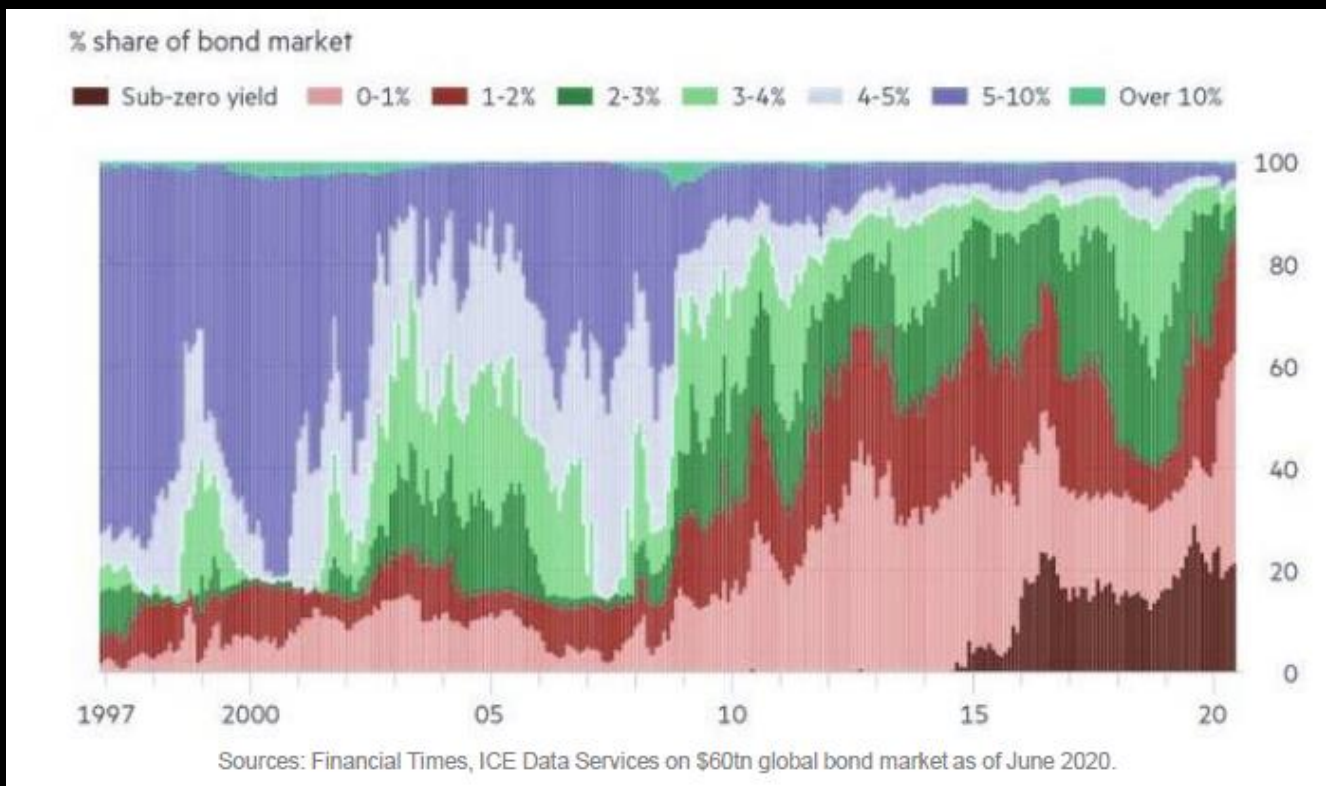


**Welcome to a
Digital Future.**

At a time in which bonds are no longer bonds but tax bills and equities are heavily disconnected from fundamentals, at a time in which capital markets are highly dysfunctional, **what role is left to play for us rational investors?**

More than 60% of bonds yields less than 1%; 86% less than 2%

ZIRP - NIRP



Lack of compelling alternative yield solutions, with investors often forced to take either duration (long-dated assets), illiquidity (private assets) or tail (structured products) risks.



**Markets are
Expensive,
Concentrated, Unequal
as never before**

Exhibit 12: The Main Street Inequality of 2020



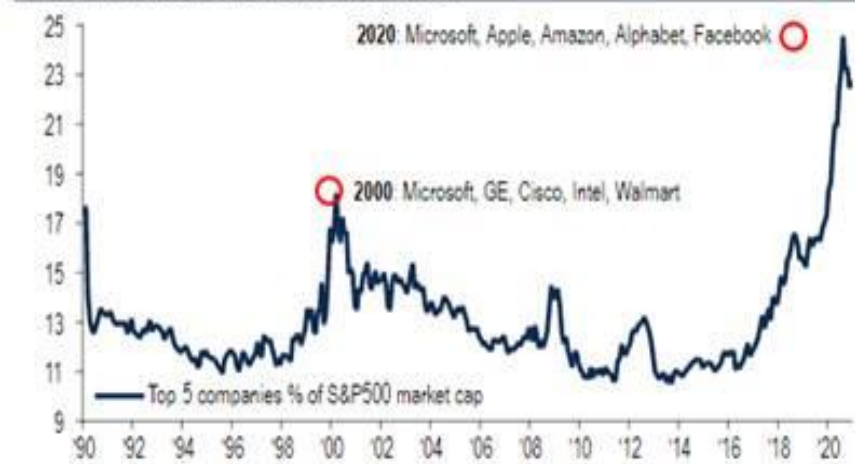
Source: Bank of America

Exhibit 10: The Stock Market's Excess Valuation heading into 2021



Source: BofA US Equity Strategy, Factset.

Exhibit 11: The Wall Street Polarization of 2020



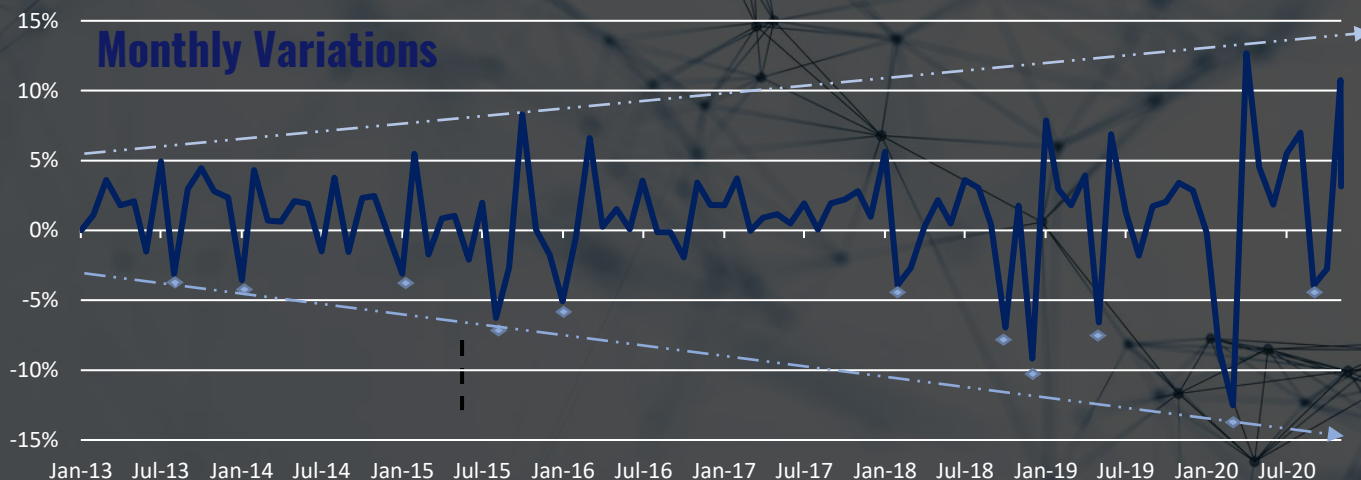
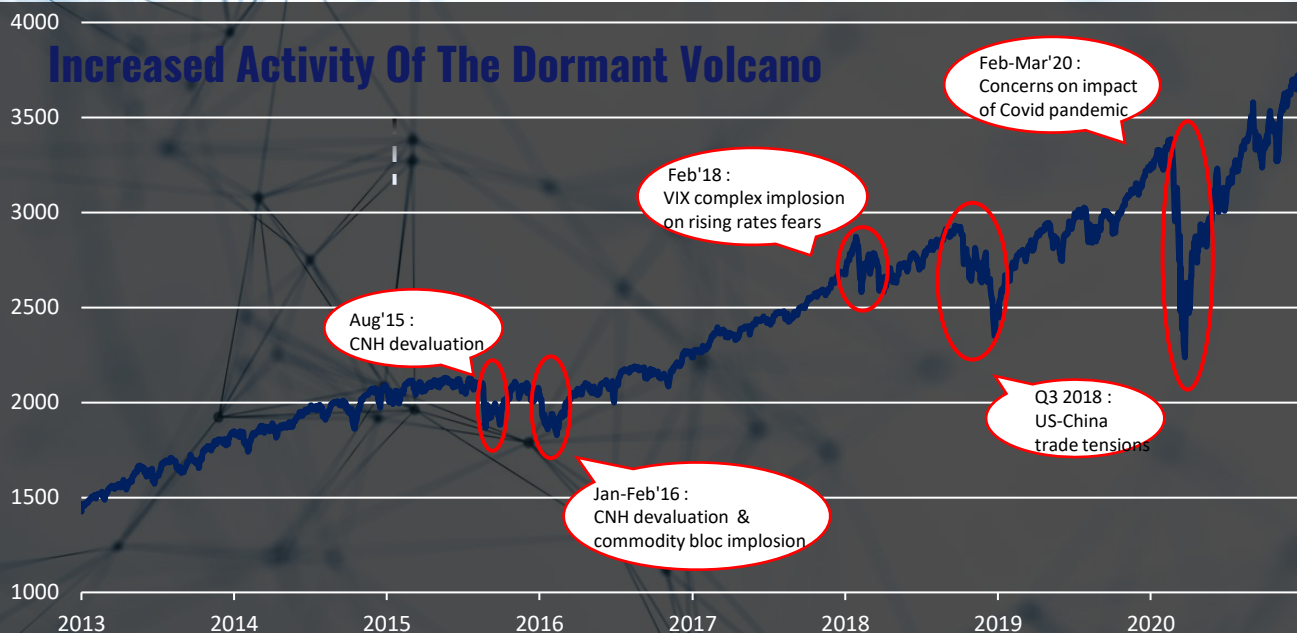
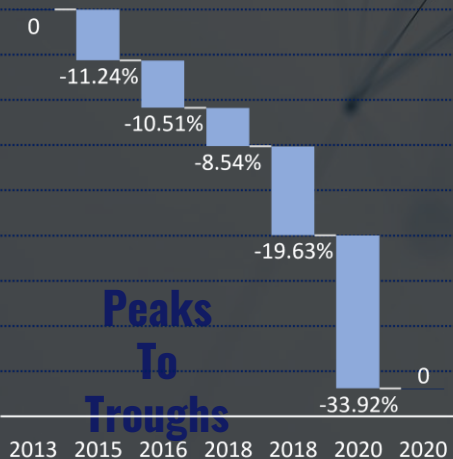
Crisis Times Rising In Magnitude And Speed



Seismograph of Market Activity

"Sleeping" Volcanoes Can Wake Up Faster Than Thought, In Mere Days Not Years

Source: Fasanara Ltd, Bloomberg



THE THEORETICAL ZONE, BETWEEN ORDER AND DISORDER



THE 'EDGE OF CHAOS': PHASE TRANSITION ZONE. WHERE RARE EVENTS BECOME TYPICAL

Complexity scientists from fields such as mathematics, biology, physics, ecology, psychology theorize on the **existence of this mysterious space, a theoretical zone, which sits in between order and disorder**, between symmetry and randomness. 'You've got randomness, and you've got order. And right between them, you've got a phase transition.' in the words of biophysicist John Beggs.

It is the **space, hypothesized to exist by scientists**, where snowflakes suddenly accrete to form avalanches at some critical tipping point, where fluid crystallize, where desertification rapidly oversets a green valley, where a volcano breaks into eruption, a forest burns itself out, a pandemic breaks loose.

Evolvability

Order vs Entropy. Symmetry vs Deterministic Chaos

Stability vs Flexibility, Efficiency vs Redundancy

Positive Feedback Loops vs Resilience

Evolution via major jump, a deep discontinuity

Critical transformation, into chaos and then an **alternative stable state**.

Resilience is adaptability. It is the capacity of a system to bounce back from a shock and revert to original state, continue functioning, the capacity to learn from disturbances.

WHAT CAN BE LEARNED FROM NATURE



FASANARA CAPITAL

SYSTEM FRAGILITY: DISEASE IS THE CURE

“The more efficient a market is, the less resilient it becomes.

When a system is tight in all directions, it loses the ability to learn, it becomes brittle.”

Roland Kupers, Resilience Action Initiative

“The disease is due to a deficiency of force.

The disease is the body’s attempt to cure itself.

The disease is the cure.

It’s a healing process.”

Dr Isaac Jennings, founder of philosophy of natural hygiene

“If you never burn a forest the species in there who are capable of putting up with fire eventually go out-competed; the only way to make a forest resilient to fire is to burn it.

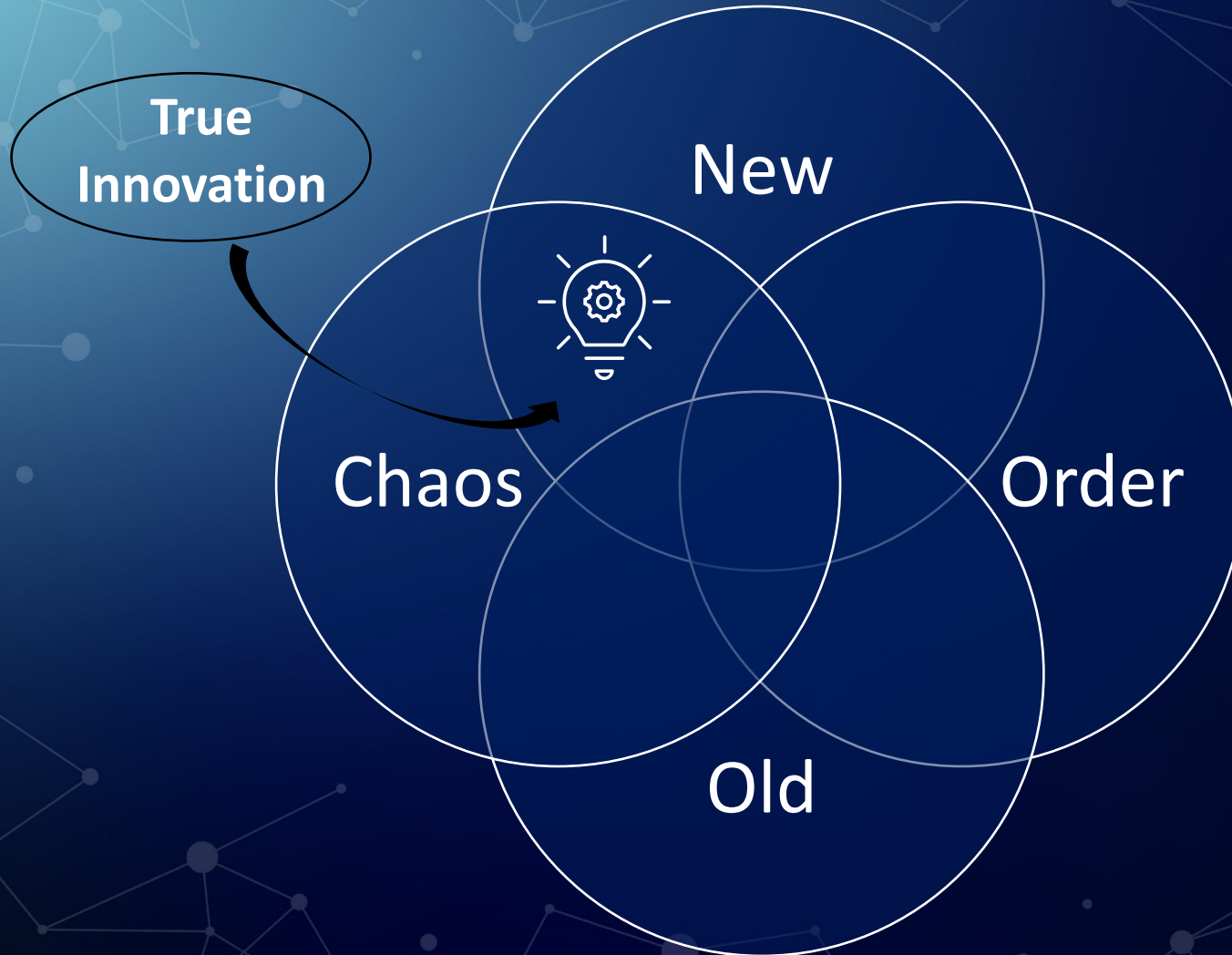
The only way to make children resilient to the environment is to expose them to it [‘sheltered kids do not make for capable adults’ Lythcott-Haims].

Resilience is maintained by probing the boundaries of the basin, otherwise the basin becomes smaller and smaller.

That’s how the body maintains a body temperature of 38 degrees (at 41 you die). We had 10 million years to develop the feedbacks we needed to adapt. Our earlier versions extinguished / got extinct.”

Brian Walker, Stockholm Resilience Centre

True Innovation Needs Chaos



Deep Transformation undergoing.. Transition into a new equilibrium



A timeline of events leading to the market economy of the future

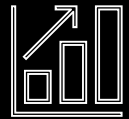
Short-Termism Syndrome

Full lockdown, QE, MMT, UBI, populism... Just variations on the theme of buying time, kicking the can down the road.



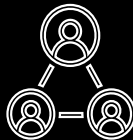
Retail-ification of the Investor Community

RobinHood Phenomenon, investment community behaving like retail investors chasing price increases, Long Beta/Carry, Short Vol/Tail Risk, Buying the Dip at every turn.



Platform-ification of Credit/ New Capital Markets

Opportunity for **data-driven, resilient & sustainable networks** to close the **funding gap** in the **real economy**, with capital from **institutional investors fleeing Fugazi Markets**.



Bitcoin-ization of Mainstream Markets

Public markets become **video games**, failing to allocate capital efficiently to the **real economy**. As Banks recede, institutional investors can leave the gambling environment and fill the gap in the real economy.





**Phase
Transition
Zone**

TWO SECULAR TRENDS INTERSECTING

System in
Transformation,
Positive Feedback
Loops, Runaway
Effects

INEQUALITY

Chronic Capitalism,
Free Market
Economy failures,
Excess Globalisation,
Income Gap, Lack Of
Opportunities And
Level Playing Field

Redistribution - Big Government

**NEW
EQUILIBRIUM**



TECHNOLOGY

Access To Data,
Processing Power, New
Technologies, FinTech &
DeFi



Revolution – Disintermediation /
Decentralisation Trend For
Financial Inclusion

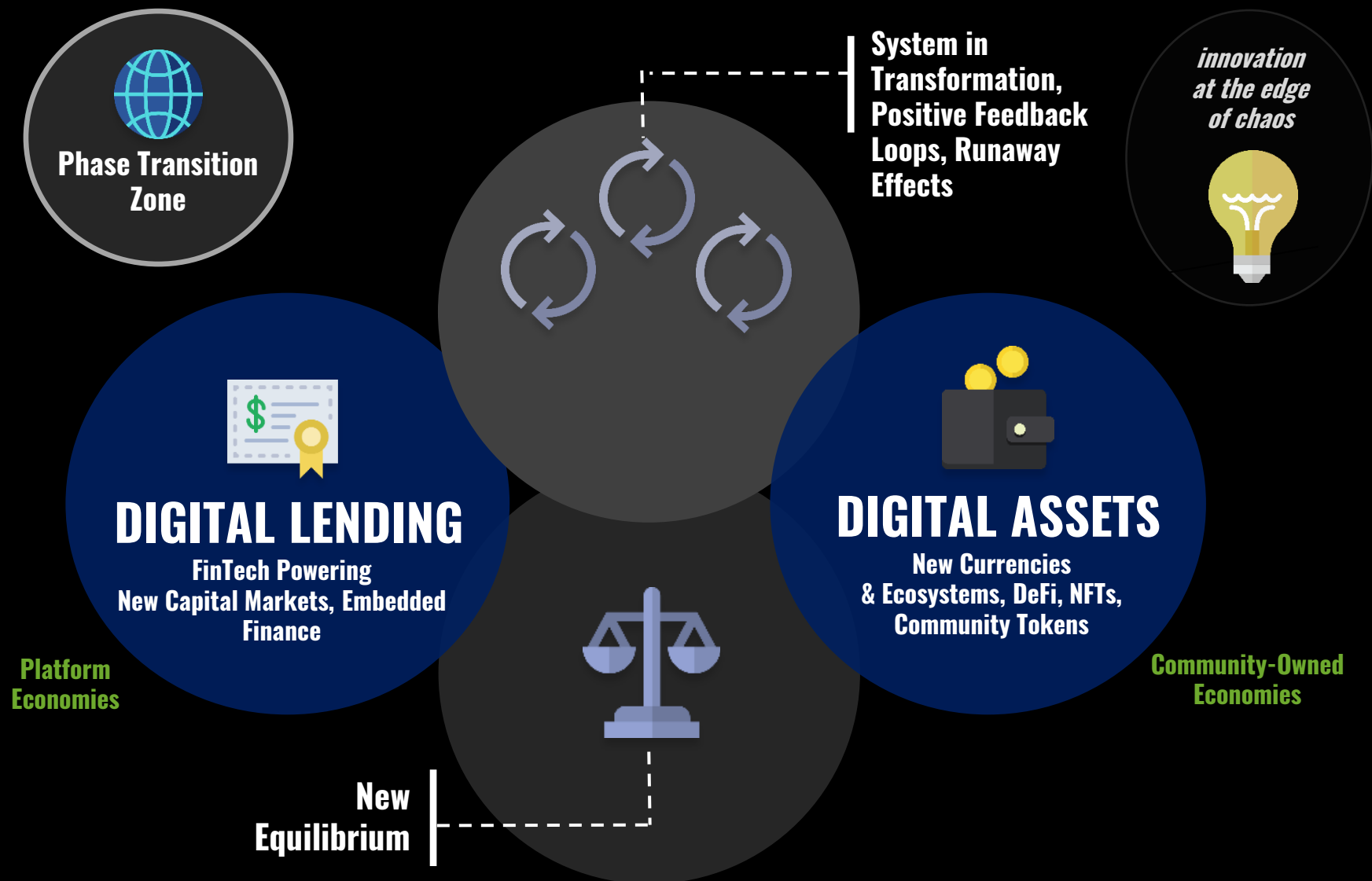


We conclude that the concentration of wealth is natural and inevitable, and is periodically alleviated by violent or peaceable partial redistribution. In this view all economic history is the slow heartbeat of the social organism, a vast systole and diastole of concentrating wealth and compulsive redistribution.

“In progressive societies the concentration [of wealth] may reach a point where the strength of number in the many poor rivals the strength of ability in the few rich; then the unstable equilibrium generates a critical situation, which history has diversely met by legislation redistributing wealth or by revolution distributing poverty.”

Will Durant, The Lessons of History

Welcome to a Digital Future





The 2020s will bring huge uncertainties for public assets, after a decade of unprecedented monetary printing created the largest bubble in modern financial markets. Despite that fragile environment, we see large opportunities in select, uncorrelated, niche private markets.

A FEW SECULAR TRENDS WILL AFFECT MARKETS IN THE NEXT DECADE:

1

European banks keep withdrawing from the market, depriving debt availability from SMEs, opening the opportunity up to private lenders.

2

Institutional Investors will increasingly seek to replace yield in a dramatic low interest rates environments, driving the demand side for private credit.

3

New technologies have reshaped the future of credit, ranging from AI/Machine Learning to Big Data and Fintech, thus allowing to build highly diversified granular portfolios, with an ultra-short duration, at high-digits yield, despite a strong credit quality.

4

The family of Fasanara Capital's private debt strategies aims at tackling macro uncertainties and tail risks in public assets, by proving an alternative place for capital, away and uncorrelated from twin bubbles in public equities and bonds worldwide.



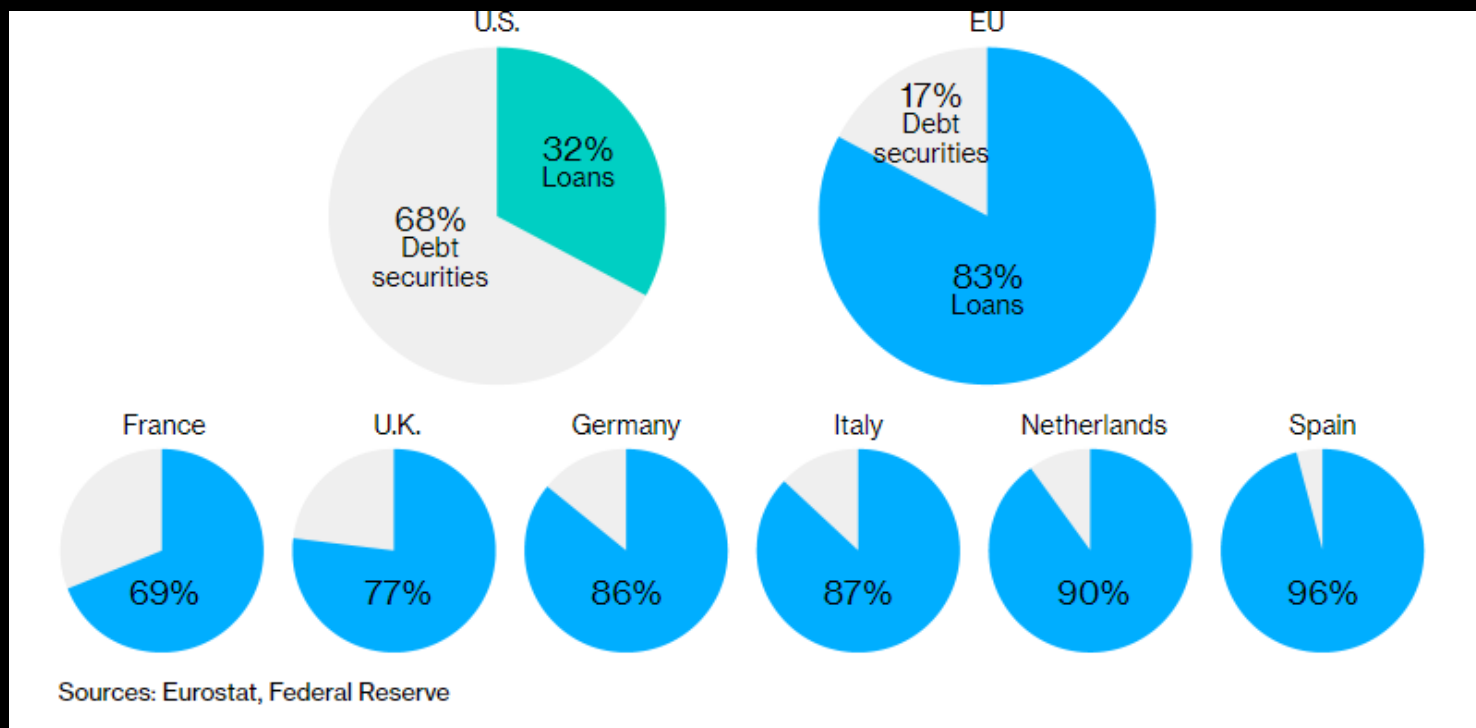
APPENDIX:

**Forget the gamification in markets, look beyond
for the Real Economy: the Funding Gap**



European Corporate Funding Market: Fragmented & Dislocated

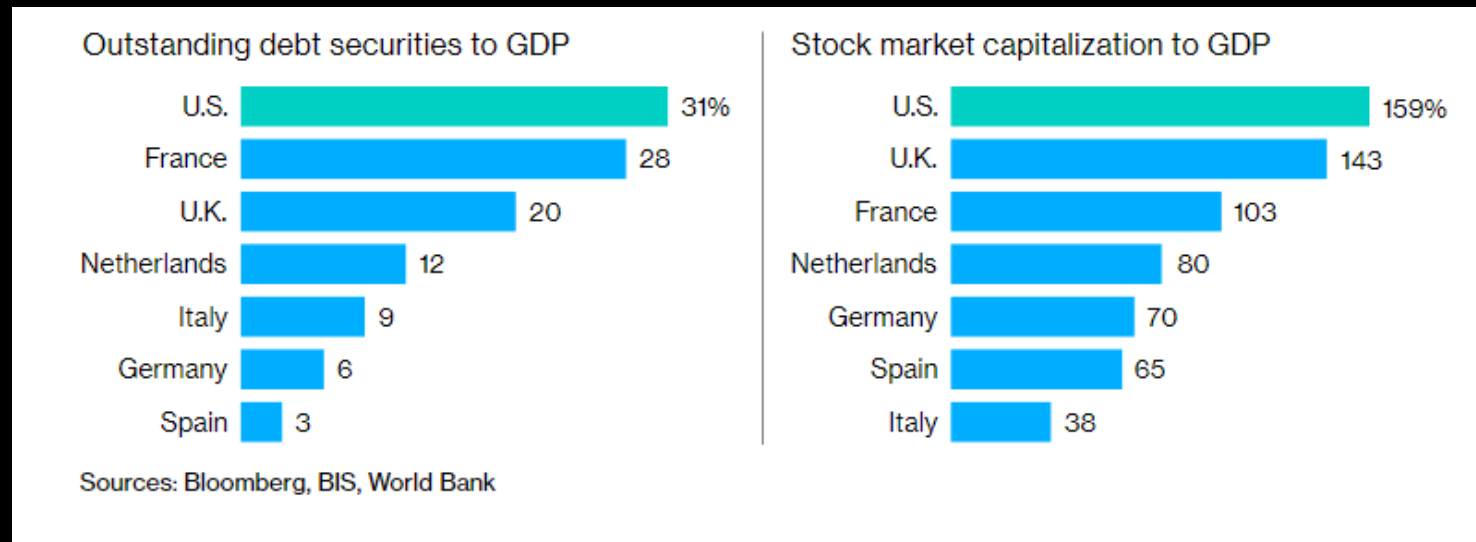
European banks provide the lion's share of funding to the real economy.



1.Source: Bloomberg



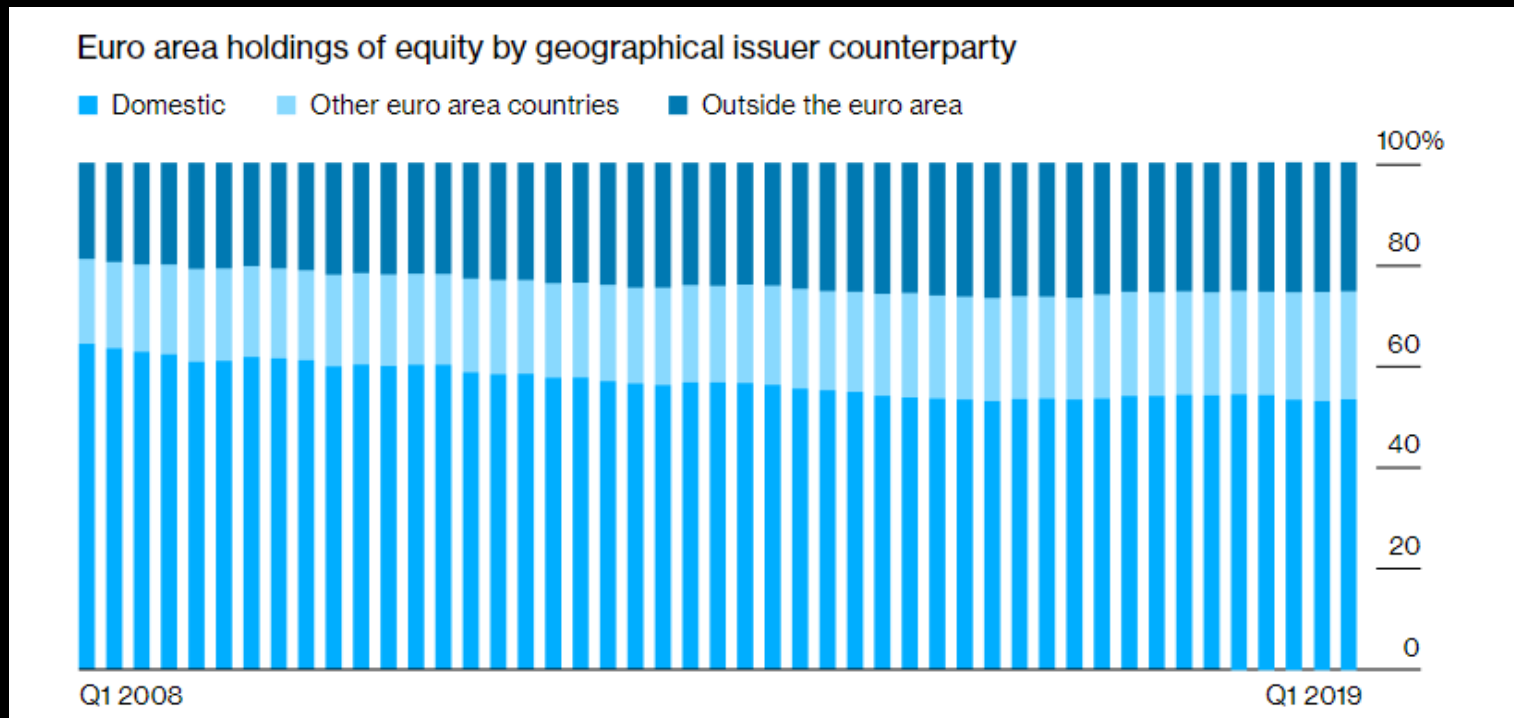
The lack of market-based financing in Europe is also evident in the size of national stock markets. The U.S. economy has a much larger pool of capital available that can be tapped by companies, while the EU's stock markets as a whole are smaller relative to the economy and vary greatly between countries. Corporate bonds also play varying roles within the bloc, and are dwarfed by the U.S. market. (Bloomberg)



1.Source: Bloomberg



Fragmented capital markets remain in Europe



1.Source: ECB, Bloomberg



Because Europe's companies depend more on loans than market funding, bank balance sheets are larger than in the U.S., where lenders have the added advantage that they can offload mortgages to Fannie Mae and Freddie Mac, government-sponsored enterprises that repackage and sell them to investors. The returns European lenders earn on those assets are dwarfed by their U.S. competitors.

Economic Area	Total assets	Return on assets
European Economic Area	\$33.6T	0.44
U.S.	17.9	1.33

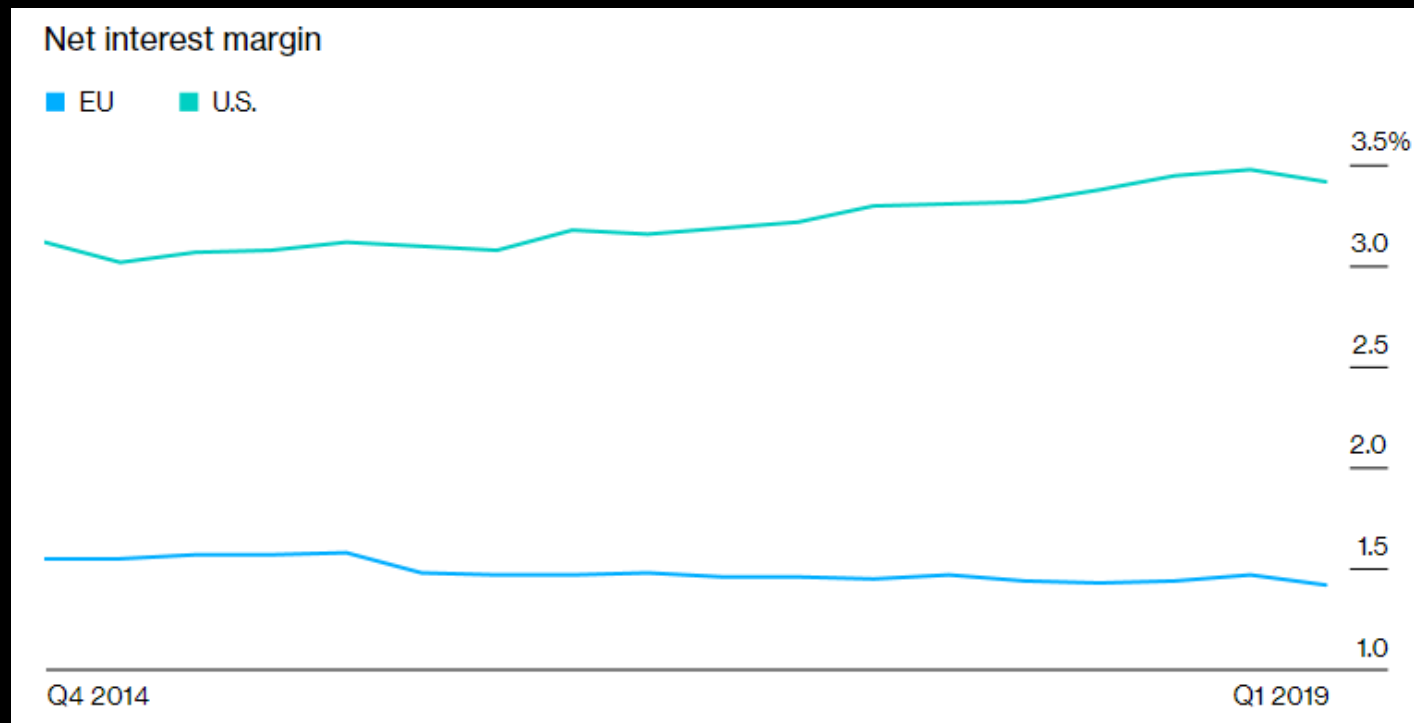
Note: Data for 4Q 2018
Sources: EBA Risk Dashboard, FDIC Quarterly Bank Data

1.Source: Bloomberg



The EU's beleaguered banking industry needs to diversify their income sources through fees

Negative interest rates have put a strain on income from lending in the past years, and with the economy weakening again, that's not likely to change any time soon



1.Source: FDIC, EBA

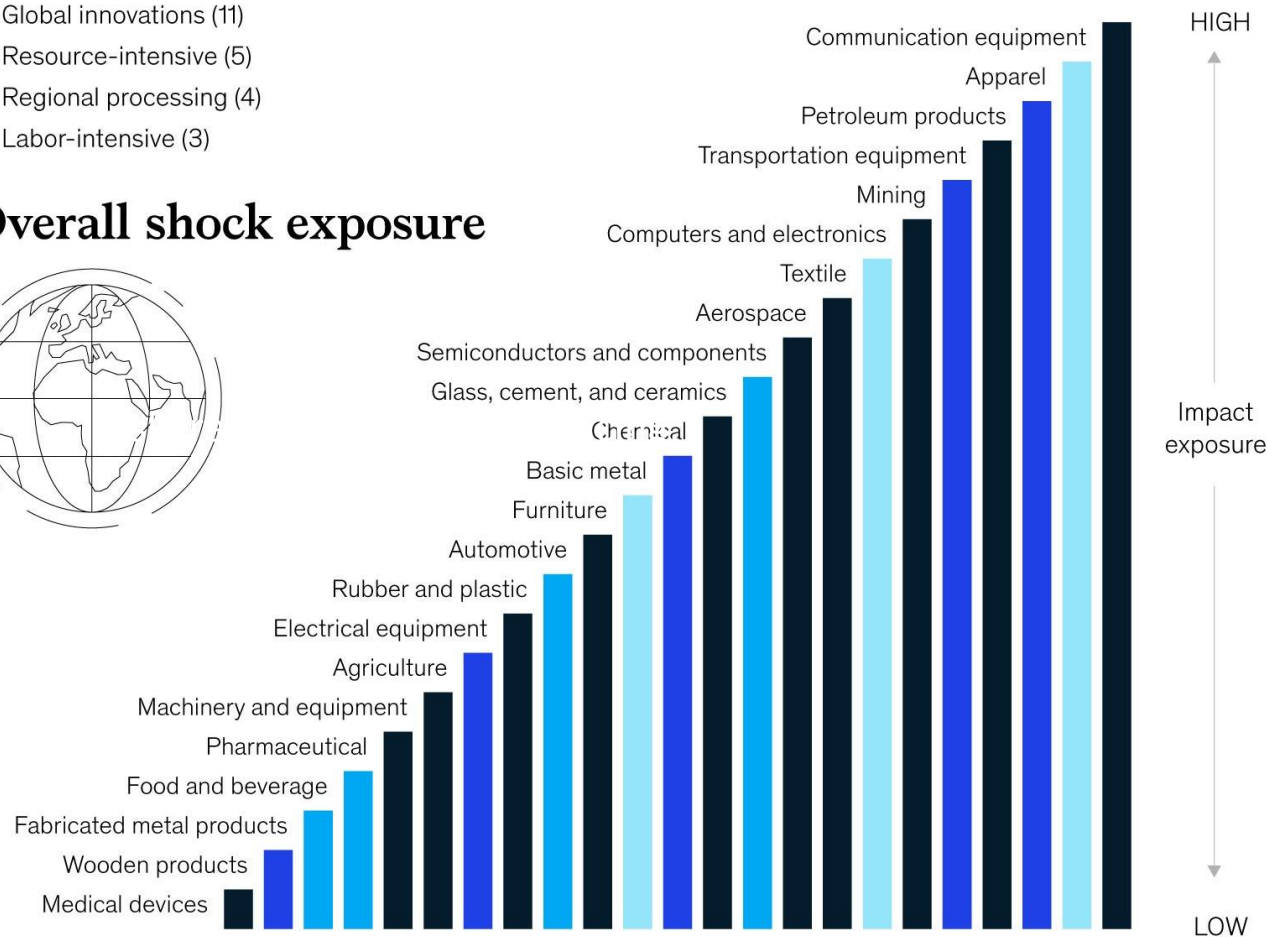


Industry
value
chains vary
in their
level of
exposure

Ranked by relative level of exposure

- Global innovations (11)
- Resource-intensive (5)
- Regional processing (4)
- Labor-intensive (3)

Overall shock exposure



Note: Chart considers exposure to shocks but not actions taken to build resilience or mitigate impact. Demand effects included only for pandemics.
Source: Federal Reserve Bank of St. Louis; INFORM; Observatory of Economic Complexity; Telegeography; US Bureau of Economic Analysis; US Bureau of Labor Statistics; World Input-Output Database; World Resources Institute; McKinsey Global Institute analysis



Banks' Enormous Competitive Threats — from Virtually Every Angle

Banks are playing an increasingly smaller role in the financial system.

The growth in shadow and fintech banking calls for level playing field regulation.

AI, the cloud and digital are transforming how we do business.

Fintech and Big Tech are here...big time!



Size of the Financial Sector / Industry

(\$ in trillions)		2000	2010	2020
Size of banks	U.S. banks market capitalization ¹	1.2	1.3	2.2
	U.S. GSIB market capitalization	0.9	0.8	1.2
	European banks market capitalization ¹	1.1	1.5	1.1
	U.S. bank loans ²	3.7	6.6	10.5
	Total U.S. broker dealer inventories	2.0	3.5	3.7
	U.S. bank common equity ³	0.4	1.0	1.5
	U.S. bank liquid assets ^{2,4}	1.1	2.8	7.0
Market size	Total U.S. debt and equity market	33.6	57.2	118.4
	Total U.S. GDP ⁵	13.3	15.8	18.8
Shadow banks	Total private direct credit	7.6	13.8	18.4
	Total U.S. passives and ETFs ⁶	6.9	13.6	30.8
	Total U.S. money market funds	1.8	2.8	4.3
	Hedge fund and private equity AUM ⁷	0.6	3.0	8.0
Size of evolving competitors	Google, Amazon, Facebook, Apple ⁸	NM	0.5	5.6
	Payments ⁹	NA	0.1	1.2
	Private and public fintech companies ⁹	NA	NA	0.8

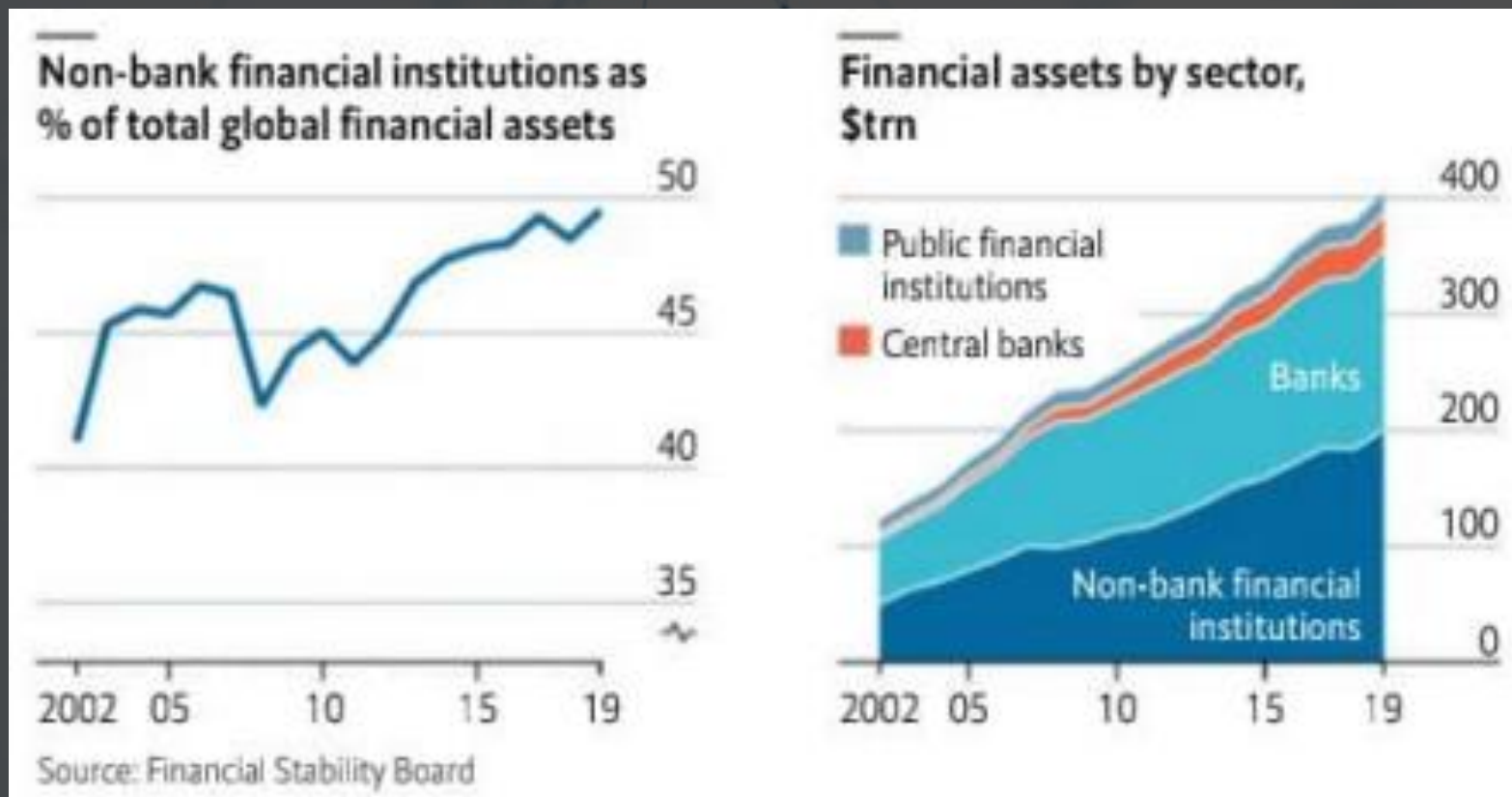
Sources: FactSet, S&P Global Market Intelligence, Federal Reserve Z.1, Federal Reserve H.8, Preqin and Federal Reserve Economic Data (FRED)

GSIB = Global Systemically Important Banks

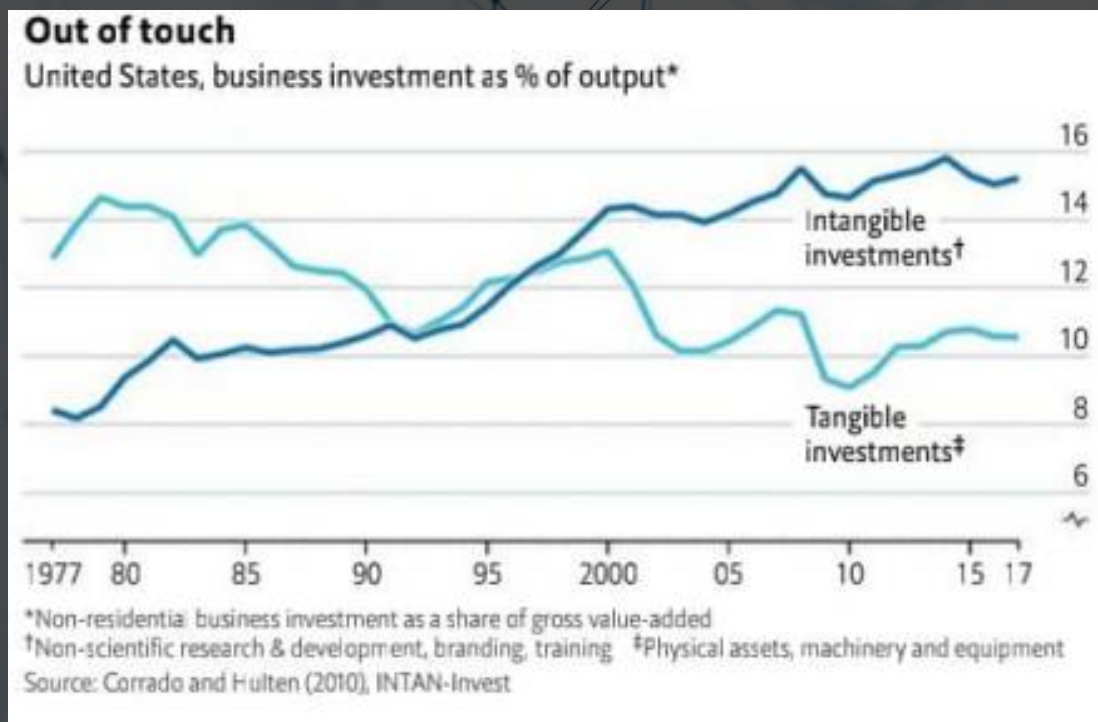
NA = Not applicable

NM = Not material

Size: Banks vs Shadow Banks vs Big Tech vs Fintech



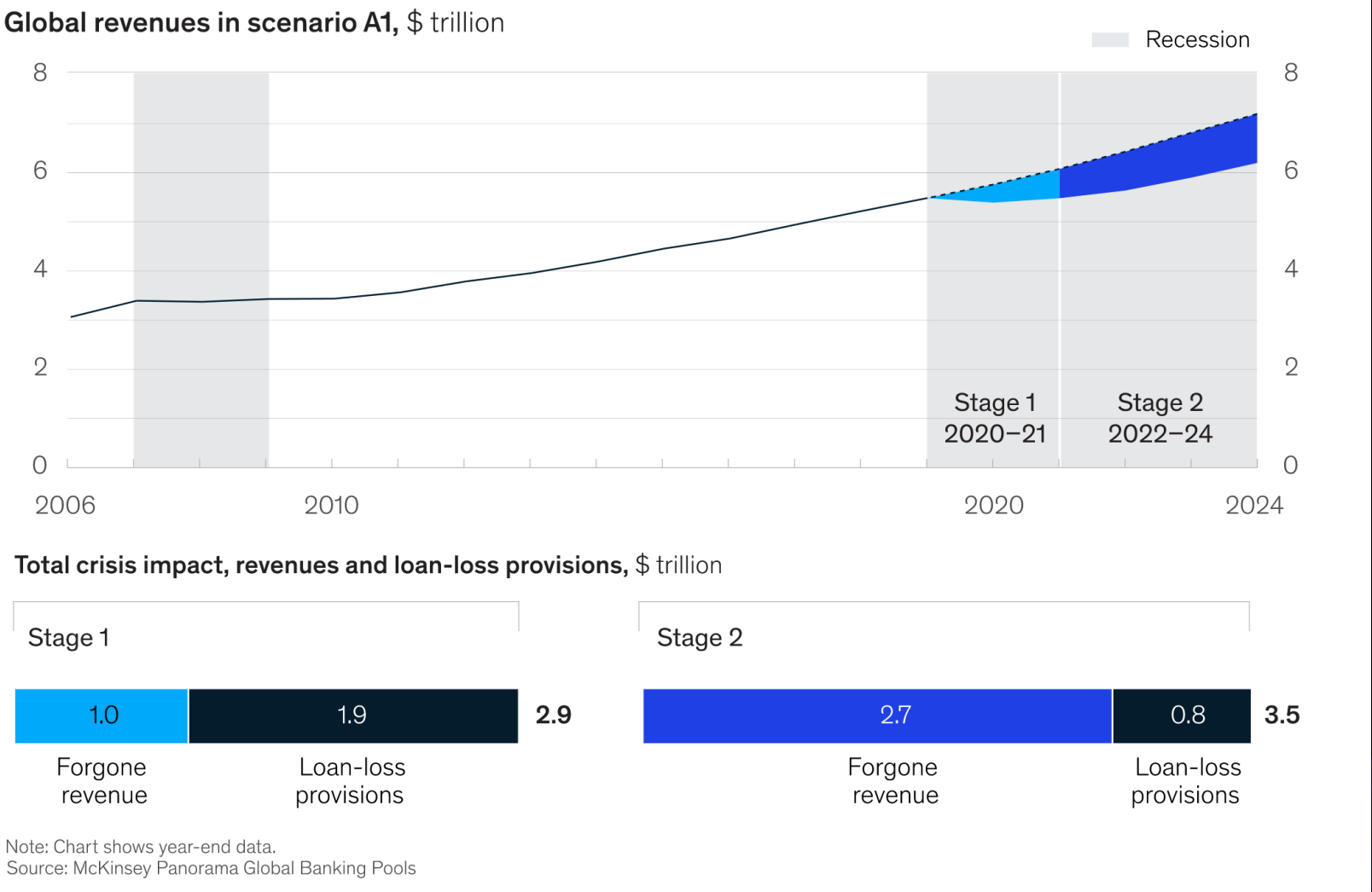
Source: *The Economists*



Source: The Economists

Adoption Of Design Thinking

Banks could lose \$3.7 trillion in revenue over five years



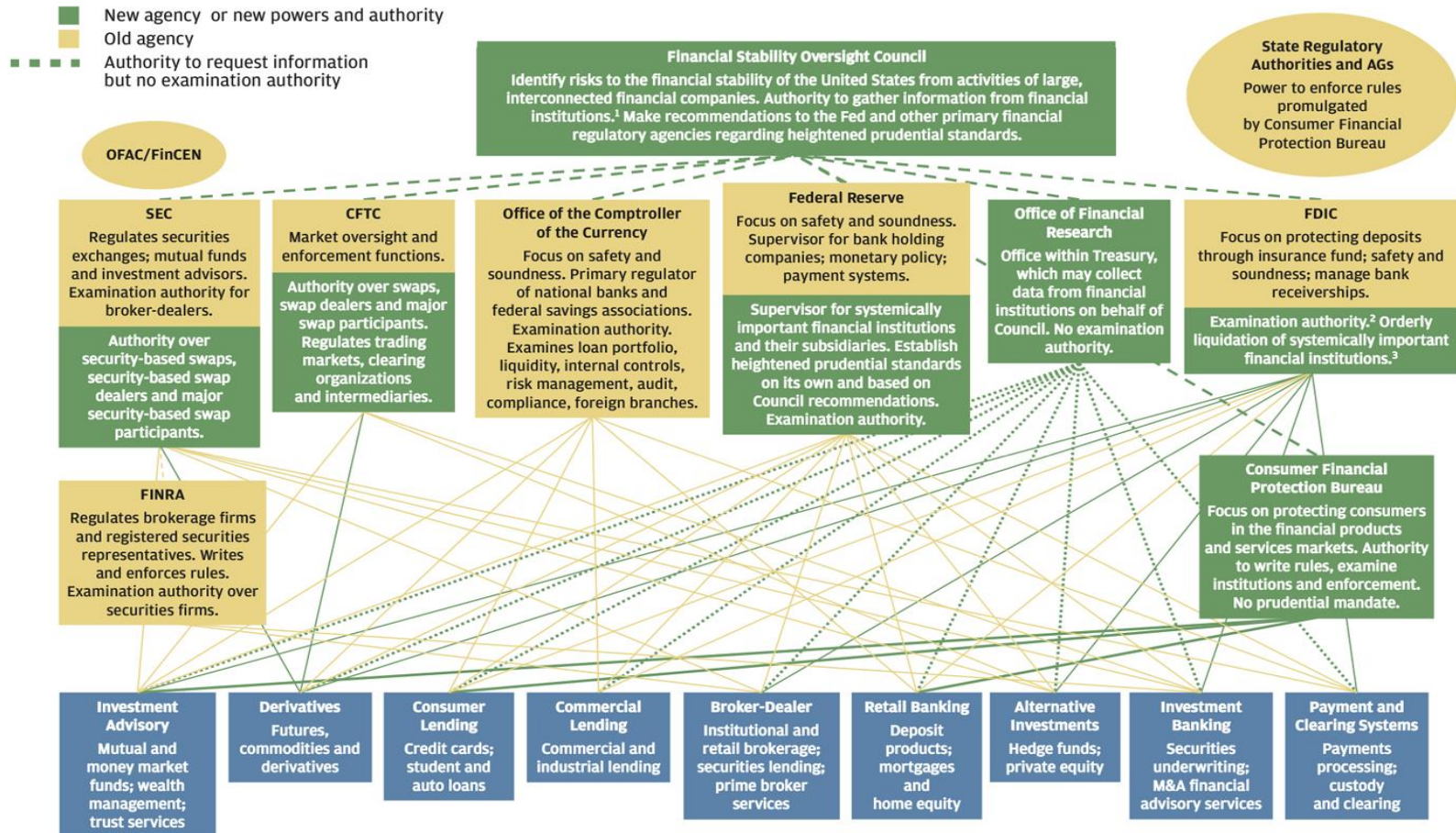


Bank and Nonbank Regulation Requirements

Bank	Fintech / Nonbank
<ol style="list-style-type: none">1. Higher capital requirements (which also require expensive debt and non-tax-deductible preferreds), even on deposits2. Operational risk capital3. Extensive liquidity requirements4. FDIC insurance (this cost JPM ~\$12B over the last 10 years – and not tax deductible beginning in 2018)5. U.K. bank levy and surcharges (this cost JPM \$3.2B over the last 10 years)6. More costly regulations (e.g., loans, CFPB, OCC), including resolution planning and CCAR7. Heavy restrictions around privacy and use of data8. Extensive KYC / AML requirements9. Substantial social requirements (CRA)10. Extensive public and regulatory reporting requirements (e.g., disclosure, compensation)11. Lower revenue opportunities (i.e., Durbin – this cost JPM ~\$17B over the last 10 years)	<ol style="list-style-type: none">1. Lower capital requirements, set by market2. No operational risk capital3. No liquidity requirements4. No FDIC insurance5. No U.K. bank levy or surcharges6. Less costly regulations7. Fewer privacy restrictions, virtually no data restrictions8. Less extensive KYC / AML requirements9. No social requirements (CRA)10. Limited public and regulatory reporting requirements11. Higher debit card income
<div><div>FDIC = Federal Deposit Insurance Corporation CFPB = Consumer Financial Protection Bureau OCC = Office of the Comptroller of the Currency CCAR = Comprehensive Capital Analysis and Review</div><div>KYC = Know your customer AML = Anti-money laundering CRA = Community Reinvestment Act</div></div>	

Complexities of the Regulatory System

Reprinted from 2011 Chairman and CEO Letter to Shareholders



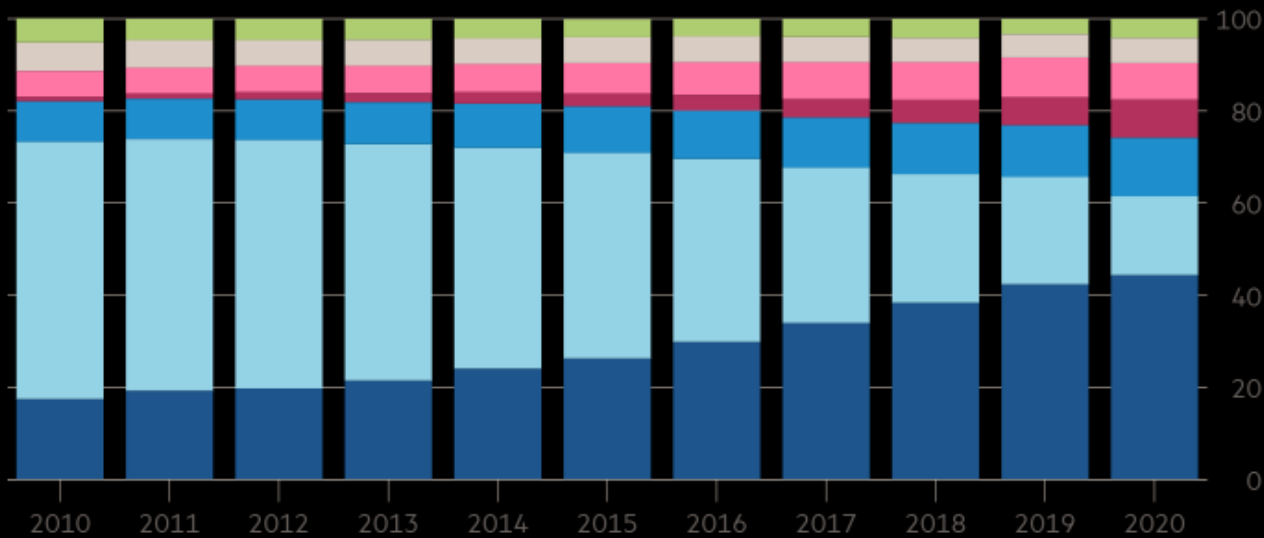
Note: Green lines from SEC and CFTC represent enhanced authority over existing relationships

This chart assumes these activities are conducted in a systemically important bank holding company (BHC)

CASH USE Plunges During Pandemic

% of total payments

Debit card Cash Direct Debit
Faster payments and other remote banking Credit/charge/purchasing card
Bacs Direct Credit Other*



* includes standing orders & cheques

Source: UK Finance

© FT

Volume of UK payments made using notes and coins plunging by 35 per cent in 2020 compared with the previous year.

The pandemic resulted in some marked changes in payments behaviour

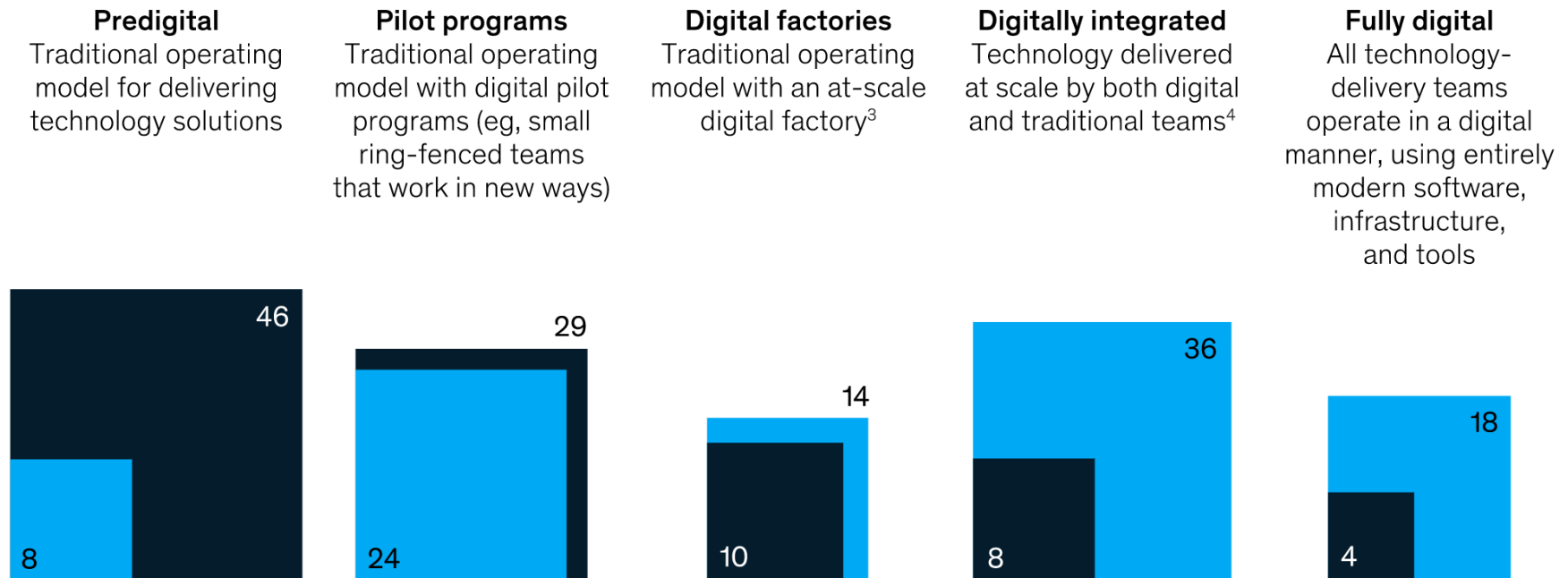
17.3m people — nearly one-third of the adult population — were registered for mobile payments in 2020, meaning they could pay by tapping a phone or smart watch. A 75 per cent increase on the previous year, the 16-24 age group were responsible for more than half of such payments



Top performers are more likely than others to involve both digital and business-oriented teams in technology delivery.

Organizations' current technology operating model,
% of respondents¹

■ Top-quartile performers²
■ Bottom-quartile performers



¹Respondents who answered “don’t know” are not shown. For top-quartile respondents, n = 125; for bottom-quartile respondents, n = 120.

²Respondents who reported an average effectiveness score in top 25% of the sample, based on ratings of 15 key IT activities that were tested in the survey.

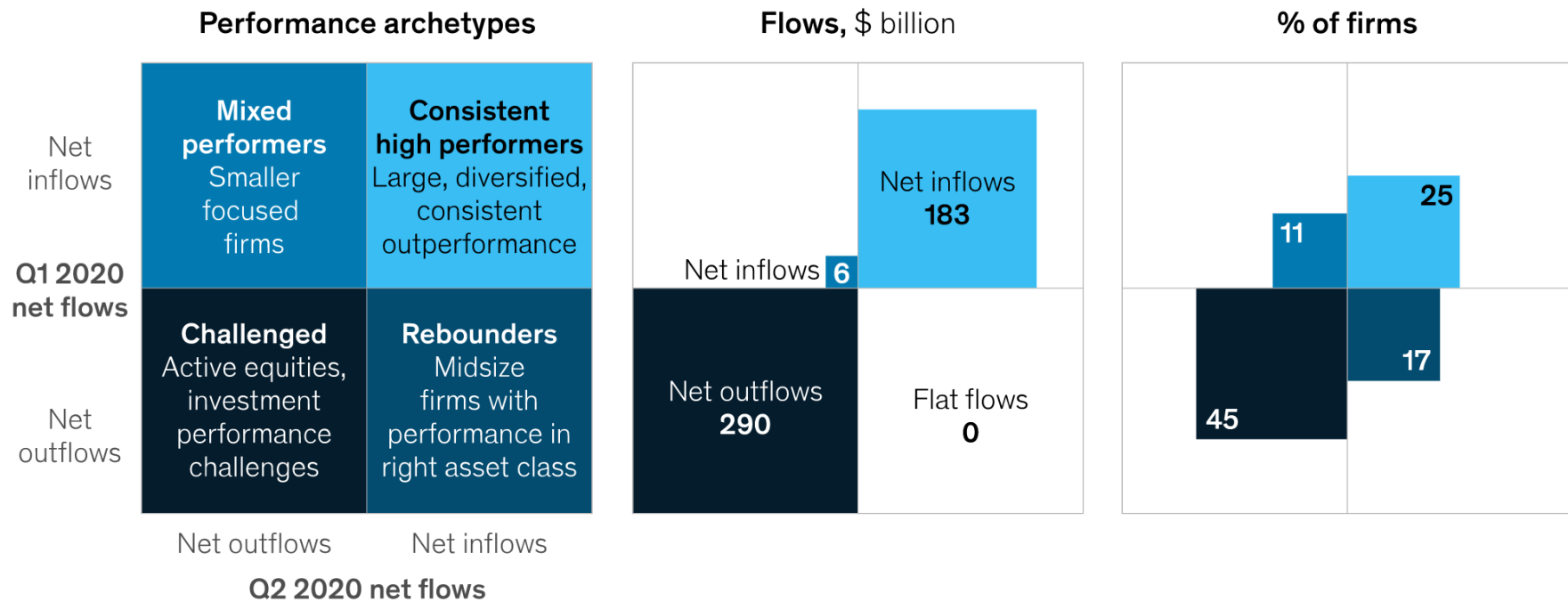
³A group of delivery teams that is dedicated to building digital products and is largely separate from the traditional technology organization.

⁴Teams are not siloed or incubated and are governed by a single operating model.

COVID IMPACT **On Flows**

Incumbency has benefits in a period of extreme volatility.

Impact of COVID-19 crisis on asset-manager flows



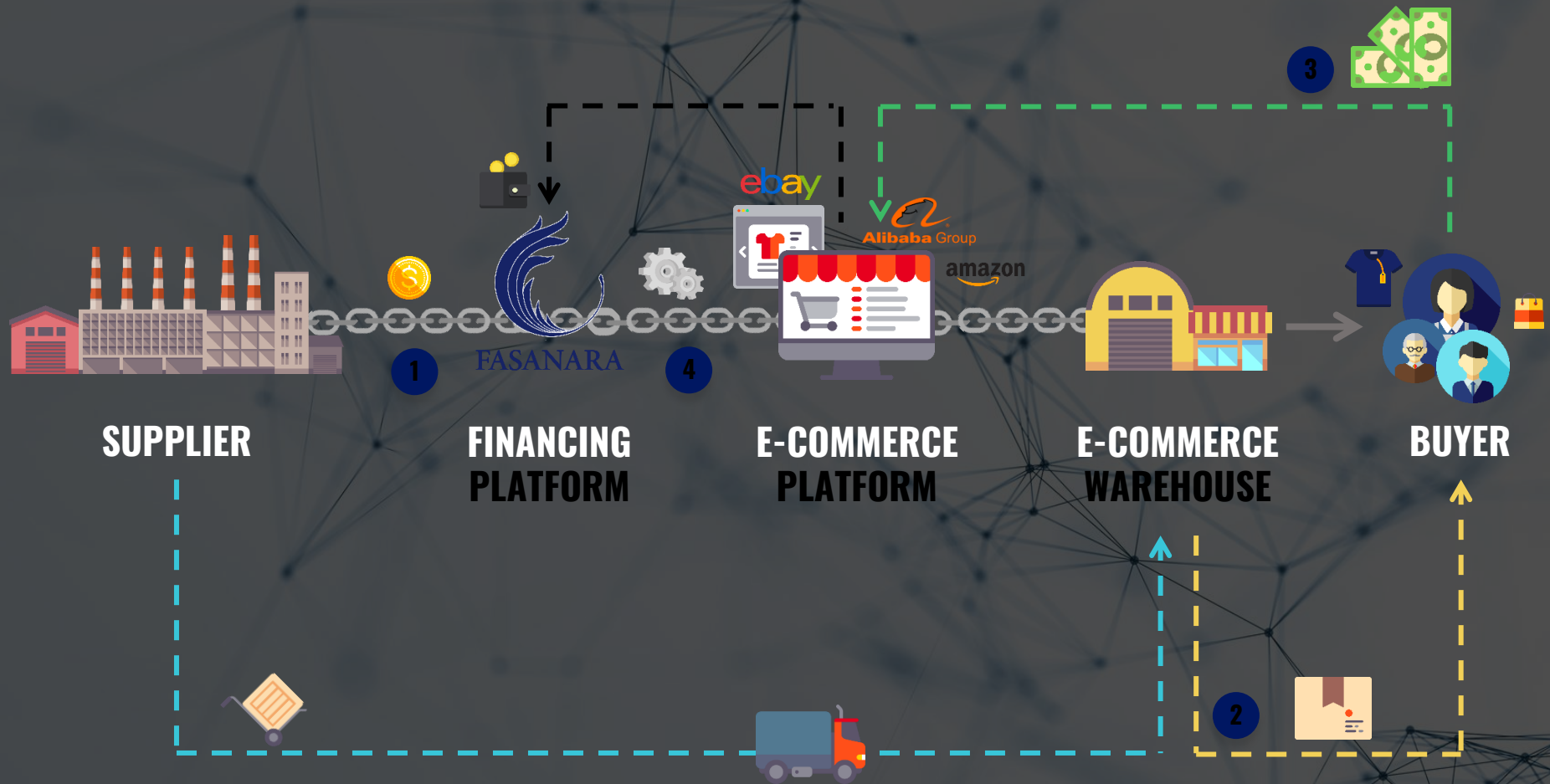
Source: Morningstar; McKinsey analysis



APPENDIX

Investing in a Digital Future – Case Studies

Case Study 1: E-commerce FINANCING SCHEME





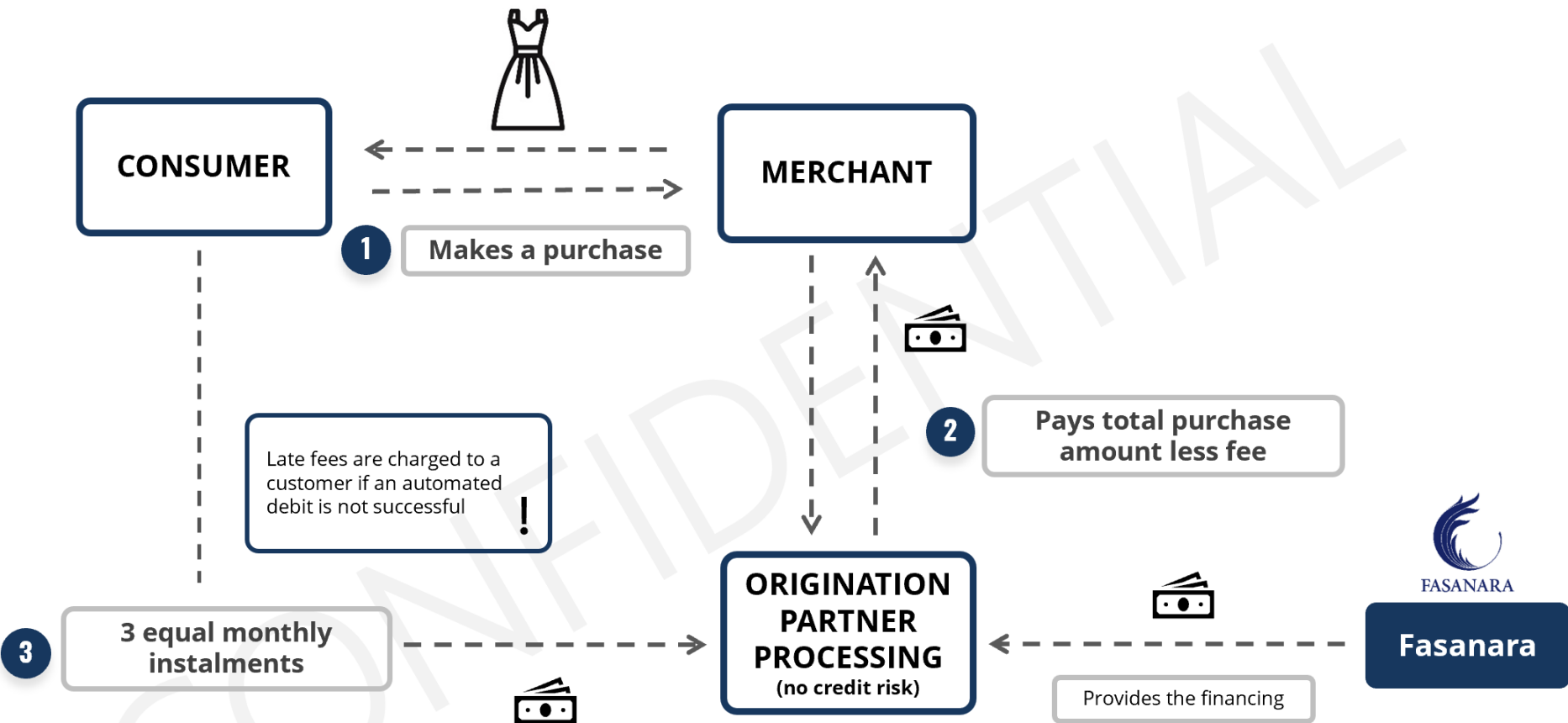
CASE STUDY NESTLÉ PAYABLE INVOICE SOLD BY (SMALL) SUPPLIER



	NESTLÉ TRADE RECEIVABLE	NESTLÉ SENIOR BOND (ISIN: XS2263684933))
DEBTOR	NESTLÉ SA	NESTLÉ FINANCE SA
CURRENCY	EUR	EUR
TENOR	60-90 days	20y (2040)
MODIFIED DURATION	0 years	19 years
PRICE IF INTEREST RATES ↑ 100bps	Unchanged	-17%
SENIORITY	Senior Unsecured (Commercial Credit)	Senior Unsecured
ANNUALIZED IMPLIED YIELD	6.5%	0.3%

Sources: Bloomberg Finance L.P. Past performance is not a guide for current or futures results. For illustration purpose only.

Case Study 2 – BUY NOW PAY LATER OPERATOR



The job gets more difficult – build the first mile



ORIGINATION FUNNEL

Global FinTech Funding Platform, Access Point To
New Asset Class Of Digital Lending

TECHNOLOGY INFRASTRUCTURE

End To End, Full Stack, all cloud, API-based,
300,000 positions self-liquidating

DUE DILIGENCE

Process & Protocols, to integrate originators in 35+
Countries

DATA CENTRICITY & AI/ML ANALYTICS

Proprietary MPL Analytics, build a native Database
in digital loans & receivables

Performance: IRR + Track

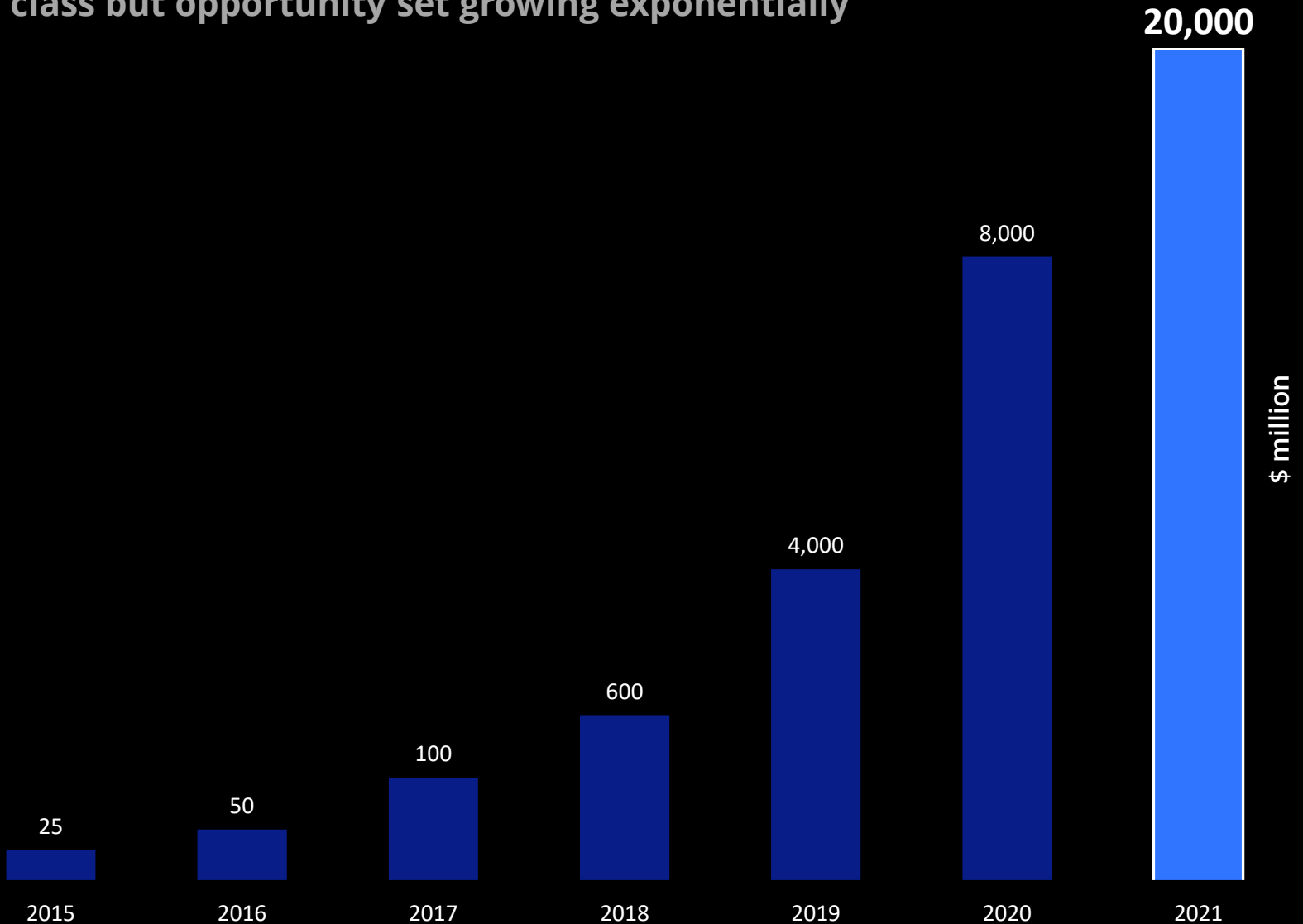


It is not just noise



Niche asset class but opportunity set growing exponentially

Cumulative lending extended by Fasanara is set to reach \$8bn by end 2020 and \$20bn by end 2021, growing exponentially
Source (s): Fasanara Capital.
EU Federation for the Factoring and Commercial Finance Industry (EUF)
Data for 2018.

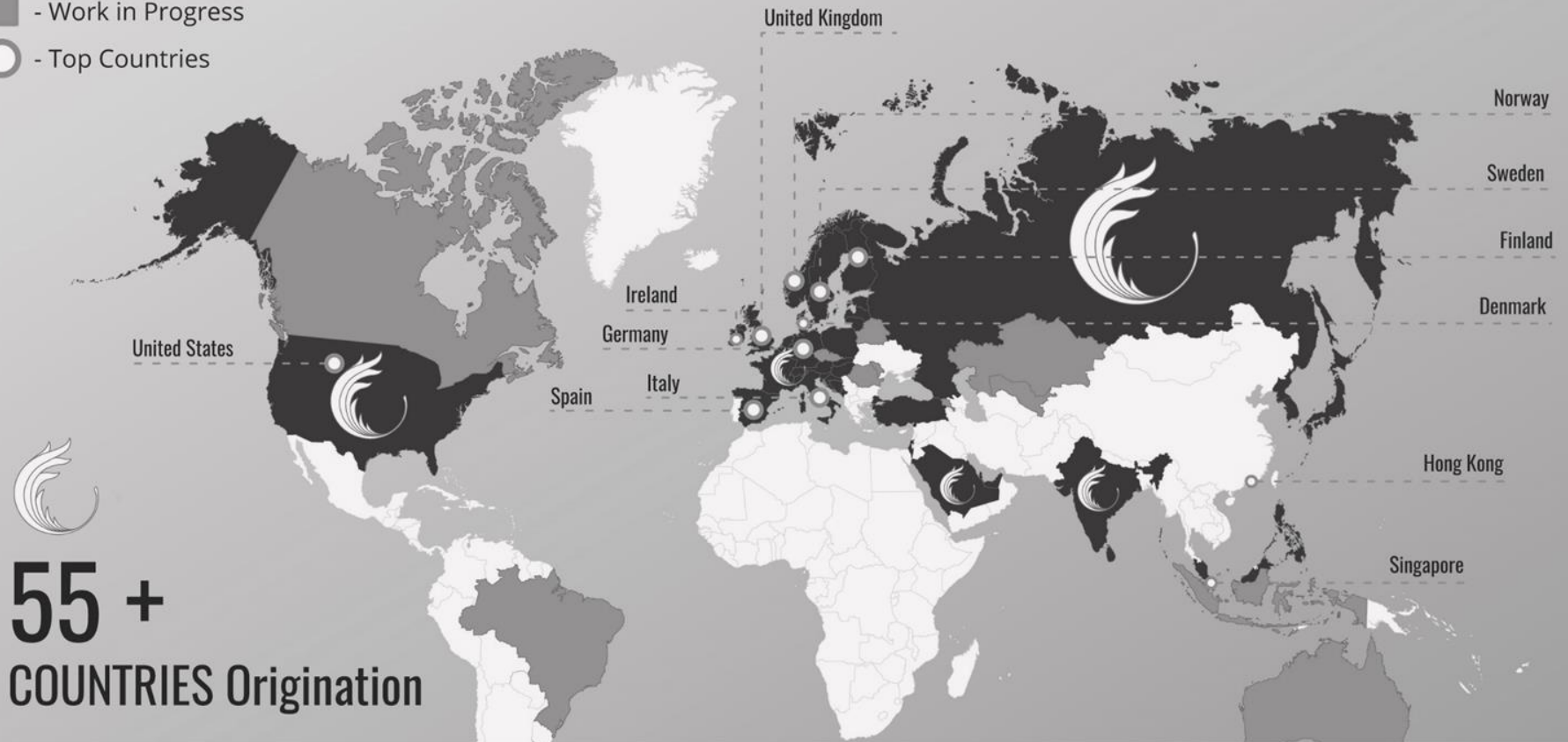


Global Funding Gap



European focus but global reach, thanks to a network of 91 tech-vetted originators

- - FASANARA Today
- - Work in Progress
- - Top Countries




55 +
COUNTRIES Origination

- | | | | | | | |
|----------------------------|--------------------|---------------|----------------|-----------------|------------------------|--------------------------|
| 1. Algeria | 9. Chile | 17. Germany | 25. Japan | 33. Netherlands | 41. Republic of Korea | 49. Spain |
| 2. Argentina | 10. Croatia | 18. Ghana | 26. Jordan | 34. New Zealand | 42. Romania | 50. Sweden |
| 3. Australia | 11. Cyprus | 19. Hong Kong | 27. Kenya | 35. Nigeria | 43. Russian Federation | 51. Switzerland |
| 4. Austria | 12. Czech Republic | 20. Hungary | 28. Kuwait | 36. Norway | 44. Saudi Arabia | 52. Taiwan |
| 5. Belgium | 13. Denmark | 21. India | 29. Luxembourg | 37. Philippines | 45. Singapore | 53. Thailand |
| 6. Bermuda and Herzegovina | 14. Estonia | 22. Ireland | 30. Malaysia | 38. Poland | 46. Slovakia | 54. Turkey |
| 7. Brazil | 15. Finland | 23. Israel | 31. Mexico | 39. Portugal | 47. Slovenia | 55. United Arab Emirates |
| 8. Canada | 16. France | 24. Italy | 32. Montenegro | 40. Qatar | 48. South Africa | 56. United Kingdom |



Signatory of:



Principles for
Responsible
Investment



TASK FORCE ON
CLIMATE-RELATED
FINANCIAL
DISCLOSURES



FASANARA CARDO^{AI}
SME - ESG Ratings

EVALUATE

Fasanara carefully evaluates matters of ESG in its investment analysis and decision making process via negative screening (exclusions) to ensure investments are aligned with client values.

INTEGRATION

It is Fasanara's belief that the integration of ESG considerations into its culture and investment processes will positively impact both its financial performance and sustainability footprint

IMPACT

Fasanara generates long-term social impact by helping the best platforms grow and by enabling SMEs to flourish through greater access to funding.

ACTIVE OWNERSHIP

Fasanara invests in opportunities that seek to generate both financial value and sustainable growth. As part of its approach, it takes an active interest in how companies in its supply chain manage ESG issues and, on behalf of its investors, encourages and supports companies in its supply chain to adhere to best-practice standards for responsible business.



Our Podcasts

fasanara.com/podcasts



Sep20. N@ked Short Club
Market fragility and non-linearity.



Sep20. Online Summit
Unorthodox Portfolios.



Jul20. N@ked Short Club
The "Fugazi Markets".



Jun20. Icon Holdings
Digital currencies and innovation.



May20. Speaking to Legends
Outlook on the industry.

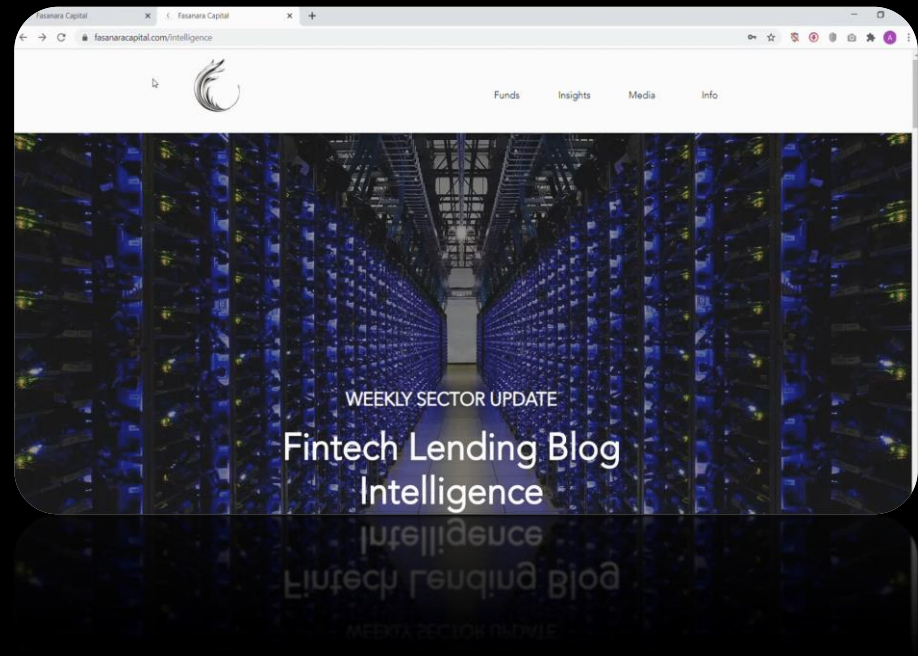
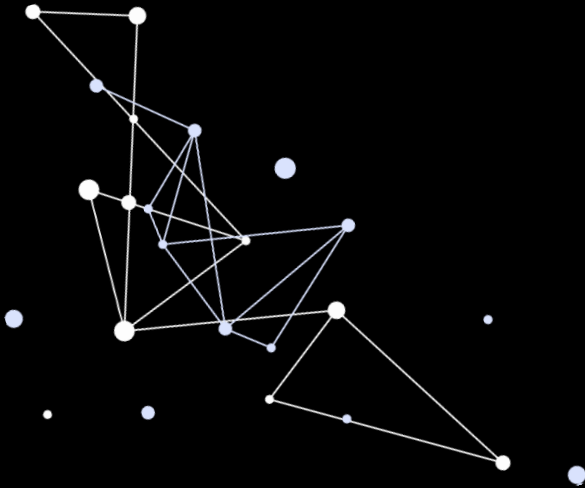


Apr20. N@ked Short Club
Negative on equity. Positive on credit.



Weekly Newsletter

Fasanara team regularly follows and contributes the latest and most significant news and updates in the areas of Fintech and Digital Lending from all over the world.





Our Strategies



Fasanara Fintech

Alternative Credit
Digital Lending



Fasanara Quant

Liquid Assets
Trading



Fasanara Digital

Digital Assets
Arbitrage



Fasanara Equity

New Technologies
Co-Investments

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FASANARA CAPITAL



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An absolute return strategy, which includes hedging of the portfolio, may result in performance that deviates from overall market returns to a greater degree than other funds. Hedging may also result in returns that are lower than expected and lower than if the portfolio had not been hedged. It is not possible to hedge fully or perfectly against any risk.

Fixed income securities may be subject to interest rate and credit/default risk. Interest rate risk involves the risk that prices of securities will rise and fall in response to interest rate changes. Credit/default risk involves the risk that the credit rating of a security may be lowered or the possibility that the issuer of the security will not be able to make principal and interest payments when due.

Investments in derivatives including forward currency exchange contracts, swaps and futures, may be leveraged and could result in losses that exceed the amounts invested.

Investing in international markets involves certain risks and increased volatility not associated with investing solely in the core countries. These risks include currency fluctuations, economic or financial instability, and lack of timely or reliable financial information or unfavourable political or legal developments.

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