



FREDRIK SJÖSTRAND
CIO AND FOUNDING PARTNER
SCANDINAVIAN CREDIT FUND

Kreditfonden Taps Into Nordic Factoring Market

By Jonathan Furelid – HedgeNordic

“We bring the direct lending asset class through NFF to a wider audience and offer a Nordic touch to the investment.”

Since launching its first fund in 2016, Skandinaviska Kreditfonden AB has become a significant player in the market for direct loans to Nordic companies. Currently managing in excess of 5 billion SEK, the specialist asset manager looks to expand further through the launch of additional fund products, the most recent being the Nordic Factoring Fund – a fund that taps into the Nordic market for factoring loans. But there is more to come.

“We are constantly looking for new ways to build on our core competence within direct lending and the unique network we have in the Nordics. The factoring market is a well-established source of financing for companies in the region but has traditionally been in the hands of so-called financial institutes. We want to become a real contender in this field while at the same time broadening our offering of funds and financing solutions”, says Fredrik Sjöstrand, founder and CIO of Kreditfonden.

The Nordic Factoring Fund, or NFF as it is commonly referred to, has been running since June of last year and has already attracted a lot of interest from existing investors in the Scandinavian Credit Fund I – Kreditfonden’s flagship fund. But Sjöstrand believes that NFF will appeal to new groups of investors as well.

“We have seen increased interest from foreign investors who are more used to investing in this asset class. They are looking to geographically diversify exposures from continental Europe to the Nordics, and through NFF we have a unique product for them.

With regards to liquidity terms for the NFF, subscriptions are being accepted monthly, but redemptions are limited to year-ends with a three-month pre-notice. Both funds are traded through so-called profit shared loans on the Nordic Growth Market (NGM). NFF aims for a yearly return (net of fees) of 6 percent, which is in the lower range of the target return for Scandinavian Credit Fund I, which is set to 6-8 percent.

Buying Invoices at a Discount

Factoring is a means for companies to strengthen their liquidity in the short term by selling its account receivables (invoices) to a third party. For example, a company with strong seasonality effects in earnings can smooth out income streams through selling its invoices in order to free up cash.

The price for receiving money now rather than later is the interest paid to the buyer (the factoring company), which translates into the invoice being sold at a discount. The factoring company is then responsible for collecting the payments in full, typically taking on the credit risk in the transaction.

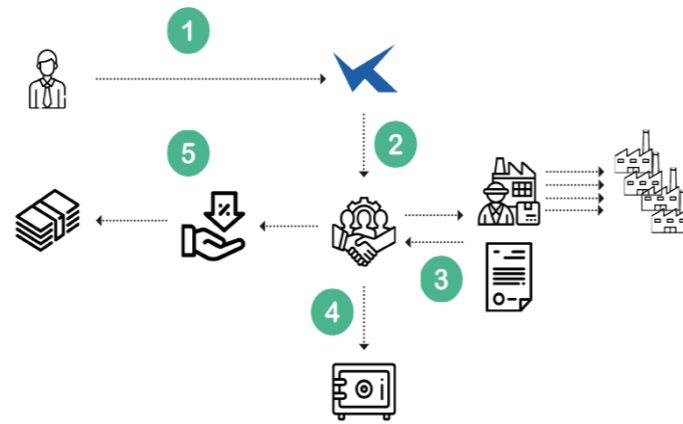
NFF follows the same business model used by traditional factoring companies, but rather than acting as a direct counterparty to the seller of the invoices, the fund uses factoring companies as an intermediary in order to generate returns.

“We are buying invoices through factoring companies that have established relationships and administrative processes in place for collecting payments from the invoiced clients. The returns that the fund generates are the net proceeds from our deal with the factoring company”, explains Sjöstrand continuing:

“The invoices bought then serve as a pledge in the name of the fund, and we use a credit insurance in order to protect the fund from being exposed to major credit losses should the invoiced client fail to meet its payment obligations.”

The returns generated in the fund can be explained in a five-step model.

1. The investor buys the fund
2. The fund has agreements with a number of operators or factoring companies that are financed through the capital invested in the fund
3. The factoring companies purchase invoices from companies approved by the fund via factoring
4. The invoices are pledged in the fund’s name and serve as collateral
5. The factoring companies make sure that the invoices are paid by the companies to which the invoices are issued, and the fund receives interest on the capital invested.



According to Sjöstrand, there is no similar fund accessible for retail clients in the Nordics, although some of the world’s major financial institutions have been offering funds built on the same idea through speciality finance products.

“These funds target an institutional or high net worth individual audience and has a global focus. Much like we did with the Scandinavian Credit Fund I, we bring the direct lending asset class through NFF to a wider audience and offer a Nordic touch to the investment.”

This allow the investor to tap into a fund that could bring steady income streams over time while supporting the Nordic business climate through providing short to medium-term financing to companies in the region.

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Growing on all Fronts

Since launching in 2016, Kreditfonden has grown significantly on all fronts as investors have searched for alternative ways of generating returns in the current low interest rate environment. As the Scandinavian Credit Fund I has delivered on its promises of a yearly return of 6-8 percent annually, investors have flocked to the product bringing its AuM to in excess of 4 billion SEK.

“We had an initial target of reaching 3 billion SEK, which was later revised to 5 billion SEK, at one point last year we closed the fund for new investments as we needed to make sure that we had enough capacity to meet the need for new loans in the portfolio. But as we have grown in size, we can now compete for larger deals which means that our capacity can also be higher going forward. We expect that the Scandinavian Credit Fund I can grow to 7 billion SEK and we will cater for additional capacity through the NFF as well as through new products in the near future.”

Sjöstrand reveals that an institutional fund following a similar strategy as the Scandinavian Credit Fund I will be launched within short. The fund, dubbed the Scandinavian Credit Fund II, will have a lock-up of several years and target loans that are larger in size. The fund will be offered to institutions in the Nordics and globally with a fee structure and minimum investment that is adapted to the requirements of an institutional audience. He also says that other product ideas are evaluated continuously.

“There is never a lack of new ideas at Kreditfonden. There are no limits as to what we can do in the direct lending space”, Sjöstrand says but highlights that growth will never be accepted at the cost of quality.