
INTERVIEW

THE MOST ATTRACTIVE ASPECT OF THIS PARTNERSHIP IS THE EXPERIENCE, COHESION AND PROVEN CAPABILITIES OF THE TEAM, AS WELL AS AN INDUSTRY THAT WE BELIEVE HAS TAILWINDS TOWARDS SECTOR SPECIALIZATION



Lindsey McMurray
Managing Partner & Co-Founder
Pollen Street Capital

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What is it about the Financial Services Sector that lends itself to sector specialization?

We've been focused on financial service businesses for more than 10 years and this is for two fundamental reasons. First, the structural changes precipitated by the 2007 Global Financial Crisis (GFC) are far from resolved and remain an important driver of opportunity in the sector. For a sector as complex as financial services, it takes deep expertise to understand the long-term opportunities and risks arising from these ongoing changes. Second, the top-heavy structure of the industry means there are a number of very large incumbents who lack the agility to adapt to these structural trends, and a very large number of smaller players who, with the right strategy and investment, are well-placed to take market share from the incumbents.

Pollen Street invests across private equity and credit markets - how do the two interact?

We are an equity investor in financial services businesses and a provider of credit through a network of partners in the specialist lending segment. In both cases, our success relies on establishing long-term relationships with financial services companies whose businesses we can help to grow. The combination of a single sector focus with the dual perspectives of our equity and credit teams makes us better investors, better partners and enable us to be a solution-oriented capital provider. Pollen Street's reputation as sector specialists has helped us to directly originate private equity deals, which also reduces entry prices. These benefits also extend to our clients, who can partner with Pollen Street to gain financial services exposure via equity and credit in both the European and U.S. markets.

What values drive Pollen Street?

We are strong believers in the old maxim "you get out what you put in." The simple but very meaningful value that drives everything we do at Pollen Street is "care." This applies to our clients, our portfolio and investment partners, our employees and, increasingly, through the integration of ESG, to a broader group of stakeholders.

Our care-focused culture can only become tangible if we have the skills needed to apply it. This is why we place such value on expertise and are so proud of our deep domain knowledge, including in our operations, finance and legal teams. The entire Pollen Street team consistently asks, "do we have the skills and expertise to do what we are proposing to?" Senior management instills a corporate culture that has the intellectual honesty to only do that which we can with true care.

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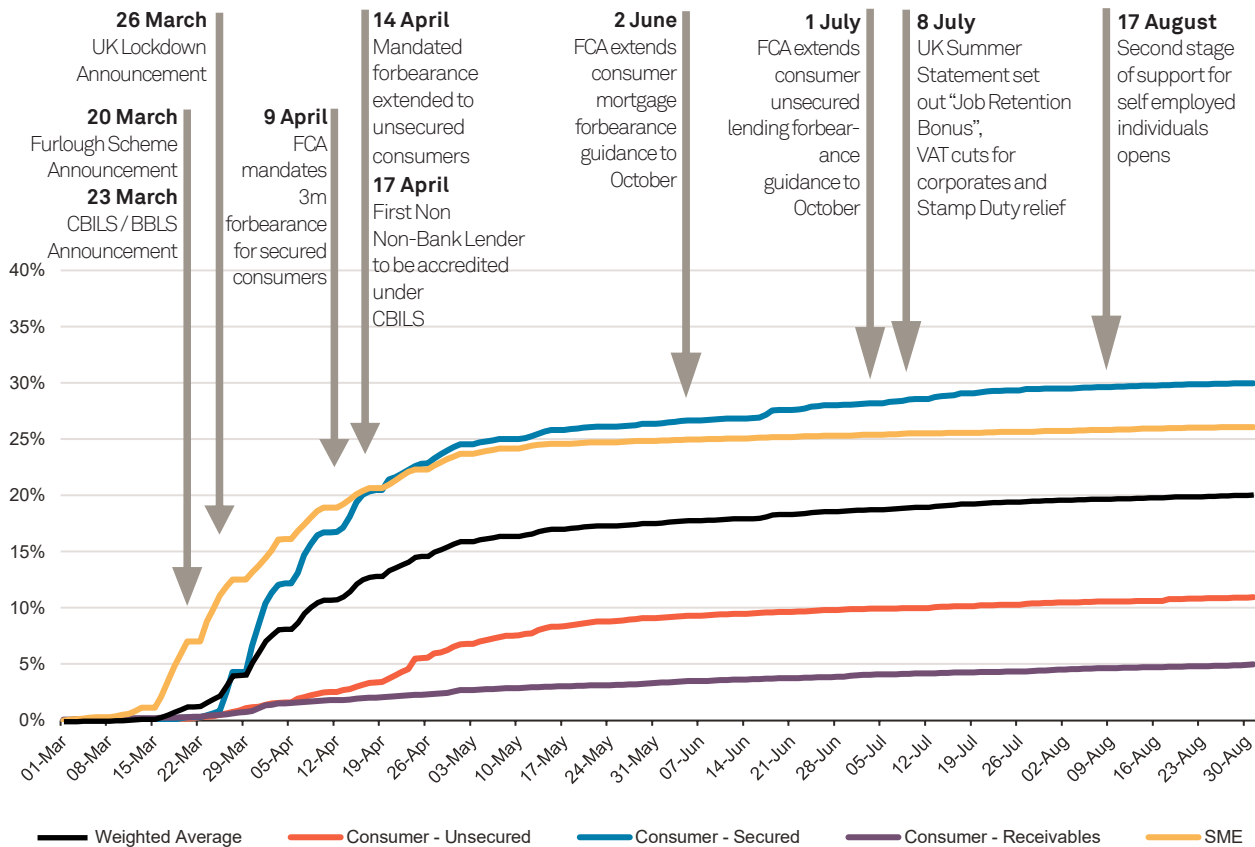
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What themes are driving your private equity business?

Financial services have never been just about big banks, big leverage and big balance sheets. There are a lot of exciting smaller companies that have been serving customers for a long time and who, because of their size, are better able to adapt to the drivers of change to build market share in a changing landscape. These are the companies that we are focused on.

As mentioned earlier, the structural changes precipitated by the 2007 GFC continue to put market share in play across several financial services sub-sectors. The companies that will win market share are those that can best manage the integration of technology while enhancing the customer experience. Financial services customers place enormous value on trust and generally prefer established companies with client-centric cultures. But customers' experience with technology in other parts of their lives mean they increasingly expect more from financial service providers. Our view is that, especially with an experienced partner like Pollen Street, small established companies can beat larger companies by using technology to improve and expand services. At the same time, and despite the buzz around fintech start-ups, these new challengers often struggle to convert tech-enabled services into sustainable, trust-based businesses. Time and again we see that it is the smaller, established players who are taking market share from the bigger incumbents.

% OF LOANS ENTERING FORBEARANCE PLANS (WEIGHTED BY BALANCE)¹



Source: Proprietary Pollen Street Capital platform data as of August 31, 2020. ¹The % of accounts is on a number of loans basis and so is skewed by low balance consumer receivables. Forbearance figures do not take exits into account. Exit figures calculated as a % of total accounts that had entered forbearance in March to August period.

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Where do you see your credit business heading?

Pollen Street Credit provides asset-backed lending to a strong network of over 30 specialty finance lenders in Europe and North America. In effect, we are a financing partner for the growing non-bank lender sector. We provide senior facilities secured on performing loan portfolios and structure the loans with strong covenants (and in some cases full corporate guarantees) to provide significant downside protection. Avoiding impairment to the principal is a key component of our strategy. We have deep relationships with many of these lenders, who value our insight on the broader market and our advice on their business plans.

As with our private equity strategy, the rapid growth in the specialty finance market is being driven by ongoing structural changes in the banking market. Three categories of change are most important. First, capital adequacy regimes mean that banks must focus on lower risk assets to meet regulatory requirements and satisfy internal ROE targets. This creates demand for capital in many higher-value lending categories. Second, banks' structural costs have increased, leading to multi-year cost reduction programs and the shedding of more resource-intensive activities. Third, regulators' actions are forcing bank boards to simplify their business models. We believe these structural drivers will continue to create opportunities for Pollen Street to serve specialty lenders.

We currently operate our credit strategy via two listed UK Investment Trusts, which are the equivalent of the Business Development Company (BDC) structure in the U.S. Going forward, we are expanding our activities in one of these vehicles (Honeycomb Investment Trust) and transitioning the other (PSSL) towards a more traditional closed-ended private credit fund business. We are also discussing how SMAs can help larger investors get exposure to specialty lenders via both our European and U.S. pipelines.

POLLEN STREET CAPITAL

SPOTLIGHT

Pollen Street began managing third-party capital in 2007 when the team formed within the Royal Bank of Scotland. The five founding partners spun out of RBS in 2013 and have been working together for nearly 15 years. Today, Pollen Street employs nearly 70 people.

Headquarters: **London, UK**
AUM: **£2.8bn**
Core Strategies: **Financial Services
Private Equity & Specialty Credit**
Deal Size: **Private Equity: ~£60mm
Credit: £10-£75mm**
Opportunities: **Pollen Street Capital (PE) Fund IV
(final close Q4 2020)
Pollen Street Credit III
(launching Q4 2020)**

Source: Pollen Street Capital as of September 30, 2020.