

NORDIC CREDIT PARTNERS

Nordic Credit Partners Fund II AB (publ)

Unaudited Interim Report 1 January – 30 June 2019

Nordic Credit Partners is a group of alternative investment funds managed in accordance with the requirements of the Swedish Alternative Investment Managers Act's (2013:561). The funds are 5 year closed-end funds investing in Nordic corporate high yield bonds. The investment strategy is centered around a fundamental value, bottom-up approach based on the board of director's long-term financial markets experience. The funds target to generate a stable and attractive, risk-adjusted return of 7-9 percent p.a. over time. Each potential investment is evaluated in a thorough and tailored operational, financial and legal due diligence process prior to final approval and subsequently closely monitored throughout the investment period. The funds seek diversification across industries, risk levels and geographies and may apply financial leverage to the portfolio in order to further improve risk-adjusted return. The funds charge no fixed management fee but apply a performance-based profit-sharing structure where investors are entitled to all profits up to a 4% annual hurdle rate (high watermark) and the remaining profits are attributed 80% to the investors and 20% to the parent company.

The board of directors promotes transparency, openness and cost-control. The funds are operated as Swedish public limited liability companies based in Stockholm and are registered with, alternatively supervised by, 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 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 Harvest Advokatbyrå AB
Administrator	Pareto Business Management AB
Banking facilities	BNP Paribas

2. Board of Directors' report

- 2.8% net return to investors for the reporting period, equivalent to 5.6% net *annualised* return
- 33.4% net return to investors since inception, equivalent to 8.5% net *annualised* return
- Portfolio consisting of 28 high yield bonds issued by 27 issuers
- 2019 net annual return forecasted to be within the target range of 7-9%

2.1. Macro and Market

During Q4 2018, the Nordic high yield market deteriorated gradually, driven by, among other things, net outflows of SEK 6.0 billion from Swedish corporate bonds funds. Only a handful of funds delivered positive return for the full year 2018 with NCP's funds being the two top performers. Consequently, many funds with daily NAV have recovered from low levels and developed well during H1 2019. NCP II, on the other hand, applies more conservative accounting practises and only recognises the recovering valuations as and when they are actually realised which is expected to happen in the next 18 months. As such, the Fund's performance during the reporting period is not fully comparable to its peers. In addition, the positive recent market development has attracted new inflows and during the reporting period, an addition SEK 8.2 billion was deployed in Swedish corporate bond funds, further fuelling the market. Dovish signals from several central banks put additional wood on the fire.

The Swedish housing market, particularly Stockholm, continues to be a focus point for both investors and regulators. Prices in the greater Stockholm area have recovered somewhat and are now down 6.9% since the peak. Lower mortgage interest rates have helped the market to regain confidence and bankruptcy filings and defaults of issuers have not materialised to the extent previously expected (with one or two notable exemptions). Instead, some orderly amend-and-extend procedures have been passed although with equity markets still largely untapped. With that said, a number of property development bonds are maturing in the next 12 months and we expect only quality issuers to be able to refinance.

Sweden's GDP growth is gradually slowing due to soft international demand and falling home construction, yet loose fiscal policy and a weak currency are expected to support growth during the remainder of 2019 (with 1.6% full year growth) and in to 2020 (with 1.7% growth). Unemployment is forecasted to stabilise while resource utilisation falls slightly. Inflation is also expected to remain low at 1.9% and 1.5% for 2019 and 2020 respectively. The Riksbank is consequently forecasted to postpone or cancel its rate hikes further; with the next change potentially being downwards.

Norway's mainland GDP growth is set to accelerate in 2019 (2.6%) and 2020 (2.2%), driven by higher investment on the continental shelf, putting Norway in a different position relative to other western economies. Oil and gas activity is stimulating the broader business sector and private consumption, keeping domestic growth drivers intact. Underlying price pressure is rising and inflation is forecasted to peak at 2.3% in 2019 before returning to 2.0% in 2020. Further monetary policy tightening is expected to contain inflation near the target in the coming years.

Denmark's GDP growth recovered in Q4 2018, driven by net exports. This development paved the way for 2019 and 2020 growth of 2.0% and 1.5% respectively. The slowdown in 2020 is expected to be a result of weaker global demand. The labour market has enough slack for several years of above-trend growth. Inflation remains low in 2019 (1.1%) and 2020 (1.6%) but is now on par with euro zone inflation. A weaker trade-weighted DKK eased downward pressure on manufactured consumer goods, while service inflation remains stable.

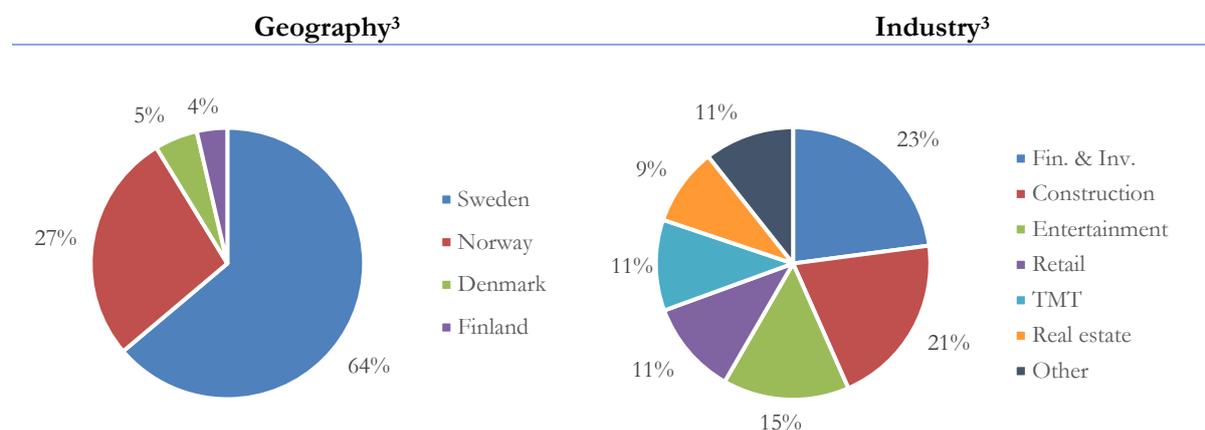
Finland's GDP growth has slowed due to lower exports and manufacturing, but domestic demand is providing continued support. The 2019 and 2020 growth rates are forecasted to be 1.8% and 1.9% respectively. Although business sentiment has worsened, job growth is strong and domestic sectors are in a better mood. Some improvement in global demand, along with continued decent demand inside Finland, will ease the slowdown. Fiscal policy is also expected to help sustain demand, with the incoming government expected to shift towards more stimulus even though there is only limited room.

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 disposed, notably Aker, Aspire Global and Ropo as they have traded up significantly and no longer were deemed to represent attractive risk adjusted return. In addition, Adapta was repaid above par during the period as the company obtained cheaper financing in the bank market.

Portfolio metric	Value ¹
Yield to maturity	9.94%
Yield to worst	9.90%
Duration to maturity	1.96
Modified duration to maturity	0.53
Average maturity/years	2.17
Average coupon	7.95%
Average rating	B

At the end of the reporting period, the book value of the portfolio was SEK 267.2 million financed through debentures of SEK 150.0 million and bank debt of SEK 117.3 million (43.9% leverage). The portfolio yielded 9.9% YTW² and had a weighted average coupon of 7.9%, a weighted average maturity of 2.2 years and a B weighted average rating.



The portfolio consisted of 28 bonds issued by 27 issuers at the end of the reporting period, denominated predominantly in SEK followed by EUR, USD and DKK. All investments were domiciled in the Nordic region with 64% of the portfolio in Sweden, 27% in Norway and 5% in Denmark. The portfolio's main industries were Financials & Investment companies (23% of the portfolio), Construction (21%), Entertainment (15%), Retail (11%), Technology, media, and telecommunications, TMT, (11%) and Real Estate (9%). The Fund has no direct exposure to Oil & Gas issuers.

The aggregated interest on the debentures was SEK 4.2 million, corresponding to a net return for the reporting period of 2.8% and a *net annualised return* of 5.6% 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. The portfolio is currently 98% hedged against SEK.

At the end of 2018, EUR 0.5 million of the Fund's excess liquidity was invested in a short term holding which subsequently defaulted and was written off. The investment had not undergone full customary due diligence as it was deemed small and short term. Adjusted for the write off, the net return would have been 5.5%, equivalent to a 11.1% *net annualised return*.

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.

In accordance with Swedish GAAP, the portfolio is valued at the lower of acquisition price and current market value and the Fund records realisation gains only when they are actually realised in cash. As such, the unrealised portfolio write-down of SEK 2.6 million taken in H2 2018 is expected to gradually reverse in the next 18 months as realisation gains when holding mature or are divested due to the termination of the Fund. The net realisation loss of SEK 2.5 million for the reporting period mainly relates to the realised holding previously referred to. For H2, the Board of Directors forecasts the net return to be higher than in H1, such that the net annual return will be within the target range of 7-9%. The improving performance is expected to be due to (i) lower interest expenses following switch of leverage facility to BNP Paribas; and (ii) the high running yield.

In summary, the Fund's development and strategy remain intact. 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. Issuers with defensive attributes such as low cyclicality, strong cash generation and low initial leverage have been favoured when replacing existing holdings. Replacement investments have been executed both in the primary and secondary market. The Fund is by now in the monitoring phase of the investment cycle. However, the Board of Directors continue to meet frequently to maintain an up to date shadow portfolio and actively manage the Fund's assets in order to optimise the risk-adjusted return.

Stockholm, 30 August 2019
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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3. Financial statements and debenture returns

3.1. Income statement

<i>Amounts in SEK '000</i>	1 January – 30 June 2019
Financial income	10 156
Financial cost	-3 074
Exchange value differences	86
Realisation gains/losses	-2 531
Administrative expenses	-158
Operating income	4 480
Debenture interest cost	-4 184
Income before tax	296
Current tax	-65
Net income	231

3.2. Balance sheet

<i>Amounts in SEK '000</i>	30 June 2019
Bonds	267 214
Other current assets	4 981
Cash and cash equivalents	355
Total assets	272 549
Shareholders' equity	500
Net income	231
Total equity	731
Debenture loan	148 500
External debt	117 304
Other current liabilities	6 014
Total equity and liabilities	272 549

3.3. Debenture returns

Cumulative returns for the period	Return
Last six months	2.8%
Year to date	2.8%
Since launch¹	33.4%

Historical financial year returns	Return
2018	6.6%
2017	11.2%
2016	9.5%
2015	NA
2014	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	6 925	9.2%
Exchange value differences	86	0.1%
Realisation gain/loss	-2 531	-3.4%
Operating income	4 480	6.0%
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	-1 184	1.6%
Total Debenture interest	-4 184	5.6%
Income before tax attributable to the Issuer	296	0.4%

4. Portfolio overview

4.1. Top ten holdings

Bond	ISIN Code	Weight
International Personal Finance plc	XS1839710347	5.4%
Bellman Group AB	SE0009889553	5.0%
SSM Holding AB	SE0008040893	5.0%
Bayport Management LTD	NO0010856180	4.8%
Net Gaming Europe AB	SE0010297572	4.7%
Linus Matkasse NewCo AB	SE0010414318	4.7%
Gaming Innovation Group Ltd	NO0010858400	4.4%
Alm Equity AB	SE0008014690	4.3%
Catena Media	SE0010832154	4.2%
CentralNic Group Plc	NO0010856750	3.6%

4.2. Rating breakdown

Rating	Weight
BBB	0.0%
BB	3.1%
B	21.8%
CCC	0.0%
<CCC	0.0%
Not rated	75.0%
Net liquid assets	0.1%

4.3. Maturity breakdown

Maturity (years)	Weight
<1	12.5%
1-3	73.0%
3-5	14.3%
5-7	0.0%
7-10	0.0%
10-15	0.0%
>15	0.0%
Net liquid assets	0.1%

4.4. Other portfolio metrics

Asset allocation	Weight
Corporate high yield bonds	99.9%
Net liquid assets	0.1%

FX breakdown by currency	Weight
DKK	3.3%
EUR	24.8%
NOK	1.8%
SEK	57.4%
USD	12.7%
Other	0.0%

FX rates as per balance sheet day	Rate
DKK:SEK	1.3974
EUR:SEK	10.5618
NOK:SEK	1.0890
USD:SEK	9.2984

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-adjusted 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. All investments must be unanimously approved by the Board of Directors.

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-adjusted 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 Förenings sparbanken (now Swedbank). Reinhold Geijer has also held various positions within Ericsson, SSAB and Weyerhaeuser Company.

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 Förenings sparbanken (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 2019	28 February 2020
2019 Audited Annual Report	30 April 2020