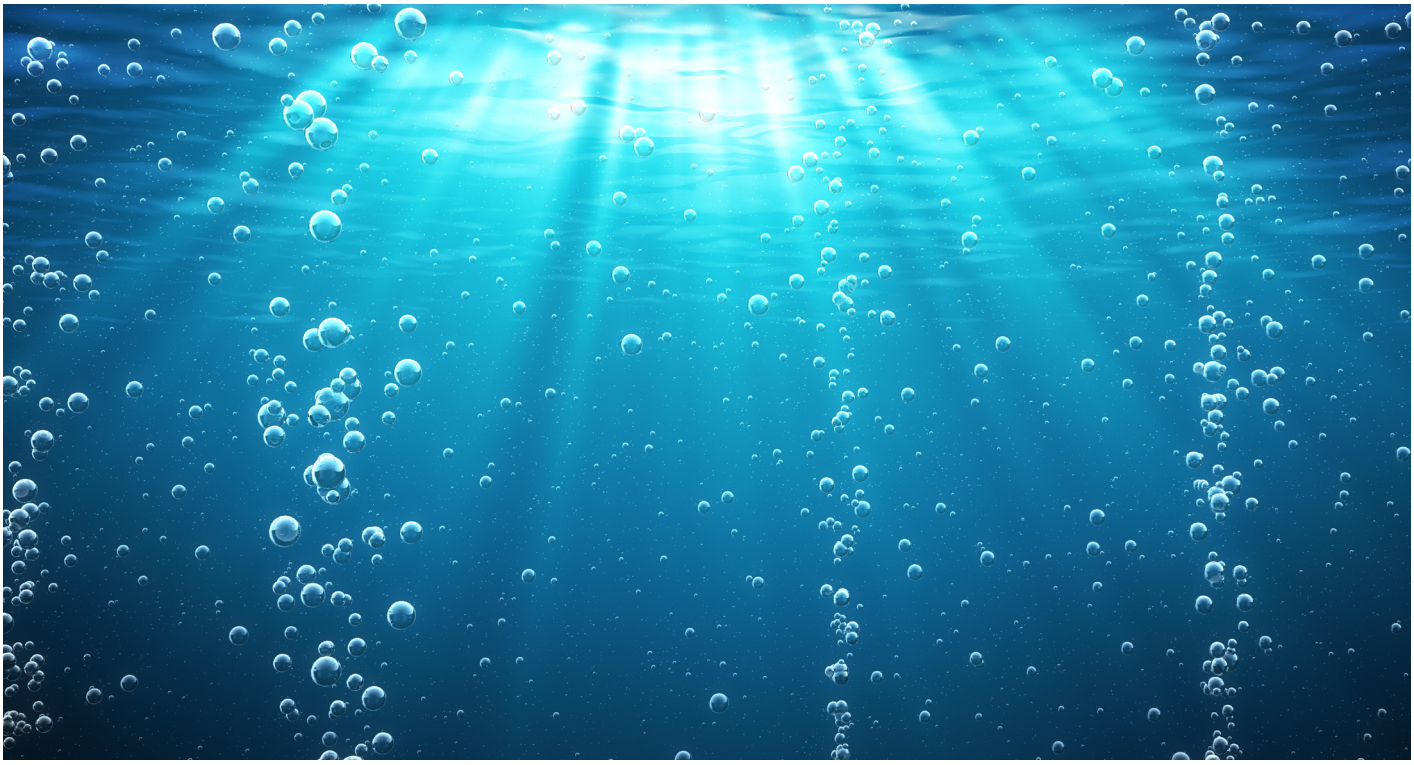
FondsTrends
Die Zukunft des Fondsgeschäftes

„An Ocean of Investment Opportunities Ahead“



Based in Oslo and founded in 2006, Storm Capital Management is an independent asset management company owned by its partners and focused exclusively on the Nordic Credit Markets. Storm currently manages the Storm Bond Fund. In this interview, the Storm team discusses the private credit opportunities in the Ocean Industries (Maritime Logistics, Offshore Renewables and O&G, and Aquaculture). FondsTrends spoke with one of the Investment Directors and Partner Thomas W. Pedersen and Marcus S. Mohr, also Partner and responsible for Business Development, about reinforced ESG rules, the market opportunity in the ocean industries as well as the increasing financing gap that will need to be filled by alternative sources.

FondsTrends: Since 2008, tremendous opportunities have opened up for financing in the ocean infrastructure industry. Mr Pedersen, Mr Mohr – What is the philosophy behind “Storm”?

Thomas Pedersen: Since the financial crisis in 2008, there has been an increasing role for alternative capital providers in the economy as a whole to fill the void left by the banks. Whereas financing in the ocean industries for a long time has been dominated by banks, especially European, increasing bank regulation has more recently also created a larger market opportunity for alternative providers. In that space, our approach is based on privately negotiated transactions in partnerships with our customers, where we better understand their needs and can offer tailored solutions that can act as a catalyst to implement their strategy. This takes time to develop, but typically achieves better risk/reward once in

place. We also have a non-speculative approach, in the sense that we are not a play on rates or asset values going up. Rather, we finance infrastructure assets and operators to enable them do business with robust end clients, which in turn support our investments.

Thomas W. Pedersen

Marcus Mohr: From an investment manager perspective, we have a clear philosophy of staying fully independent, which we have always been. This is very important in order to always be able to execute the best possible investments for our clients without a second agenda in place. Furthermore, we are partner-owned and have aligned interest to deliver the best risk/adjusted returns to our clients.

Marcus S. Mohr

FondsTrends: How would you describe your basic investment strategy regarding the manifold market opportunities, as well as its requirements?

Thomas Pedersen: As just outlined, we are a provider of privately negotiated credit solutions to our customers. We have structural flexibility in how we do it, which means the investments can come in different forms and instruments. However the basic principle remains the same, to secure an attractive risk/return profile on a non-speculative basis. We look through the value chain and seek to finance infrastructure assets and operators with strong operational track record. These typically qualify with the robust end-users whose cash flow we seek to access, either on long term contract basis, such as LNG carriers being floating pipelines, or by having a prominent market position enabling our customers to serve their end users on a regular basis. This is not only about financing assets, but also the operational aspects and market position of our customer, that in the end convert the assets into cash flows.

FondsTrends: The International Maritime Organization (IMO) has implemented targets to reduce emissions 50% by 2050 and recently adopted a further set of regulations, but some critics are claiming that the situation has reached a standstill. The EU is urging the ocean industries to be more active in the fight against climate change. You are following a United Nations-supported „Responsible Strategy Policy", including the "Poseidon Principles". What implications does this have for the actual investment process?

Thomas Pedersen: Maritime Logistics represents c. 90% of traded goods movement globally, and is actually the most emissions efficient mode of cargo transport. However, the industry still represents about 2.4% of global CO2 emissions. Until recently, the ocean in-

dustries were slow in adapting, probably due to lack of real consequences for not doing anything. Over the last 1-2 years, prospective regulation has increased, especially with the EU's green deal. Interestingly enough, in my personal opinion, I believe that commercial pressure, not regulation, is the key driver of change. End clients now demand a path to carbon neutral value chains, including the transportation element, and banks the same. So in order to stay in business, companies must adapt. For us in Storm, the implications come at several levels: the type of assets we finance, the risk assessment of those assets, and most importantly, the approach our customers have to adapting to the new environment. We constantly ask us, "Will the customer have the will and ability to adapt to new requirements so they can remain in business?" It is a risk assessment both of hard and soft factors, that you probably wouldn't have seen only five years ago.

FondsTrends: The Corona pandemic is still going on and will change the world in a fundamental way but seems to have a rather moderate impact on ocean industries. Especially, activity has been less impacted by COVID-19 than other transport segments. In which areas do you see the greatest opportunities for growth?

Thomas Pedersen: It is true that COVID-19 has so far impacted ocean industries activity less than other sectors, however we do not yet know what the long term impact would be with respect to change in trading patterns etc. We have a non-speculative, long-term approach, and to support that we are seeking long term cash flows from robust customers. The ocean industries are very diversified, from the different maritime logistics segments to offshore renewable energy and to aquaculture, which provides great breadth to the opportunity set. The two main opportunity drivers we see across the various segments in this diversified universe are continued scaling back of traditional bank financing, and increased financing requirements for ESG compliance in various forms going forward.

FondsTrends: You are active in a rather specific market, and your team has many years of experience in finance and the ocean infrastructure space. In general, what drives Storm's success?

Thomas Pedersen: It is true that we are sector focused and not generalists. We observe that in generalist private credit / direct lending, there has been tremendous growth in number of fund managers and capital available. That does have an impact on investment returns and the risk profile. The ocean industries represent a large, trillion dollar plus industry, where we estimate an annual global financing volume of around USD 100 billion, so there is space for plenty, even if there at current are very few dedicated financing providers. For us, it is important to be credible in what we do, and we can only be credible if we have done it before, which is the case for ocean infrastructure finance where we have long experience and a global network. Combining that experience and network with investor alignment is a key success driver. As we are partner owned fund manager, our success only comes after our investors have had success, creating the right incentives throughout the investment process.

Marcus Mohr: Storm Capital Management has been managing a public credit strategy since 2008 and we've been evaluating the launch of a second strategy for some time. We liaised with our investors in the public credit fund and learnt that it was significant appetite for a private credit strategy in the ocean industries. Reason is simply the industry dynamics enabling superior risk adjusted returns in the years to come and also that the ocean infrastructure industry is part of the Norwegian DNA where the best talent is located in Oslo. Moreover, we have followed Thomas and his team in their first fund and know that they are among the best performing management teams in ocean infrastructure private credit markets. We are therefore really satisfied to have them onboard.

FondsTrends: To conclude on a more personal level: How have you both experienced the COVID-19 pandemic and the impacts it has so far had on work life?

Thomas Pedersen: We have been very lucky insofar that much of our work prior to the outbreak was already conducted by email and conference calls. We have of course used video conferences much more as it has become a de facto way of meeting people for the first time. This element of work life is likely here to stay. But it is not a full substitute for human contact, which is essential in business development and generating ideas, and I look forward to being able to meet customers in person again. On the home front the family has spent more time together which has been very nice.

Marcus Mohr: I am usually travelling quite a lot across Europe to meet with investors. This is a large part of me and something I really miss. Nevertheless, we have managed to grow our firm wide AUM throughout the pandemic via great communication tools and fantastic support from our clients. But I must say I look very much forward to my first trip (hopefully in H1 2021) where I can meet with investors at their location. However, on the positive note, I have seen more to my family during the pandemic which have been nice as time flies by so quick.

FondsTrends: Mr Pedersen, Mr Mohr, thank you very much for the interview, and all the best to you both! We wish you and your team best of luck in your endeavours.

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