

SAIL Annual Letter 002

Dear Client,

The thing I value most about writing an Annual Letter (besides the fact that it forces me to distill the thoughts piling up in my head) is that it is a chance to talk directly to you, SAIL's clients. Relationships are built on trust. Trust requires understanding the motivations and intentions behind actions. This is equally true in business relationships.

SAIL's vision

At SAIL we have a simple vision. We want to be *the* leading global private markets manager of sustainable investments. We are building a private credit shop to do this. There are many impressive credit shops around at the moment. Apollo Global Management, Ares Management Corporation, Blackstone and Oaktree Capital Management are examples. But are there any credit shops focused *purely* on sustainable credit at a relevant scale (> USD 10 billion AUM)? ... I don't see them. What I do see are either large asset managers using smart marketing to present strategies with "add-on" impact credentials to institutional investors; or small, fully impact-driven investment firms struggling to perform within frustratingly complex blended finance structures. SAIL does not accept that these are the only two options. We are convinced that we can deliver true impact at institutional investor scale.

This is a bold vision and it requires much more than enthusiastic sermons regarding the importance of sustainability. In my previous Annual Letter (<https://sail-investments.com/annual-letter-2023/>) I referred to the "noise" in the impact investment space. If *talking* about impact investing or sustainable financing is the goal, there is a touring echo-chamber of conferences and events that one can join (if you are content to circle the globe every year, with increasing velocity and repetition). It may be that all those discussions are necessary to establish a new theme in an industry...? I honestly don't think so.

At SAIL, we prefer to focus on performance. Rather than contributing to the noise around impact, we choose to build it silently and with focus. (Incidentally, this is one of the reasons why I like being headquartered in The Hague. This charming Dutch city is to SAIL what Omaha is to Berkshire Hathaway or perhaps Beaverton to Nike: as attractive as it may be to work and live here, a global investment center it is not. You

are more likely to spot a government minister on a bike as you cycle your kids to school than an investment banker in a suit.¹)

Our daily mission in the office is to take focused steps towards our vision, knowing that achieving it will make us a leader that the industry can follow. If our approach is emulated, impact generation will increase - an outcome of which we would all be proud. I firmly believe that the world needs more companies that differentiate based on execution. At the moment, there are many in the impact space, who spend their time playing politics or selling a narrow point solution that doesn't actually address the intended goal of investors.

Internally, we engage each other on our *raison d'être* constantly – DAILY - because it drives business decisions, big and small. *Big* could be launching a new investment strategy. *Small* could be the coffee we stock in the office. *Why coffee?* If our coffee is exceptional, it reinforces SAIL's narrative of being exceptional for the drinker, whether they be potential new talent, or an investor, or a stakeholder. (Besides, while one may often remember a great cup of coffee, it is rare that you forget a terrible one).

Sustainability is our Investment Strategy

For us, sustainability² is a strategic choice. It is a significant driver of alpha in our thesis. Our sustainability approach to origination and deal structuring derisks our investments materially. It enables us to build portfolios that are substantially uncorrelated from more traditional portfolios, including those with a sizeable exposure to private markets. Yes... you give up some liquidity (as is usual with private credit) but you gain an asset base that you cannot otherwise access and you are suitably compensated for the lower liquidity through the yield pickup. (The liquidity debate is - in any event - up for discussion as private markets grow rapidly.)

If you read the big (VERY BIG) plans set out by managers like Apollo for the next decade, you might wince at the thought of competing with them. I agree that it is not realistic to go head-to-head with their volume targets. However, they are opening up the private credit asset class to real scale and - for niche shops like SAIL - there is certainly a long runway of capital if we get our investment strategy right. We prefer to stay out of the highly competitive mainstream areas of private credit – at least for now – and build on the specific approach of our strategy.

SAIL's end-to-end investing provides a solution for asset owners seeking to 'access' investable sustainability in their portfolios today. The challenge that remains is deploying this strategy at scale.

¹ I can personally testify to this as the former Dutch Prime Minister lives in my neighborhood and we have often cycled in to town or done our grocery shopping 'together' over the years.

² What others might call impact or ESG or E&S etc.

Building SAIL's Capacity

We are busy building our business to execute this vision of delivering impact at scale. One can easily get distracted at numerous points along this journey! This is most dangerous if one is receiving praise at your current stage of asset growth and you start believing that you are doing something quite impressive (“Wow! *I really am quite something*”, you can almost hear the internal dialogue!). It is why we consistently drill home the vision as a constant reminder to ourselves, keeping the energy moving towards it.

We are persistently reinvesting in the business to develop the tools and the talent we need to create scale. And our current anchor investor base and advisors are unparalleled support to that. We need the best investment talent: not only talent to compete competently with the large assets managers, but also talent with the ability to influence our borrower base. We need to motivate our borrowers to disrupt their sector and take on a sustainable growth trajectory. This includes a lot of heavy lifting and it is essential that they can envision the rainbow in the distance. At SAIL, we have learnt a lot about managing (and nurturing) talent and we keep pushing for it to be as exceptional as the coffee... Thankfully, our investment strategy gives us some ‘recruiting alpha’ as people - very talented people - are increasingly looking for more meaning in their work and wanting to be influential and useful in the world.

In addition, our experience shows that, to be successful, we need to own the relationship with the borrower and lead the structuring of the transaction. Thus we are investing heavily in building our origination capabilities, at our head office and stationed around the globe in key markets for us. Originators play a key role beyond just finding opportunities, and they are a borrower-centric pillar in the SAIL ‘deal team’ which runs the investment process. Originators work alongside sustainability and investment resources in a dedicated ‘deal team’ on every transaction, embedding significant capacity for DD but also defining with the borrower a sustainability value creation plan for their growth plans.

We do all this pre-investment engagement because, ultimately, we think the addressable market for this kind of sustainability-driven financing role – i.e. where you actually go into the asset and drive value alongside management and owners – is going to grow and will spread to multiple capital intensive industries. We want to lead that charge.

Focusing on SAIL's Clients

Who is our client? Nowadays, this is not such a straightforward question.

My single biggest learning on this point took place in my early years in the asset management industry. I was working for a leading South African listed equities manager at the time and we had significantly outperformed the market in 2008-2009 during the Great Financial Crisis. I cannot remember the particulars, but we had done something like minus 4% whilst the market had done about minus 40%. The

performance fees were good; our team was happy; new Porsches arrived in the garage beneath our plush offices; people had their chests puffed out. Then our CIO set up a meeting with the trustees of our largest investor: a mineworkers' pension fund. These men and women quietly listened as we smugly told them how well we had outperformed the market. I remember the leading Trustee thanking us for the presentation, and then stating simply "I have a pension. Last year it was worth more and today it is worth less. You have lost money for me. Money that I don't have to lose." The room went silent. I will never forget that moment.

Years later, when I sat down in my little apartment in Toronto (it was 2012) and sketched out the vision of "Project SAIL", I wrote that I want to manage the money of people like them; people who need their savings to be responsibly invested and who wish their children to experience the natural and social wonders a prosperous planet is able to provide. That felt like an honourable goal to have in an industry obsessed with chasing riches. That is the picture of the *CLIENT* that I still have and that we all have at SAIL. It could be a pensioner, a policyholder, a doctor or a miner, but the point is more that they are savers.

Concluding thoughts

So, in short, SAIL's focus is to be trusted to invest and manage institutional client capital. We know that in order to show that we are worthy stewards, we have to demonstrate excellence across our business - not just on an impact sheet or a performance sheet, but in terms of our operations and governance too.

Transparency breeds integrity and having your attention will keep us honest to our goal. That is the first victory.

Thank you for your support.

Sincerely,

Johnny