MV|Credit

# 2018 Annual Review

## HIGHLIGHTS

- **Another strong year for fundraising and deployment**
- **€863m** invested across **57 new transactions**
- **15** new investments committed for **2019 (€253m)**
- The combined Funds saw **30** repayments during 2018 (€304m)
- **€803m final close** for MV Subordinated IV
- MV Subordinated IV committed to **21 transactions (€646m);** representing **80% of commitments**
- MV Private Debt platform reaches **€593m**
- Formalised **ESG** policy reflecting more stringent investment criteria

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## MARKET OVERVIEW

The European leveraged loan market reached **€95.7bn of new issuance** in 2018. While slightly below 2017 levels, this is a significant increase on the €60-80bn of average yearly issuances seen since 2012.

As Central banks' warmed to the possibility of medium-term rate hikes, combined with the end of the ECB's QE programme in Q4 2018, market conditions tapered issuers' refinancing and recapitalising of existing loans; activity which largely dominated issuance in 2017.

By contract, the majority of new issuance in 2018 reflected fresh LBO and M&A activity, especially towards the second half of the year.

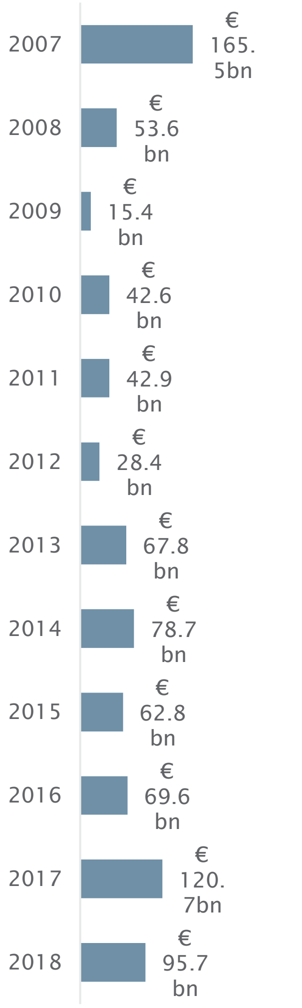
In terms of quarterly volumes, peak activity levels took place in Q1/Q2, with a slight declaration in Q3/Q4 driven by geopolitical uncertainty affecting market conditions**.** Syndications became progressively difficult as Q4 wore on, driving a number of upward price-flexes.

The Secondary Loan market was also affected, albeit not at the levels of High Yield and Equities, with some weakening in prices towards the second half of Q4. These levels have subsequently somewhat improved towards the beginning of 2019.

Senior pricing followed a steady trend over the course of 2018, with single-B rated names yielding above 4% for most of the second half of the year. The exception was October, which was affected by a single transaction outside of the norm. Since then over half of pricing flexes have been wider vs. initial guidance; the inverse of Q1, when most flexes moved pricing tighter.

We note that the continuing uptake of more tailored financing solutions (e.g. club financings or PIK-toggle/preferred equity instruments) have kept gross returns for MV Credit largely in line with last year.

Leveraged Loan Issuance




## OUTLOOK FOR 2019

We expect uncertainty to peak within the first few months of 2019, with Britain scheduled to leave the European Union on the 29th March and with no formal agreement in place as of yet. Other flashpoints include the extent and impact of a potential US-China trade war, which are similarly unknown. Nevertheless, despite the ongoing uncertainty and prolonged length of the current business cycle, the IMF and other bodies continue to predict slow European growth over the next few years. If this is borne out in reality it is likely to sustain both issuers' and lenders' appetites going forward.

Market participants suggest the **upward repricing trend** seen in late 2018 could continue this year, as broader market volatility pushes terms wider. Declines in euro denominated secondary prices at the end of 2018 suggested that the market is unlikely to accept pricing at significantly below E+400 (pricing which prevailed throughout most of 2018) for issuance by anything other than top quality credits.

Sources: LCD (S&P Global) European Quarterly Report, Q4 2018; LCD European Monthly Playbook, Dec-18

However, ongoing CLO ramping in the context of limited new issuance at the start of the year is likely to temporarily suppress clearing prices until issuance supply stabilises.

As such, it is anticipated that many of the larger deals now in the pipeline will be delayed before launching to syndication; until there has been some price discovery. There is nevertheless a **strong pipeline for 2019**, totalling €5.7bn in the forward calendar. As with the second half of 2018, this mostly includes LBOs, M&A activity and add-ons (as well as public-to-private transactions).

**Reasons to Invest in Europe:**

GDP Growth forecast in Europe

Strong Corporate Earnings

Low Default Rates

Increasing lending economics

## FUNDS REVIEW

Throughout 2018, MV Credit continued to source attractive investments **across the capital structure**, focusing on traditional, non-cyclical industries in stable Western European countries.

In total, the Funds invested €863m in Senior and Subordinated debt across 57 new transactions in 2018. This was predominantly split between a mix of Second Lien (59%) and TLB (29%), as well as Preferred Equity (7%), PIK (4%) and Bonds (1%). Over 2018 the Funds provided tailored financing solutions to 39 companies by utilising strong relationships built over time with top tier private equity sponsors, arranging banks and financial advisers.

**Healthcare** and **Information Technology** companies dominated 2018, making up 44% and 42% of new investments. This strategy has been crucial in times of weakening credit markets, as MV Credit continues to focus on building diversified and defensive portfolios. This includes investments in industries such as medical diagnostics, cyber security solutions, specialised corporate brokerage, pharmaceutical, etc.

## ESG

MV Credit is a signatory to the UN Principles for Responsible Investing (**UNPRI**) and aims to achieve long-term, sustainable returns by investing in companies which comply with our values. As a portfolio manager, we have always sought to incorporate ESG considerations as part of the investment due diligence process.

Over the past year, MV Credit has significantly expanded its internal framework and processes around responsible ESG investing. We have established a dedicated **ESG Committee**, responsible for enforcing, reviewing and continuously evolving MV Credit's ESG policies; and we have implemented a new, extended ESG investment procedure. The Committee is also in the process of creating a detailed operationally focused ESG roadmap and portfolio asset scoring system, which we will implement throughout 2019.

As a result, MV Credit aims to release its inaugural ESG annual report for year-end 2019.

At MV Credit we firmly believe ESG is about **learning and sharing best practices**. As a portfolio manager, we aim to benefit from the various analysis and experiences made by each company and private equity sponsor relationship we invest with. Our goal is to adopt a wholesome methodology which assesses ESG as a risk consideration in alignment with our ethical values.

**ESG is about real commitment**. Not only do we seek to build portfolios with ESG compliant companies, but we also aspire to drive concrete ESG-focused strategies through every aspect of our business.

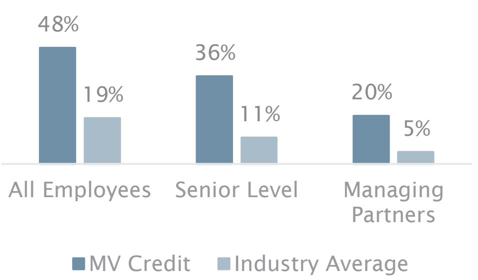
Notable highlights in 2018 include MV Credit hosting a career enrichment day in co-operation with Groundwork, a London-based charity which works with disadvantaged young people to provide employment skills.

MV Credit strives to create a responsible working environment with the team encouraged to recycle and reduce unnecessary printing, as well as to innovate to bring the best ideas to enhance returns for investors.

Finally, MV Credit prides itself on being a diverse investment manager. We are committed to ensuring that we have an inclusive and diverse workforce with 48% of the firm made up of female employees, compared with an industry average of 19%.

The Team also comprises 11 different nationalities and a variety of backgrounds. MV Credit strongly believes diversity is key to successful investing, as the fostering of different viewpoints enhances company culture and enables a more creative approach.

Proportion of Female Representation in Private Debt




Source: MV Credit data as at October 2018. Preqin data as at October 2017

***We appreciate the continued support from existing investors and thank new investors for their vote of confidence in the MV team and strategy.***

Voted Best Subordinated Debt Investor for the ninth consecutive year

2009-2017

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# Additional Notes