Highlight

January 2017

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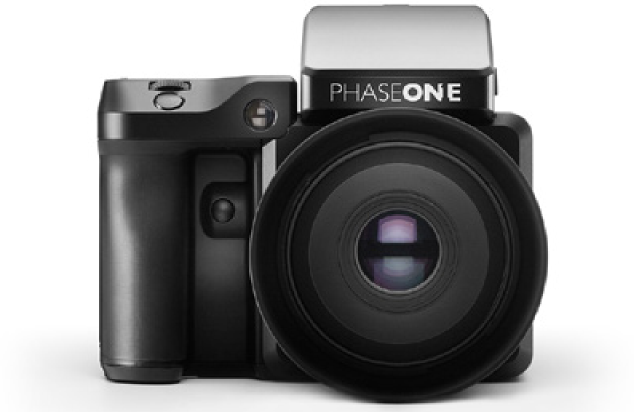
We made three new investments and signed two add-on acquisitions in Fund II, successfully sold two Fund I portfolio companies and continued to build our origination capability

- Silverfleet II made three new investments, Coventya, Sigma and Lifetime Training taking invested capital up to c. 30% of total commitments
- Silverfleet II portfolio company, Coventya, signed its first two add-on acquisitions, agreeing to buy 80% of Borsa Istanbul-listed Politeknik Metal and Telbis, their distributor in Turkey
- Silverfleet I achieved two further successful exits, Kalle and Cimbria, taking its DPI up to 1.3 with the fund still invested in six portfolio companies
- We built up our origination function, hiring Dominic Mitchell to join Ian Oxley in concentrating on the early identification of new investment opportunities across Europe

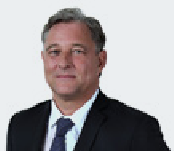


2016 was a very active year in which we closed two realisations and made three new investments. In addition, two add-on deals were signed just before the end of the year. We continued to add to our origination capability by further building that team and saw the first fruits of this investment in the way in which we sourced the Lifetime Training investment opportunity. We provide further information on all this activity in this newsletter which we hope you will find to be a useful summary of the past year.

During the year, portfolio company CCC opened two further sites, one in Biel, Switzerland and the other in Izmir, Turkey, bringing their footprint to 17 sites in 8 countries. In October, Ipes launched its new ID Register product, an online platform which makes the KYC (Know Your Customer) process quicker, easier and more cost effective. During 2016, retailer and wholesaler La Fée Maraboutée continued to expand their retail network adding ten new stores and six affiliated stores. Phase One, the leader in medium format photography, launched its 100 megapixel CMOS digital back, the first camera back of this size available on the market.

Also in the Nordic region, Fund II's clothing brand Masai successfully launched a transactional website in Denmark and Sweden, as well as seven new retail outlets across the region. Finally, during the final quarter of 2016 we began our search for a new London home, having outgrown the current office. We have recently signed an agreement that will see us move a short distance from our current office in Fleet Place during the second quarter of 2017.

Silverfleet backs management buyout of plating chemicals company, Coventya



Alexandre Lefebvre
Partner
Silverfleet Capital

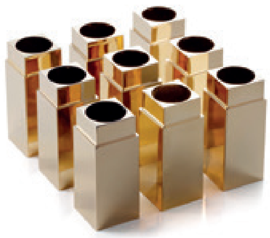
"Coventya is a perfect example of a medium sized French industrial player that has been able to expand internationally thanks to its innovation and capacity to mobilise high quality teams who are passionate about their work and combine technical know-how and a commitment to high quality customer service."

Coventya is a Paris-headquartered manufacturing business with a worldwide presence. The company manufactures and supplies the specialty chemicals used for surface treatment within the General Metal Finishing ("GMF") plating industry. Founded in 1927, Coventya has become one of the world leaders in this niche market due to its capacity to innovate and the quality of its customer service. The group offers a large range of products used in sectors such as the automotive, luxury & consumer goods, construction, aviation, data storage and oil & gas industries. Coventya co-develops plating specifications directly with OEMs in these industries, while the plating process itself is mostly outsourced by these OEMs to job-platers who are Coventya's main direct customers.

Focusing exclusively on the supply of chemicals for GMF plating processes, Coventya is not active in the printed circuit board and semiconductor segment. Plating is used in the production of metal and plastic parts and consists of covering metal or plastic surfaces with layers of metals or alloys for either protection (anti-corrosion), decoration, and/or functional (conductivity, abrasion resistance) purposes. Both electroplating and electroless plating (based on a chemical process) involve multiple stages, passing the products being coated through a series of chemical baths. Coventya supplies the speciality chemicals used in these baths.

Coventya formulates, produces and distributes a portfolio of c. 1,400 products, which are value added blends of specialty chemicals, sold to a diversified customer base of job-platers, component manufacturers and OEMs. The business operates in 58 countries, on four continents and has 570 employees worldwide. Along with Atotech, Platform Specialty Products and Dow, Coventya is one of the leading global multi-specialists of the sector. The turnover for the group for the year ended 30 September 2016 was approximately €128 million and represents a doubling of market share over the last 10 years.

The management team of Coventya has been known to Silverfleet team members since 2008. Under the leadership of Thomas Costa, the team is experienced, international and has a clear vision of its market and future development. Further growth should come from continued product innovation, for example in the growing plating-on-plastics market; increased penetration of the Asian region, the largest part of the GMF market; as well as Buy & Build acquisitions in new countries and adjacent technologies. Management has successfully integrated seven add-ons in the past 10 years and in December 2016 signed two further deals, more details of which are provided later in this newsletter.



Coventya signs first two add-on acquisitions since Silverfleet's investment

Fund II portfolio company, Coventya, has recently entered into agreements to acquire its first two add-ons since Silverfleet's investment in mid-2016.

In the larger of the two deals, Coventya has agreed to acquire an 80% interest in Borsa Istanbul-listed Politeknik Metal A.Ş. (revenues of over €9 million), a leading manufacturer of aluminium surface treatment ("AST") chemicals. Coventya will also issue a mandatory tender offer ("MTO") for the remaining 20% of the company's shares. Politeknik, which has a world class manufacturing facility in Tuzla also has an affiliated company in the USA, based in Atlanta, and currently exports 20% of its chemical sales. Coventya plans to use its distribution organisation to help further penetrate the AST chemicals market in the USA and Europe. The lightweight properties of aluminium are driving growth in its usage in the automotive, construction and several other sectors.

The second, smaller transaction, is the acquisition of Telbis (revenues of c.€3 million) which is Coventya's exclusive distributor of chemicals to the general metal finishing ("GMF") market in Turkey. Telbis will be renamed Coventya Kimya after closing and will be able to draw on the resources of the group to gain market share in the region.

The aggregate deal size will be c.€18 million, and Silverfleet funds will invest slightly over €4 million of additional equity depending on the outcome of the MTO. The transactions are expected to close at the end of January 2017 and the MTO process will commence shortly after that.

Silverfleet leads buyout of Sigma Components, the former aerospace division of Avingtrans plc

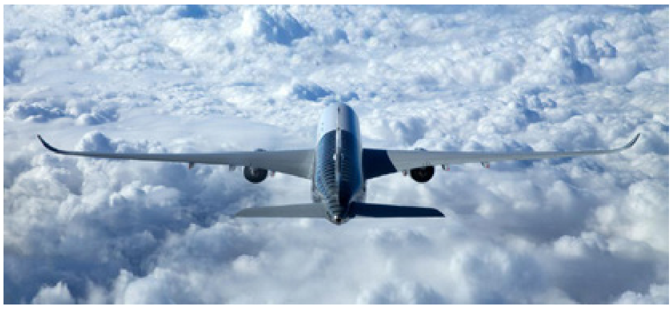
David MacKenzie
Partner
Silverfleet Capital

"We are delighted to be partnering with Sigma, a market leader with excellent growth dynamics. Silverfleet has a strong track record of investing in manufacturing businesses and we see an ideal opportunity to develop Sigma, which operates in a fragmented market place, both domestically and internationally."

Sigma is a UK-based precision engineering components manufacturer for the commercial aerospace sector, serving customers worldwide. Founded in 2004, Sigma has grown organically and through acquisition and is now an international leader in its chosen niche markets. Sigma principally supplies rigid pipe and tube assemblies that are used in aircraft engines and airframes (over 50% of sales), as well as certain other aircraft components such as ducts and vents.

Air passenger transportation in general has been growing over the long-term driven by growth in GDP (increasing affordability) and a reduction in the cost of flying. The number of flights per capita in 2014 was 1.63x and 1.21x in North America and Europe respectively, whilst in China and India flights per capita were 0.30x and 0.07x, indicating further potential for this growth to continue. The aerospace pipes and ducts market, which is currently estimated to be £187 million in size, is forecast to grow by c. 8% by 2020.

Sigma operates from four sites in the UK and two in China, employing approximately 750 people and serving customers such as: Rolls Royce, Airbus, Safran and Bombardier. Of particular relevance to Sigma is the wide-body aircraft market, which is forecast to grow at a CAGR of c.6.6% to FY20; the most important programme being the Airbus A350 for which Sigma, through its key customer Rolls Royce, is very well positioned.



The business has recently implemented a number of strategic initiatives, including adding substantial, additional manufacturing capacity in China to address the growing demand for components. Also since the buyout, a new CFO, who is familiar with the aerospace industry, has joined the business to upgrade the company's financial systems and reporting.

Sigma was previously owned by Avingtrans plc, an AIM listed company, and at the point of signing the deal we had secured irrevocable undertakings from c.40% of the shareholder base. An EGM held in May 2016 approved the transaction.

In a still relatively fragmented marketplace, management who have successfully integrated several add-ons to create the company, will be looking to make further add-ons to broaden the company's geographic reach and enter adjacent markets. Mark Rollins, formerly the CEO of Senior plc, has become Chairman of the company and will bring his considerable sector experience to bear in helping to develop the company.

Sigma
...a local source...
...to a global capability...

silverfleet capital
we buy to build

Investing in education and skills through Lifetime Training

Adrian Yurkwich
Partner
Silverfleet Capital

"Lifetime Training is a market leader with a strong management team led by Alex Khan and a first class reputation for quality and professionalism. We are excited by the prospect of working with Simon, Alex and the wider management team to take Lifetime Training to the next level."

Founded in 1995, Lifetime is a UK business that offers high quality apprenticeship programmes and recruitment services across a range of different sectors to employers of all sizes, both public and private, as well as self-funded commercial training courses to individuals. By enabling businesses and individuals to perform better through the delivery of market leading training programmes, Lifetime has become one of the UK's largest training providers to the fitness and active leisure, healthcare, hospitality, retail and 'early years' sectors.

The company has developed long-standing relationships with many well-known organisations including Greene King, David Lloyd Leisure, Fitness First, Mitchells & Butlers, Pizza Express, Marstons, Bupa, and a number of NHS trusts. Lifetime Training has won numerous awards both within and across their various sectors and has developed an excellent reputation for the quality of its training programmes.

The apprenticeship programmes that Lifetime offers are currently based on frameworks which specify what elements an apprenticeship programme must contain. Lifetime also incorporates some client specific elements into its training programmes. This system is in transition at the moment to standards developed by industry bodies.

Lifetime's core business is apprenticeship training, with the 'Work Based Learning' division representing c.80% of sales. Within this segment, Lifetime's clients are employers who contract with Lifetime to deliver apprenticeship training to their employees. Lifetime currently accesses funding directly from the Government on behalf of the employers, though this funding mechanism will change when the Apprenticeship Levy is introduced later this year.

Apprenticeships are full-time paid jobs which incorporate on and off the job training. On completion of their contract after a year, a successful apprentice will receive a nationally recognised qualification. Under the current system, there are c.200 different types of apprenticeships (known as frameworks). Apprenticeships can be studied at different qualification levels, the highest of which is equivalent to degree level.

In England, funding for apprenticeships increased by 80% to £1,490 million in the ten year period 2006-2016. This funding is forecast to grow to £2.4 billion, with the introduction of the Apprenticeship Levy (a hypothecated tax on all employers amounting to 0.5% of payroll expenditure above £3 million) in March 2017. Furthermore all major political parties continue to be strongly supportive of increasing investment in this activity and the current government has made a commitment to achieve three million apprenticeship starts from 2016-20, an increase of c.600,000 or 25% compared to the total number of starts in the 2010-15 period.

lifetime training

Silverfleet's investment will enable Lifetime Training to accelerate its organic growth and pursue selected bolt-on acquisitions, especially in the commercial training area, to expand its range of services provided and sectors addressed.

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Building our origination capability and seeing its benefits

Ian Oxley
Partner
Silverfleet Capital

"True origination in private equity is the equivalent of R&D in manufacturing. It's about looking further into the future and figuring out what deals we will be working on next year and the years after that and why those companies in particular will be successful."

During the year we continued to build our origination capability. In particular, Dominic Mitchell joined the team as an Analyst from FTI to specialise in origination alongside partner, Ian Oxley.

Our investment in Lifetime Training is a case study in the benefits of true origination. The apprenticeship sector in the UK is one that we have been following for a number of years, but had decided not to invest in when all of the funding came as hand-outs from government. This view changed when we became aware of the early consultations with industry about who should pay for training that ultimately led to the announcement of the Apprenticeship Levy in the summer 2015 budget. The sector became a focus for our deal origination team who identified Simon Withey, the former Managing Director of Babcock Education and Skills, as an industry expert with whom we could review the sector.

As well as deepening our knowledge of the likely shape and impact of the impending legislative changes, together with Simon, who is now Chairman of Lifetime, we identified a number of targets that were within the right size range to be relevant for us and then proceeded to meet the management or owners of these companies. After several of these meetings, Lifetime Training became our preferred asset, and we positioned ourselves accordingly ahead of advisers being appointed to oversee its sale.

In a complex, regulated sector undergoing significant change, the depth and thoroughness of our preparation became apparent to not only the sellers and their advisers but also the management team with whom we quickly established a strong rapport. In addition, the political due diligence that we carried out gave us the confidence to proceed with the deal and sign it even with the looming uncertainty of the Brexit vote which took place only a matter of days later. Closing occurred in early October after approvals from the SFA and FCA had been obtained and also after Sterling's depreciation against the Euro had occurred.

Silverfleet Capital completes 3.5x money multiple exit of casings manufacturer Kalle

Guido May
Partner
Silverfleet Capital

"Silverfleet supported Kalle's international expansion and thus helped to drive rapid growth. Kalle is a very profitable business in an attractive market with non-cyclical growth. Thanks to its capability to innovate which is unique within the industry, Kalle is constantly bringing new top-selling products to market."

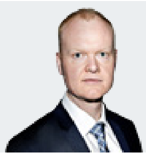
Kalle is a leading global producer of viscose, polymer and specialty value-added casings for sausages and hams. At the date of our investment, the company, which is headquartered in Germany, operated from ten countries with sixteen production sites around the world. Kalle focuses on leadership through innovation, and is probably the most innovative casings supplier in the world, with a wide range of products for a broad spectrum of applications.

In 2009, when Silverfleet invested in Kalle, the business had an international profile with a market leading position, and a reputation for delivering top quality products, and competitive prices. The business provided an excellent platform for a Buy & Build both in casings and adjacent areas together with a large portfolio of new product innovations that would enable the company to address growth opportunities in new segments and new regions.

During Silverfleet's ownership we accelerated the growth plans for the business – particularly in the USA. In December 2010, Kalle completed the acquisition of Jif-Pak Manufacturing Inc., a California-based producer of innovative meat nettings and casings. The acquisition of Jif-Pak broadened Kalle's product range and significantly increased the scale of its North American operations. Silverfleet also supported Kalle's substantial investment in production facilities in the US, Czech Republic and Germany. Kalle's pipeline of recent new product launches included: NaloProSpice, NaloFerm, NaloEco and clean label NaloProtex.

For the year end December 2015, Kalle had sales of €281 million, and employed some 1,700 people serving more than 100 countries around the world. The company's position as a leading global supplier of industrially produced casings for meat products attracted several strategic and financial purchasers. Ultimately we agreed to sell the company to funds managed by Clayton, Dubilier & Rice, generating a 3.5x multiple of Silverfleet Capital's original investment and an IRR of 22.5%.

AGCO Corporation acquires Cimbria, the Danish-headquartered manufacturer of equipment for seed and grain handling, for €310 million



Søren Overgaard
Group CEO
Cimbria

"Thanks to Silverfleet's financial support and strategic insight, Cimbria has undergone a rapid transformation over the past few years. We are well placed to continue growing our market share under our new owners, AGCO."

In September 2016, following the receipt of anti-trust clearance, we were pleased to announce that the sale of Cimbria to AGCO Corporation (NYSE:AGCO) had completed.

Cimbria, headquartered in Thisted in Denmark, is a leading global manufacturer of equipment used for seed processing and post-harvest grain handling. It has four production facilities in Denmark, Austria, the Czech Republic and Italy, and employs approximately 900 people around the world. Cimbria is a respected brand with long-standing customer relationships, in a growing and increasingly international market.

We acquired Cimbria in April 2013 having identified the potential to build an international leader of scale in the seed and grain-processing sector. We recognised that Cimbria's products were well placed to serve the need for greater agricultural productivity required to meet that the expanding global demand for grain and other crops.

During Silverfleet's ownership, an ambitious expansion strategy was pursued, which generated substantial growth in revenue and profits. Cimbria expanded into the rapidly growing markets of grain-and seed-importing countries such as Egypt and other Middle Eastern countries, having previously focused predominantly on exporting countries. Cimbria also expanded its sales operations to cover after-sales. Operationally, Cimbria strengthened the senior management team with a number of new appointments including within its R&D, procurement and after-sales functions. Cimbria also improved its efficiency by opening a new purpose-built manufacturing plant in the Czech Republic.

Cimbria's sales and earnings increased significantly during the period we were invested in the company, and in

2015 signed the largest contract in its history (€32 million). AGCO Corporation, the quoted US-headquartered manufacturer and distributor of agricultural equipment, were particularly interested in acquiring Cimbria and agreed to pay €310 million for the business generating a 3.3x multiple of Silverfleet Capital's original investment.

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