



AA
09/2013

Northern Invest

Design and Advisory Work Associated with Collateralized Fixed - Income Solutions

Profil

Approach	Design and advisory work associated with Collateralized Fixed-Income solutions, e.g. ship mortgage loans
Rated Party	NOG Northern Invest GmbH & Co. KG
Internet	www.northern-invest.com

Investor's Profil

Investment Horizon	mid-term (5 Years)
Risk Classification	medium
Return Expectations	positive performance largely independent of capital markets
Loss Tolerance	losses are possible

Subject of the rating:

Subject of the rating is the process to be used by NOG Northern Invest GmbH & Co. KG for the design and advisory work associated with Collateralized Fixed-Income solutions. The rating specifically refers to the processes to be used, as defined by NOG Northern Invest GmbH & Co. KG for a bearer bond initiated on ship loans – the *Compartment Northern Invest Selektionsportfolio I*. No ratings of investment products, legal or tax-related analyses have been performed during the rating process, thus being neither the subject of the report nor of the assessment made in the form of the rating grade.

TELOS-Comment

NOG Northern Invest GmbH & Co. KG (NOG) is an owner-managed independent company, which designs and advises on alternative investment products for institutional and other professional investors. The investment product design focuses on a projectable cash flow, a targeted hedging strategy (risk avoidance) and a projectable yield that is higher than that of investments with a comparable risk profile. Risk calculability and transparency are key parameters of the investment product design.

The auditors are Ernst & Young, Luxembourg, who are responsible for valuation of the investment products. The members of the Investment Team supporting the founder Markus Brückner are distinguished by the length and breadth of their relevant and complementary subject-related expertise in the fields of ship management, international legal, accounting and financial advice. They apply this expertise to e.g. the bearer bond *Compartment Northern Invest Selektionsportfolio I (Selektionsportfolio I)* (see subject of the rating), providing operating capital for shipping companies (for financing, among other things, the cyclical ship classification performed by companies such as Germanischer Lloyd), NOG has access to a broad network of product-related companies and advisers (including shipping companies, ship brokers, ship vendors and financing experts), which has been built up through contacts established and experience gained over many years. The network is used to ensure the targeted and efficient involvement of the right parties in the design of the product and in the establishment of the requisite structures for product implementation and product management.

A network of hedging mechanisms was incorporated into the design of the *Selektionsportfolio I*, for risk avoidance purposes. The operating capital is provided in the form of a loan, subject, for example, to the requirements of a registered priority ship mortgage for 120% of the loan amount and a loan-to-value (LtV) ratio of 50%, based on the relevant scrap value of the ship since this value represents the bottom line floor in case a vessel has to be scrapped due to a non-performance on the loan (worst case scenario). The conservative LtV ratio is supported by other loan collateral laid down in the loan agreement, such as a maximum LtV of 60% of the steel price over the term of the loan, and also other collateral elements, such as seeking to diversify over 10 ships, or by setting a maximum single loan value of ~ EUR 2 million. A further

component of the collateral package is a cash deposit covering two years of interest obligations. This deposit is to be co-financed by the borrowers up to the 50% collateral limit, and which thereby collateralises the coupon commitments of the *Selektionsportfolio*. As a result, only that proportion of the investment that is passed on to the shipping company as a disposable loan amount carries any risk. Under the 60% loan to scrap LtV covenant, the invested capital is systematically collateralised.

For securitization of the ship loans, it was decided to use a compartment under Luxembourg law, which is considered for that purpose as separate assets. This has enabled the traditional issuer risk to be almost entirely eliminated. The choice of partners for structuring the bond, which involved the assistance of the Hauck & Aufhäuser Group (the structuring unit, the administrative unit, the custody bank, the issuer and the acquisition company), NSB Niederelbe Schifffahrtsgesellschaft mbH & Co. KG (the NSB Group), the ship broker Howe Robinson and others, is designed to ensure speedy implementation of all the individual processes to be undertaken during the investment phase, the term and the disinvestment phase. All the necessary individual processes, such as Due Diligence, Compliance Check, procedures in the event of sale or liquidation and research work, are very clearly defined and documented, and are designed to ensure short reaction times. During the individual processes within the structure created for the *Selektionsportfolio I* NOG acts as Investment Advisor for the issuer, Securo Pro Lux S.A. and the acquisition company, Lux Maritime Support S.à.r.l. (LMS). Northern Invest is responsible for all the main coordination and communication work, and has the right to exercise a veto at critical points. For example, every investment (loan grant) that NOG sets up with the borrower, in its capacity as Investment Advisor, must be approved before the final loan documents are signed, which allows effective employment of the ship investment expertise within the NOG investment team.

The investment team is able to claim a track record involving an investment volume of ~ EUR 2 billion in maritime investments.

The process used during the design and advisory work associated with Collateralized Fixed – Income solutions, as described above (in relation to the subject of the rating), is rated AA.



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