

NORDIC CREDIT PARTNERS

Nordic Credit Partners Fund II AB (publ)

Unaudited Year-End Report 1 January – 31 December 2018

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	Pareto Bank ASA

2. Board of Directors' report

- 6.6% net cash return to investors for the reporting period
- Portfolio consisting of 28 high yield bonds issued by 25 issuers
- Current performance indicates a 2019 net annual return within the target range of 7-9%

2.1. Macro and Market

Coming out of a rather gloomy December last year, the Nordic high yield bond market entered 2018 surprisingly strong with bond spreads close to the lowest levels seen since 2008. Throughout the spring, two opposing forces drove the market: (i) widening credit spreads globally; and (ii) a continued inflow of capital to the Nordic high yield bond funds. The spread tightening peaked in May and then gradually widened over the summer and into the fall. This development accelerated at the end of the year (although not at the same pace as in the Euro market) taking the majority of Nordic high yield bond funds' full year return into negative territory. In December, an estimated SEK 8 billion was withdrawn from the Nordic high yield bond funds which resulted in sell-offs and further downside pressure on prices. In summary, 2018 was a year of two halves with a turbulent finale, which may, in fact, be the prologue of a tougher market ahead.

The Swedish housing market, particularly Stockholm, continues to be on everyone's lips. Prices in the greater Stockholm area stabilised during the year and are down 9.9% since the peak due to stricter amortisation requirements and tighter debt to income ratios for households. We note, however, that the actual price decline is likely to be larger as the reported numbers only reflect *completed transactions* whereas some sellers withdraw from the market when they do not achieve their desired price. Property development issuers account for a significant portion of the Swedish high yield bond market and the first upcoming maturities are in 2019. We note that, while some of them will struggle to refinance outstanding debt, the space is far more diverse than the market recognises. As so often, the "devil is in the details" with respect to valuation and liquidity of assets on balance sheets, ability to attract alternative financing, financial support from shareholders, security packages (where available) and bond documentation. No doubt, this segment will be a key focus area for Nordic bond investors throughout 2019 and beyond.

Sweden's growth outlook has dimmed in recent months, with worrying signals from both the domestic economy and exporters, weakening the forces that may offset the decline in home construction now underway. Yet loose economic policy underpinned by the stated intentions of the newly formed government provides some support. On balance, these factors result in forecasted GDP growth of 1.0% in 2019. Following the rate increase in December, we expect the Riksbank to continue raising interest rates by 25 bps in the second half of 2019, subject to inflation not diverging further away from the current 2% target.

Mainland Norway benefits from a double-digit increase in petroleum investments. However, they are expected to decline again in 2020, without strong offsetting growth factors. Residential investment is stabilising, and capital spending and private consumption should be an important growth driver going forward. This results in a forecasted GDP growth of 2.6% in 2019. The inflation remains below 2% but, despite this, we expect Norges Bank to raise interest rates by 25-50 bps during 2019.

Denmark's economic growth slowed significantly in the first three quarters of 2018. Domestic demand remains robust but tighter credit conditions, weaker confidence and modest housing price increases suggest that the savings ratio will remain high. Exports face a challenge from weaker demand, but competitiveness is still satisfactory. Euro zone demand is the key risk. On balance, these factors result in a forecasted GDP growth of 1.8% in 2019. Inflation is expected to remain below 2% for the foreseeable future mainly driven by modest growth in consumer prices.

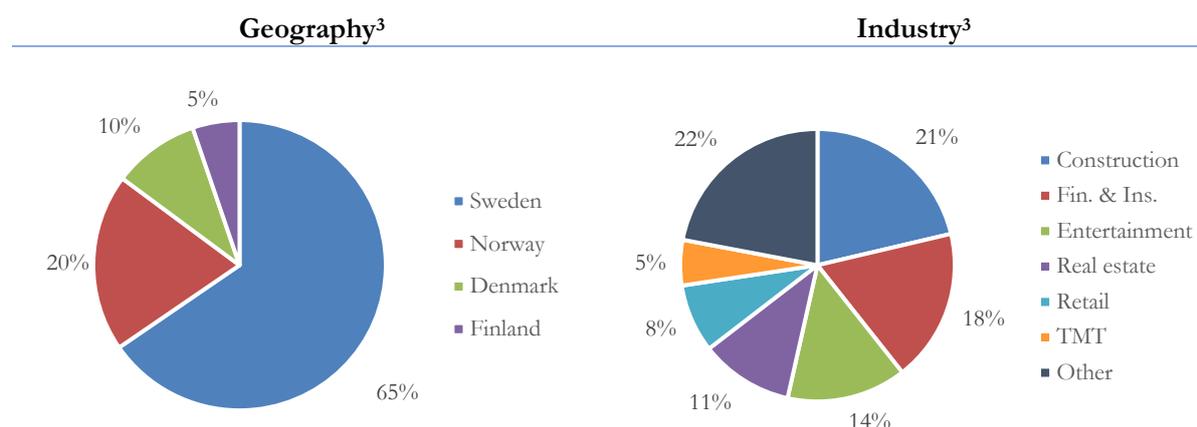
Finland's economic activity is slowing but remains above the euro zone average. Falling global growth and trouble spots around the world are hurting Finland, with businesses and households hesitating despite many positive factors and capacity utilisation at levels where business investments usually accelerate. Household consumption is expected to increase just slightly despite rapid job growth. In all, this translates into a forecasted GDP growth of 1.5% in 2019.

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 Stena which continues to underperform in its offshore drilling segment and Mariefjärd which traded up above par following Klöver's acquisition of a majority stake in the parent company Tobin Properties. The Board of Directors has met fortnightly to maintain the portfolio fully invested and has remained determined not to diverge from the Fund's core strategy of thorough and careful due diligence and leveraging the knowledge of the industrial advisers. Issuers with defensive attributes such as low cyclicity, strong cash generation and low initial leverage have been favoured when replacing refinanced bonds. Replacement investments have been executed both in the primary and secondary market.

Portfolio metric	Value ¹
Yield to maturity	7.72%
Yield to worst	7.70%
Duration to maturity	1.93
Modified duration to maturity	0.47
Average maturity/years	2.27
Average coupon	7.55%
Average rating	B+

At the end of the reporting period, the book value of the portfolio was SEK 272.6 million financed through debentures of SEK 150.0 million and bank debt of SEK 122.3 million (44.9% leverage). The portfolio yielded 7.7% YTW² and had a weighted average coupon of 7.6%, a weighted average maturity of 2.3 years and a B+ weighted average rating.



As of year-end, the portfolio consisted of 28 bonds issued by 25 issuers, denominated predominantly in SEK followed by EUR, NOK and USD. All investments were domiciled in the Nordic region with 65% of the portfolio in Sweden, 20% in Norway and 10% in Denmark. The portfolio's main industries were Construction (21% of the portfolio), Financials & Insurance companies (18%), Entertainment (14%), Real Estate (11%), Retail (8%) and Technology, media, and telecommunications, TMT, (5%). The Fund has no direct exposure to Oil & Gas issuers.

During this period, the Fund generated a net financial income of SEK 13.5 million, equivalent to a debenture return of 9.0%. As the market value of the bond portfolio on 31 December 2018 fell below the book value, the Fund wrote down the value of the portfolio by SEK 2.6 million in accordance with its accounting standards. The operating income after these unrealised valuation losses was SEK 10.9 million of which SEK 9.9 million is attributable to investors.

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 include the current cash position.

The Board of Directors deems the unrealised valuation losses to be attributable to less favourable market conditions in general rather than increased credit risk in specific holdings. As such, the write down is expected to be reversed during the remaining tenure of the Fund as holdings mature at par value. The current performance of the portfolio indicates a 2019 net annual return within the target range of 7-9%.

Despite significantly outperforming the market, the Board of Directors is not fully satisfied with the Fund's development during the reporting period. However, 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%. 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, 28 February 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 – 31 December 2018
Financial income	21 342
Financial cost	-7 594
Exchange value differences	18
Unrealised valuation gains/losses	-2 595
Administrative expenses	-278
Operating income	10 893
Debenture interest cost	-9 914
Income before tax	979
Current tax	-215
Net income	763

3.2. Balance sheet

<i>Amounts in SEK '000</i>	31 December 2018
Bonds	272 633
Other current assets	3 113
Cash and cash equivalents	6 061
Total assets	281 807
Shareholders' equity	512
Net income	763
Total equity	1 275
Debenture loan	148 001
External debt	122 295
Other current liabilities	10 237
Total equity and liabilities	281 807

3.3. Debenture returns

Cumulative returns for the period	Return
Last six months	0.4%
Year to date	6.6%
Since launch¹	29.8%
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	13 470	9.0%
Exchange value differences	18	0.0%
Unrealised valuation gains/losses	-2 595	-1.7%
Operating income	10 893	7.3%
Debenture interest <i>up to</i> the 4% p.a. hurdle rate	-6 000	4.0%
Debenture interest <i>above</i> the 4% p.a. hurdle rate	-3 914	2.6%
Total Debenture interest	-9 914	6.6%
Income before tax attributable to the Issuer	979	0.7%

4. Portfolio overview

4.1. Top ten holdings

Bond	ISIN Code	Weight
International Personal Finance plc	XS1839710347	5.3%
RopoHold Oy	FI4000292461	5.1%
Bellman Group AB	SE0009889553	5.0%
SSM Holding AB	SE0008040893	5.0%
Net Gaming Europe AB	SE0010297572	4.7%
Linax Matkasse NewCo AB	SE0010414318	4.7%
Adapta Fastigheter AB	SE0009161334	4.3%
Alm Equity AB	SE0008014690	4.3%
Gaming Innovation Group Ltd	NO0010787120	4.3%
Aker ASA	NO0010657398	4.1%

4.2. Rating breakdown

Rating	Weight
BBB	0.0%
BB	4.1%
B	31.5%
CCC	0.0%
<CCC	0.0%
Not rated	57.9%
Net liquid assets	6.5%

4.3. Maturity breakdown

Maturity (years)	Weight
<1	4.8%
1-3	62.2%
3-5	26.4%
5-7	0.0%
7-10	0.0%
10-15	0.0%
>15	0.0%
Net liquid assets	6.5%

4.4. Other portfolio metrics

Asset allocation	Weight
Corporate high yield bonds	93.5%
Net liquid assets	6.5%

FX breakdown by currency	Weight
DKK	4.5%
EUR	18.9%
NOK	9.3%
SEK	62.8%
USD	4.4%
Other	0.0%

FX rates as per balance sheet day	Rate
DKK:SEK	1.3733
EUR:SEK	10.2548
NOK:SEK	1.0308
USD:SEK	8.9562

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
2018 Audited Annual Report	3 May 2019
Unaudited Interim Report 1 January – 30 June 2019	30 August 2019