

Kreditfonden Caters Institutional Investor Demand for Illiquid Private Debt

By Jonathan Furelid – Kreditfonden



Jan Lundquist
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Since 2016, Swedish direct lender Kreditfonden, through its management company Finserve Nordic AB, has offered its Scandinavian Credit Fund I to retail investors and small institutions in the Nordic region. To build on its track record and to meet an increased institutional demand for private debt in the Nordics, Kreditfonden now pushes ahead with a new fund – the Nordic Direct Lending Fund.

“It is a very natural progression following on our success with the first fund. The new fund is designed for institutions that are looking for an alternative credit exposure that could complement or replace existing fixed income holdings that have a difficult time in the current low yielding environment”, Fredrik Sjöstrand, CIO of Kreditfonden, explains.

The structure of the Nordic Direct Lending Fund (NDLF), is a closed-end AIF with an 8-year lock-up

period. It targets investors that can stay with the investment for a number of years, and who look to become compensated for the illiquidity risk inherent in the underlying investments. The fund aims for an annualized return, net of fees, of 5-7 percent with no leverage applied. It will invest in private high yield corporate loans.

“The closed-end structure allows us to lend long-term to Nordic companies without having to worry about the short-term investor flows that tend to work to a more liquid fund’s disadvantage. Investors tend to sell at times when market are stressed which is when we find exceptional value for the longer term”, Sjöstrand says.

Like its predecessor, NDLF will focus its lending activities to the Nordic region and primarily invest in senior secured loans in SEK, but the size of the loans

will be in the range of SEK 150-500 million, which is larger than the EUR 5-35 million range traded in the Scandinavian Credit Fund I. According to Sjöstrand this provides for a great opportunity-set.

“It allows us to compete in larger bond issuances, which give us access to a broader range of quality companies to lend to. Although the competition is also admittedly higher in this space, we will have good use of the network we have built in the Nordics over the years to harness the most interesting credit opportunities.

The NDLF will make use of the vast experience of the Kreditfonden Investment team, credit analysts and loan originators and has also added senior capacity in Jan Lundquist as portfolio manager. Lundquist prior was the global head of risk and head of rates trading at Swedbank’s trading unit within FX and

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Fixed income and was most recently with global macro hedge fund AVM.

“Jan has a long experience from managing risk in fixed income and credit markets and has successfully done so both in a large bank set-up and in a hedge fund environment, he is uniquely positioned to manage this fund in the best possible way”, Sjöstrand says.

The board of the fund also includes some very senior names including Göran Tidström (a long-term partner of PWC and chairman of the European Financial Reporting Group) and Ante Nilsson (founder of

Tanglin and Ambrosia hedge funds). In the fund's credit committee Anders Hjort (former head of credit trading at SEB) is among the names.

EXTENSIVE DUE DILIGENCE PROCESS

The NDLF will seek to invest in sound and cash flow generating businesses across a number of different sectors. The due diligence process for finding loans will be extensive and involve a multi-stage review process where everything from the potential lender's market position, debt ratios, margins and quality of management will be thoroughly assessed. The process is well proven within the investments teams since years of track record in other direct lending funds.

Post investment, the fund has a pre-defined monitoring process and will engage closely with the borrower to secure orderly payment of agreed interest and to make sure that the business is in line with expected development paths. There will also be strict covenants and heavily negotiated loan documentation to avoid credit events. At any given point in time, the fund will have between 20-30 investments.

“We will be a very active lender from day one, the Covid-situation means that business conditions can change rapidly and that requires close monitoring of the borrower's situation. In order to have control of the investments, we will also seek sole lender positions where the fund has control or ownership of the debt tranche”, Jan Lundquist says.

ESG-RESTRICTIONS APPLIED AND INTERNALIZED

In order to meet the increasingly high standards required from Nordic intuitions when it comes to sustainability and ESG, Kreditfonden has worked hard during the last couple of years to set up and internalize an ESG policy for all of its investments. The fund management company also recently signed the UN PRI.

“The ESG policy excludes investments in unethical activities and also involves positive screening favoring companies working for a more sustainable future. In the SCFI we have included wind farms and sustainable real estate projects for example. We have also appointed a dedicated person overseeing that we adhere to the policy and UN PRI guidelines”, Sjöstrand says.

PRIVATE DEBT – AN IMPORTANT FINANCING TOOL TO IGNITE THE COVID-STRUCK ECONOMY

In the light of a Covid struck global economy, private debt and direct lending to SME's have become an increasingly important part for financing the global economy. According to a recent survey from the alternative credit council and Allen & Overy, private credit will have provided SME's and mid-market businesses with over USD 100 billion in fresh financing in 2020. According to Sjöstrand, the Nordic Direct Lending Fund will be an important source of capital for Nordic businesses given more flexible terms than traditional bank lending.

“Many sound Nordic businesses have had serious setbacks during the pandemic and will need funding to get back on track, in that context NDLF will serve as an interesting financing option and equally create good investment opportunities for the fund and its investors.”

The Nordic Direct Lending Fund is currently raising assets with a target launch date mid-2021 and an anticipated AuM of SEK 5 billion, with a hard cap of SEK 7 billion. According to Sjöstrand, demand is high, particularly among tier two and tier three institutions who have started to look into the asset class more recently.

“The tier one institutions already have allocations to private debt and are currently looking after existing holdings rather than entering new ones, the smaller institutions however show great interest and appetite. We are optimistic to reach our target AuM and to get the fund up and running by June 2021 at latest.”