

Credbull On-Chain Private Credit Fund 1 Fund Strategy and Risk Policy

High Level Overview

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Overview

Credbull's introduction of a licensed on-chain private credit fund marks a significant advancement in the realm of Decentralized Finance (DeFi) Real World Assets (RWA). By pioneering this venture, Credbull is positioned as a trailblazer in the field, especially with its emphasis on providing high fixed yield solutions in a passive manner.

Private credit lending has indeed demonstrated its prowess as a top-performing asset class over the past two decades, delivering impressive returns while managing risks effectively. Traditionally, access to such opportunities has been restricted to institutional and High Net Worth (HNW) investors. However, Credbull's innovative platform is set to democratize access to these lucrative investment avenues.

The passive 10% Fixed Yield and up to 30% Upside offered by Credbull's platform provides an attractive fixed return but also opens up the possibility of additional gains based on the fund's performance, offering a balanced mix of stability and potential for growth.

By leveraging blockchain technology and embracing the principles of DeFi, Credbull is not only revolutionizing the way private credit lending operates but also fostering greater inclusivity in the financial landscape. This move has the potential to empower a broader range of investors, enabling them to participate in previously exclusive markets and potentially diversify their portfolios more effectively.

Fund Strategy

1. Thesis

- Fund macro strategy: capital preservation, transparency in private credit lending.
- Objective: Support SMEs in MESA, specifically GCC countries, with short-term, high-interest loans.
- Utilizes blockchain, AI, and ML to redefine lending paradigms for SMEs.

2. Strategy

- Geographic focus: MENA, India, Southeast Asia.
- Target: High-growth SME lending sector.
- SMEs willing to pay high APRs (18-25%) due to limited banking products.
- Strategy: Support high-yield, short-tenor debt products distributed by NBFIs.
- Multi-originator asset allocation strategy across audited and established Asset Originators.
- Originators go through rigorous risk assessment.

3. Allocation & Diversification Strategy

- Geographies: MENA, South Asia, Southeast Asia.
- Sectors: Servicing, Manufacturing, Trading, among others.
- Products: Term Loans, Invoice Financing, Point of Sale Loans, etc.
- Asset Structure: Granular unsecured non-self liquidating loans, structured securitization vehicles.
- SMEs: Revenue >\$500,000/annum, ~24 months of trading history.
- Transactions: US \$50,000 to \$150,000 range, with concentration risk managed within policy

Portfolio Example of Credbull Private Credit Fund 1

In Exhibit 1 below is an example of the fund's allocation strategy and performance. This is only an example of the overall fund's strategy and does not necessarily constitute an exact deployment.

Allocation Strategy by SME Platform								
1	Core Product Across Multiple SME Originator Platforms	Trade Finance (Invoice Factoring)	Term Loans	Working Capital	Revenue Based Financing	Buy-Now-Pay-Later Financing	Point of Sale Financing	
2	Geography	India/GCC	GCC	GCC	GCC	GCC	GCC	
Allocation by Product								
1	Product Term, Months	3	24	3	3	4	12	
2	Gross Yield	20.0%	21.0%	22.0%	36.0%	36.0%	27.0%	
3	Processing Fees (%)	0.5%	2.5%	1.3%	2.0%	0.0%	2.0%	
4	Defaulted Non-Performing Loans (%)	1.5%	2.5%	2.5%	3.0%	4.0%	1.5%	
5	Median Ticket Size (USD)	100,000	150,000	150,000	50,000	50,000	75,000	
6	Exposure Limit per SME (%)	0.50%	3.00%	1.50%	0.50%	0.50%	0.75%	
Allocation Strategy								
7	Capital Allocation by Product Type (%)	10%	10%	20%	20%	20%	20%	
8	Historical Return to Allocators	19.0%	15.1%	14.1%	23.0%	22.6%	17.5%	
9	Portfolio Return (%)	18.8%						

Fund Risk Policy

1. Overall Strategy

- Macro strategy: Capital preservation with a conservative approach.
- Diversified allocation to multiple SME Originators by market, sector, and product.
- Robust risk management framework across key risks.

2. Performance Risk Indicators (PRIs)

- Originator Risk Profile Risk:
 - Mitigation: Capped exposure per originator, non-recourse SPVs, third-party review
- Non-Performing Loans Risk:
 - Mitigation: Review of performance data, risk tolerance matrix, coverage exceeding 70% of outstanding receivables.
- Economic and Political Risk:
 - Adverse impacts from changes in economic conditions and political events.
- Risk From Changes in Interest Rates:
 - Mitigation: Employment of hedging strategies.
- Currency Risk:
 - Mitigation: Focus on receivables in regions with currencies pegged to USD, limited floating rate exposure.
- Liquidity Risk:
 - Mitigation: Maintaining liquidity reserves, mandating Originators to hold cash flow balances.
- Legal and Regulatory Risk:
 - Potential adverse effects from legal, tax, and regulatory changes, evolving regulatory environment.

3. Operational Level Mitigation

- Review of performance data to determine risk-adjusted returns.
- Use of hedging strategies for interest rate risk.
- Focus on receivables domiciled in regions with currency pegs to USD.
- Maintenance of liquidity reserves and cash flow balances.
- Compliance with legal, tax, and regulatory requirements.

Overall, the Fund's strategy involves thorough risk assessment and mitigation strategies across various aspects to ensure capital preservation and optimal risk-adjusted returns.

Fund Governance

