

NORDIC CREDIT PARTNERS

Nordic Credit Partners Fund II AB (publ)

Unaudited Interim Report 1 January – 30 June 2017

Nordic Credit Partners manages closed-end credit funds which invest in listed Nordic corporate high-yield bonds, with an aim to achieve an attractive, stable risk-weighted return over time. Each fund's portfolio is composed applying a tailored 'bond-picking' buy-and-hold strategy based on the Board of Directors' broad and long-standing experience from the financial markets. All investments are conducted following thorough and careful due diligence, closely monitored and selected to provide the portfolio with broad diversification across industries, geographies and risk levels. The funds also apply financial leverage to further enhance returns. Nordic Credit Partners charges no fixed management fee but applies a performance-based profit-sharing structure with the investors conditional upon the return exceeding a pre-agreed hurdle rate. The Board of Directors promotes transparency, openness and cost-control and the funds are operated as public limited liability companies, incorporated in Sweden under the Swedish Companies Act (2005:551) and has their registered offices in Stockholm, Sweden. The funds are registered as Alternative Investment Funds (AIF) with the Swedish FSA.

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1. Fund overview

GENERAL

Fund full name	Nordic Credit Partners Fund II AB (publ), hereafter “the Fund”
First closing date	22 December 2015
Final closing date	1 July 2016
Vintage year	2015
First investment date	22 December 2015
Term	5 years to 22 December 2020
Extensions	Maximum 12 months
Total commitments	SEK 150 million
Year end	31 December
Domicile	Sweden
Legal form	Swedish public limited liability company
Fund currency	SEK
Manager	Board of Directors/Investment committee
Open/closed-ended	Closed-ended
Maximum leverage	60%
Maximum investment restrictions	10% of total portfolio
Reinvestment/recycling policy	At the manager’s discretion
Accounting principles	Swedish GAAP

INVESTMENT FOCUS BY

Stage	Mature
Industry	Mature, well established industries without dependency on one single exogenous factor
Geography	Nordic region

KEY ECONOMIC TERMS

Management fee	None
Debenture interest	- 100% of the operating income <i>up to</i> a return equal to 4% p.a.; plus - 80% of the operating income <i>above</i> a return equal to 4% p.a.
Catch-up	None

PARENT COMPANY

Parent Company	Nordic Credit Partners AB
Commitment	SEK 2 million

AIFMD

Regulator	Finansinspektionen (Swedish FSA)
Depository	Pareto Securities AB
Country of registration	Sweden

ADVISERS AND SERVICE PROVIDERS

Auditor	Karl-Henrik Westlund, R3 Revisionsbyrå
Legal adviser	PG Magnusson Advokatbyrå AB Denovo Advokatbyrå AB
Administrator	Pareto Business Management AB
Banking facilities	Pareto Bank ASA

2. Board of Directors' report

- 6.1% net return to investors, equivalent to 12.2% net *annualised* return
- Portfolio consisting of 29 bonds issued by 25 issuers
- 2017 net annual return forecasted to be above the net annual return target of 7-9%

2.1. Market

During the first six months of 2017 (hereafter “the reporting period”), the themes of 2016 have largely remained but intensified. ECB has continued to acquire bonds for ~EUR 60 billion monthly, resulting in nearly EUR 2 trillion of debt securities having been purchased since the programme was initiated. Consequently, ECB has ended up a very large investor in the European bond market owning e.g. 20-23% of all eligible German debt securities.¹ In the US, the strong labour market suggests the Fed will begin a cautious reduction of its USD 4.2 trillion monetary policy portfolio while continuing to hike its key rate in the fall of this year followed by further hikes in 2018-19. In parallel, the Riksbank's bond purchases combined with new cuts in National Debt Office issue volumes is likely to further limit the supply of Swedish government bonds, putting downward pressure on bond yields.

The Oil price has declined 16% during the reporting period, contrary to what many analysts forecasted, resulting in continued scepticism towards Oil & Gas issuers. The decline was due to a large, unexpected growth in production from Libya/Nigeria and a market belief that US shale production would increase significantly if the Brent price climbed above USD 55. In addition, the US rig count increased quicker than anticipated which led to large shorting of the oil price by speculative money while OPEC cut exports less than production by drawing down inventory. In the coming 2-5 years, analysts forecast a gradual price increase to ~USD 70 (up +45% from today's level) while electric vehicles are still not expected to be a threat to oil prices in this time frame.²

Property development and real estate companies continued to be active issuers of high-yield bonds during the reporting period. Consequently, the Swedish housing market has remained on top of the agenda for investors and regulators while prices in central Stockholm increased by 6.4% in the last twelve months³ despite growing construction. Housing starts in Q1 totalled 20,000 but construction capacity is strained. Population projections suggest ~50,000 new homes will be needed annually until 2020. A Riksbank study shows that only Stockholm is experiencing a real housing shortage, indicating supply and demand imbalances between regions.⁴ However, the strong labour market and low interest rates provide favourable conditions and a near-term sharp decline in property prices seems less likely. Instead, the increasing housing supply may put a damper on prices in the near term and increase the risk of a sharp decline in the longer term.

The turbulence surrounding the Trump administration in the US has continued with contradictory policy statements and a continuously changing cast of key individuals. Emmanuel Macron's victory in the French presidential election resulted in the EUR reaching its highest level of the year against the USD and French government bonds' premium over Bunds dropping to a 2017 low. The market took further comfort from regional elections in Germany where Angela Merkel's CDU counted some more or less expected victories, putting her in a strong position for the general election in September. In the UK, Theresa May's Conservative Party won a slim victory in the parliamentary elections while higher inflation is eroding real income growth and weakening consumer spending reflect the political uncertainty regarding the Brexit talks. In summary, the political calendar in Europe, which looked packed with landmines in January, now appears much more benign.

The activity in the Nordic primary high-yield bond market continued to be high during the reporting period with ~EUR 7.5 billion of new issuances, notably from large, established issuers such as Stora Enso, Nokia and Aker BP. In parallel, several large outstanding bonds were repaid, e.g. Lindorff, Nokia, Perstorp and Stena. These repayments allowed investors to actively participate in new issuances, resulting in attractive

¹ DNB Markets - ECB asset purchases dated 27 June 2017.

² DNB Oil Market Outlook dated 3 August 2017.

³ Svensk Mäklarstatistik dated 30 June 2017.

⁴ Nordea Markets. Sweden: The myth about housing shortage dated 31 May 2017.

spreads for the new issuers. In addition, ~SEK 4.6 billion of inflows to the eight largest Swedish high-yield bond funds further fuelled investor demand. In Norway, however, the six largest high-yield bond funds suffered an outflow of ~NOK 0.6 billion during the same period.

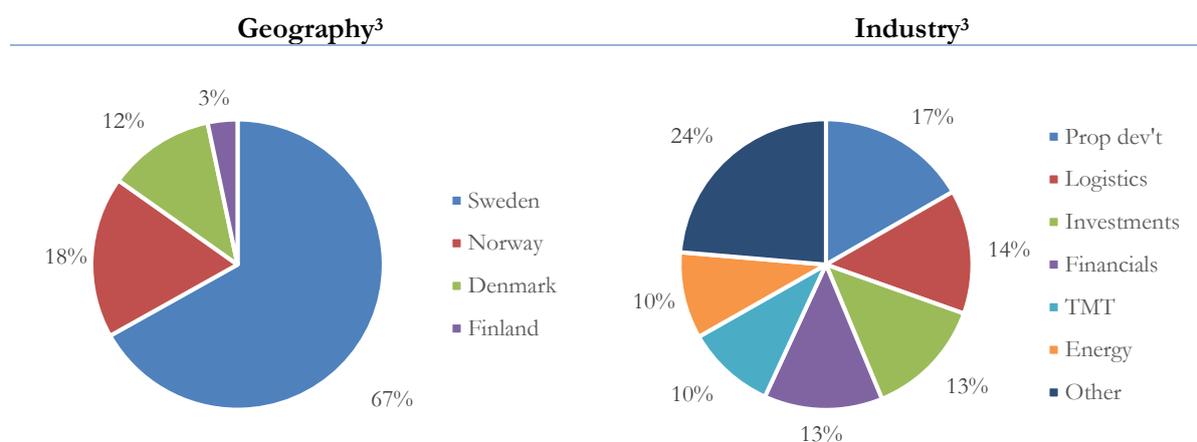
In summary, the market development in the second half of 2017 will likely be subject to continued accommodative monetary policy in the US and Europe, short-term volatility in commodity prices and FX, uncertainty as to the content and timing of the Brexit process as well as global geo-political instability. Notwithstanding this, continued inflows to the Swedish and Norwegian high-yield bond funds and significant cash balances suggest investor demand for high-yield bonds will remain going forward.

2.2. Portfolio

During the reporting period, the portfolio has been fully invested with coupons received continuously being reinvested. A handful of bonds in the portfolio have been repaid, notably Lindorff which was acquired by Intrum Justitia, LM Wind Power which was acquired by GE and Paroc which was refinanced with bank debt. The Board of Directors has met fortnightly to maintain the portfolio fully invested but has remained determined not to diverge from the Fund's core strategy of thorough and careful due diligence and leveraging the knowledge of its industrial advisers. The strong market sentiment has reduced the number of attractive new opportunities sharply, yet the Board of Directors is pleased with the replacement investments conducted. Issuers with defensive attributes such as low cyclical, strong cash generation and low initial leverage have been favoured when replacing repaid bonds. Replacement investments have generally been done in the secondary market with the exception of a limited number of primary issuers who were already well known to the Fund and where an extended pre-sounding period for confirmatory due diligence was provided prior to investing.

Portfolio metric	Value ¹
Yield to maturity	7.89%
Yield to worst	7.85%
Duration to maturity	3.35
Modified duration to maturity	3.28
Average maturity/years	3.89
Average coupon	7.10%
Average rating	B+

At the end of the reporting period, the book value of the portfolio was SEK 277.1 million financed through debentures of SEK 150.0 million and bank debt of SEK 134.1 million (48.5% leverage). The portfolio yielded 7.9% YTW² and had a weighted average coupon of 7.1%, a weighted average maturity of 3.9 years and a B+ weighted average rating.



¹ Refers to the Fund's aggregated portfolio as opposed to solely the debentures.

² YTW (Yield to Worst) is calculated as the lowest yield of yield to maturity and any yield to call date.

³ Percentages exclude the current cash position.

Furthermore, at the end of the reporting period the portfolio consisted of 29 bonds issued by 25 issuers, denominated predominantly in SEK followed by USD, NOK and EUR. All investments were domiciled in the Nordic region with 67% of the portfolio in Sweden, 18% in Norway and 12% in Denmark. The portfolio's main industries were property development (17% of the portfolio), Logistics, (14%), Investment companies/conglomerates and Financials (13% each) and Technology, media, and telecommunications (TMT) and Energy (10% each). The Fund has no direct exposure to Oil & Gas issuers.

The aggregated interest on the debentures was SEK 9.2 million, corresponding to a net return for the reporting period of 6.1% and a net *annualised* return of 12.2% as detailed in section 3.4 of this report. The Fund's operating income consisted mainly of net financial income (bond coupons less interest on the bank debt) and realisation gains/losses, partly off-set by exchange value differences. The exchange value differences relate to a long position in NOK equivalent to approximately 6% of the Fund's assets which has been regained in full after the end of the reporting period. In accordance with Swedish GAAP, the Fund post realisation gains/losses only when they are realised in cash. The net realisation gains of SEK 5.1 million for the reporting period (equivalent to 3.4% gross return) mainly relate to the realised holdings in Lindorff, LM Wind Power and Paroc. For 2017, the Board of Directors forecasts the net annual return to be above the previously communicated net annual return target of 7-9% due to attractive running-yield on the portfolio and already realised and forecasted net realisation gains.

In summary, the Fund's development during the reporting period has been satisfactory. The fixed asset base, without fund in- and outflows, and its buy and hold strategy has enabled the Fund to deploy capital (and remain invested) when other investors have been forced to create cash buffers in order to accommodate potential fund flows at short notice. In addition, the Fund's strategy of (i) investing in industries without dependency on single exogenous factors; and (ii) thorough due diligence has resulted in a healthy and balanced portfolio with a default rate of 0.0% (vs. 11.9% for the market in 2016¹). As the Fund now has moved into the monitoring period of the investment cycle, the Board of Directors continue to meet regularly, composes a back-up shadow portfolio and actively manages the Fund's portfolio to generate an attractive risk-weighted return.

Stockholm, 31 August 2017
Nordic Credit Partners Fund II AB (publ)

Björn Wolrath
Chairman of the Board

Bengt Dennis
Director

Gunnar Eliasson
Director

Jakob Eliasson
CEO

This report has not been audited by the Fund's auditor.

Information can be obtained from Jakob Eliasson, CEO, tel. +46 (0)8-23 11 00.

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¹ Stamdata Nordic High Yield Default Rate Update – Q4 2016 dated 15 January 2017.

3. Financial statements and debenture returns

3.1. Income statement

<i>Amounts in SEK '000</i>	1 January – 30 June 2017
Financial income	10 490
Financial cost	-3 459
Exchange value differences	-679
Realisation gains/losses	5 057
Administrative expenses	-677
Operating income	10 732
Debenture interest cost	-9 186
Income before tax	1 546
Current tax	-340
Net income	1 206

3.2. Balance sheet

<i>Amounts in SEK '000</i>	30 June 2017
Bonds	277 126
Other current assets	2 947
Cash and cash equivalents	11 883
Total assets	291 955
Shareholders' equity	514
Net income	1 206
Total equity	1 720
Debenture loan	146 529
External debt	134 091
Other current liabilities	9 615
Total equity and liabilities	291 955

3.3. Debenture returns

Cumulative returns for the period	Return
Last six months	6.1%
Year to date	6.1%
Since launch¹	15.6%

Historical financial year returns	Return
2016	9.5%
2015	NA
2014	NA
2013	NA
2012	NA

¹ First closing took place 22 December 2015.

3.4. Debenture interest cost summary

Item	SEK '000	Annual debenture return equivalent
Net financial income after administrative expenses	6 354	8.5%
Exchange value differences	-679	-0.9%
Realisation gain/loss	5 057	6.7%
Operating income	10 732	14.3%
Debenture interest <i>up to</i> the 4% p.a. hurdle rate	-3 000	4.0%
Debenture interest <i>above</i> the 4% p.a. hurdle rate	-6 186	8.2%
Total Debenture interest	-9 186	12.2%
Income before tax attributable to the Issuer	1 546	2.1%

4. Portfolio overview

4.1. Top ten holdings

Bond	ISIN Code	Weight
Scandinavian Biogas Fuels AB 16/20 FRN C	SE0007784111	5.2%
BMST Intressenter AB 2017/2022 FRN C	SE0009889553	5.2%
SSM Holding AB 16/20 FRN C	SE0008040893	5.2%
Alm Equity AB 16/20 FRN C	SE0008014690	4.8%
Scan Bidco A/S 16/22 7,70% USD C	NO0010768062	4.3%
Marginalen Bank 14/24 ADJ C SUB	SE0006288155	4.3%
Marginalen Bank 14/PERP ADJ C HYBRID	SE0006338570	4.2%
Aker ASA 12/22 FRN	NO0010657398	4.1%
Millicom 6,625 10/15/2021	XS0980363344	4.0%
ZITON A/S 15/19 FRN EUR C	NO0010751332	4.0%

4.2. Rating breakdown

Rating	Weight
BBB	4.1%
BB	17.5%
B	51.6%
CCC	5.2%
<CCC	0.0%
Not rated	17.5%
Net liquid assets	4.1%

4.3. Maturity breakdown

Maturity (years)	Weight
<1	0.0%
1-3	46.1%
3-5	33.7%
5-7	12.0%
7-10	4.2%
10-15	0.0%
>15	0.0%
Net liquid assets	4.1%

4.4. Other portfolio metrics

Asset allocation	Weight
Corporate high-yield bonds	95.9%
Net liquid assets	4.1%

FX breakdown by currency	Weight
DKK	3.1%
EUR	7.2%
NOK	9.2%
SEK	59.3%
USD	21.3%
Other	0.0%

FX rates as per balance sheet day	Rate
DKK:SEK	1.2963
EUR:SEK	9.6398
NOK:SEK	1.0072
USD:SEK	8.4471

5. Investment strategy

The Fund's investment strategy is to invest in a well-diversified, levered portfolio of publicly traded Nordic high-yield bonds rated BB/Ba2 to B-/B3 with an aim to achieve an attractive, stable risk-weighted return over time. The portfolio is composed through a tailored 'bond-picking' buy-and-hold strategy based on the Board of Directors' broad and long-standing experience from the financial markets. Each investment is based on thorough and careful due diligence, continuously monitored and selected to provide the portfolio with broad diversification across industries, geographies and risk levels.

Before any investment is approved by the Board of Directors, a thorough due diligence is conducted using a wide range of data sources including company materials and financial reports, third-party industry and market reports, public filings, credit and equity research, industry experts and industrial advisers. In parallel, the Board of Directors draws on its extensive network of insightful expertise, decision makers and top-tier managers to confirm due diligence findings. The due diligence normally takes two to four weeks and focuses on the following areas:

Business and market review

The business and market review focuses on the issuer's business model, quality of operations, customers, management, ownership, competitive landscape as well as industry and market structure. Each of these factors are first evaluated separately and then combined to evaluate the overall attractiveness of the issuer and the market in which it operates.

Financial review

The financial review focuses on historic and forecasted financial performance, current trading, quality of earnings, cash flows, debt service capacity, downside risk and sensitivities. A financial base case and associated stress-test scenarios are typically developed to evaluate the robustness of the issuer's financial situation and outlook.

Valuation and investment returns

The valuation and investment returns review focuses on the valuation of the issuer using several methodologies including at least a comparison to publicly traded peers and an LBO-valuation. The valuation is then compared to the forecasted debt levels and cash flows with a view to determine the implicit risk level in relation to the return potential to derive the risk-weighted return and ultimately the attractiveness of the investment opportunity.

Structure and documentation

The structure and documentation review focuses on technical aspects of a potential investment including the quality of the documentation, the relative structural position vis-à-vis other stakeholders and various acceleration scenarios in case of a potential default. The review is normally binary, i.e. either the structure and documentation is acceptable or it is not, as the Board of Directors is not willing to assume risk due related to unsatisfactory documentation or structure.

While each investment is evaluated on its own merits, the Board of Directors ensures the diversification and balance of the overall portfolio in terms of yield, industries, geographies, end-markets and equity sponsors.

6. Board of Directors

Björn Wolrath, Chairman of the Board

Björn Wolrath is the Chairman of the Board. He is also a private investor and a venture capitalist, Chairman of the Board of Directors of Yaltrade AB and Skärgårdsbolaget. Björn Wolrath's previous experiences include, *inter alia*, CEO of Försäkrings AB Skandia and Board member in many public and private companies including, *inter alia*, Alltele Allmänna Svenska Telefonaktiebolaget AB, Bravida AB, Com Hem AB, Hufvudstaden AB, AB Industrivärden, Samhall AB, AB Svensk Exportkredit and Telia Sonera AB.

Bengt Dennis, Director

Bengt Dennis is a Director of the Board. He acts also as a senior advisor and provides consultancy work for a number of financial institutions. Bengt Dennis' previous experiences include, *inter alia*, advisor to East Capital AB and SEB AB, Governor of the Swedish Central Bank (*Sw: Sveriges Riksbank*), Editor in Chief of Dagens Nyheter, Ambassador and international negotiator at the Swedish Ministry of Foreign Affairs, Under Secretary of State at the Swedish Ministry of Trade and Director at the Swedish Ministry of Finance.

Gunnar Eliasson, Director

Gunnar Eliasson is a Director of the Board. He is also a private investor, venture capitalist, institutional investment advisor, Chairman of Samlas AB and Drivhuset Stockholm. Gunnar Eliasson's previous experiences include, *inter alia*, CEO of the Swedish Taxpayers' Association, CEO of Sweden Financial Forum, CEO of Sweden Bond Promotion and Programme Director at Centre for Business and Policy Studies (SNS).

Jakob Eliasson, CEO

Jakob Eliasson is a Director of the Board and CEO of the Fund. His previous experiences include, *inter alia*, Investment Director at global private equity firm CVC Capital Partners (USD 65 billion AUM), Investment Professional at the London office of Goldman Sachs Capital Partners, the World's largest private equity, private debt and private mezzanine investor (USD 125 billion AUM) and analyst at Credit Suisse Securities in London. Jakob Eliasson has also been co-opted member of the audit committees of Ahlsell AB and Synsam AB.

7. Industry advisers

Reinhold Geijer, General industry

Reinhold Geijer is chairman of the Board of BTS Group and board member of Skandia, Eterna Invest, Zacco, The Sweden-American Foundation and British Swedish Chamber of Commerce. He was previously CEO of The Royal Bank of Scotland's Nordic branch, CEO of Nordisk Renting, CFO of Telia Company and CEO of Föreningsparbanken (now Swedbank). Reinhold Geijer has also held various positions within Ericsson, SSAB and Weyerhaeuser Company.

Ronnie Leten, Engineering & Capital goods

Ronnie Leten is chairman of Electrolux and Epiroc (previously Atlas Copco's Mining and Rock Excavation Technique business area) and board member of SKF and Sandvik Process Systems. He was previously President & CEO of Atlas Copco, Business Area President for Atlas Copco Compressor Technique and Divisional President for the Airtec and Industrial Air divisions. He has also been plant manager of Tenneco Automotive and held various positions within General Biscuits in Belgium.

Ola Norberg, Telecom & Media

Ola Norberg is founder, board member and ex CEO of Dotcom (later a part of publicly listed Tieto and TDC) and publicly listed AllTele which he grew to a business with sales of close to SEK 1.0 billion over 12 years. He previously held various positions within Ericsson. Ola Norberg is chairman of the board of Mobilearn and Bastuträsk Charkuteri and board member of Teleetablering Utveckling.

Lars Nyberg, Banking & Finance

Lars Nyberg is Director of Cordet Capital Partners and board member of NASDAQ OMX Clearing. He was previously Deputy Governor of the Swedish Central Bank (Sveriges Riksbank), Head of Investment Banking of Svenska Handelsbanken, CEO of Länsförsäkringsbolagens Förening and CFO of Föreningsparbanken (now Swedbank). Lars Nyberg has also been board member of Finansinspektionen (the Swedish FSA), the Stockholm Stock Exchange and Gjensidige Forsikring.

Marian Radetzki, Natural resources

Marian Radetzki is Professor of Economics (focus on minerals and energy markets), Luleå University of Technology. He was previously Visiting Professor of Mineral Economics, Colorado School of Mines and Catholic University, Santiago de Chile, Director and Senior Research Fellow at Centre for Business and Policy Studies (SNS), Chief Economist at the Intergovernmental Council of Copper Exporting Countries and has conducted consulting work for e.g. McKinsey, World Steel Association, World Bank and the UN.

Jan-Åke Stenström, Real Estate & Property development

Jan-Åke Stenström is CEO of Fastum Group and member of the Governing Council of Skandia, chairman of the Board of Boform Fastighetsutveckling and board member of Almega Fastighetsarbetsgivarna and Villa Marieberg. He was previously Executive Vice President of Norrporten (Swedish real estate company with SEK 26 billion of real estate assets), marketing director of Skandia, vice chairman of Investera i Sundsvall and board member of Kallax Cargo.

Hans Wigzell, Healthcare

Hans Wigzell is Professor Emeritus of Immunology and MD. He was previously President of Karolinska Institutet and President of Karolinska Institutet's Nobel Committee and has published more than 700 scientific articles in international peer-reviewed journals. Hans Wigzell is a board member of Karolinska Development, SOBI, RaySearch Laboratories, Valneva and Sarepta Therapeutics.

8. Reporting calendar

Report	Date
Unaudited Year-end Report 1 January – 31 December 2017	28 February 2018
2017 Audited Annual Report	2 April 2018