

# 2020 Annual Review

## MARKET OVERVIEW

2020 started strongly in January and February with record volumes, however upon the emergence of the COVID-19 virus across the world, the European Leveraged loan markets more or less shut for primary issuance in March. This was coupled with a sharp deterioration in secondary pricing as the ELLI dropped to a low of 78.9 from the 98.7 level seen in January.

New transactions slowly came to market again from May when investors had had the time to digest the expected impact of the global lockdown measures and assess which industries were more favourable. Despite the turbulent year, the market rebounded somewhat, and total issuance for 2020 was €64.8bn, which is roughly 20% down on 2019.

Understandably, the new-issue loan market in 2020 suffered from a lack of new buyouts as many auction processes stalled amid the uncertainty created by the COVID-19 pandemic.

## OUTLOOK FOR 2021

Overall, market participants expect 2021 to start off strong as Private Equity Sponsors seek to invest their vast amount of dry powder at attractive valuations. However, with the recent increase in COVID-19 infection rates across Europe and the associated measures, we would expect investors to remain cautious on financing businesses that could potentially be adversely affected again. We do not expect industries such as hospitality or leisure to experience a strong 2021.

The market volatility in 2020 presented lenders with an opportunity to be more selective and stricter on documentational changes or expectations. As has been the trend in the last 3 years, ESG has become a hot topic for investors. Lenders are seeking more transparency from the Sponsors and Management teams, and recently there have been some transactions structured in 2020 which include ESG KPI-linked clauses which could benefit borrowers if they score well. MV Credit participated in its first ESG-linked loan at the end of 2020.

## STRATEGY REVIEW

Lockdowns across the world brought on by the Covid-19 pandemic threw borrower companies' performance into sharp relief. MV Credit responded by bolstering an already strong monitoring process with live assessment and regular communication with Private Equity sponsors and company management. The team devised a risk assessment framework to both judge borrower companies' resilience to the pandemic, and to provide transparency to our investors.

Investors have remained very active throughout 2020 as the secondary markets saw strong activity given the volatility in pricing. With the increased market volatility, investors also saw expected yields increase significantly from just above 3.5% to c. 5.0% for the average B-rated Term Loan B. The investor appetite for leveraged loans in the year however led to a compression in yields to an average of 4.39% by the end of Q4 2020.

Sponsors' pursuit of strong-performing resilient businesses was apparent in 2020 as they tried to capitalise on increasing demand for certain products. Examples include EQT's acquisition of Schülke, a leading provider of infection prevention solutions, and Bridgepoint's acquisition of PharmaZell, an independent manufacturer of niche active pharmaceutical ingredients.

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<sup>1</sup>Source: Global Capital Awards 2015, 2016, 2017, 2018 & 2019. <sup>2</sup>Source: LCD. Data as at 30<sup>th</sup> December 2020. Data period Jan – Dec 2020. <sup>3</sup>CarbonNeutral® company certification obtained in September 2020 for the year 2019, awarded by Natural Capital Partners. <https://carbonneutral.com/the-carbonneutral-protocol>.

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## Evolution of Company Risk Profiles<sup>3</sup>

Aggregate-Count	Coronavirus Business Risk 2020							
	March	April	May	June	July	September	October	November
High	5	10	10	12	13	13	11	9
Medium	20	18	17	13	12	12	13	14
Low	23	20	21	24	24	24	28	29
<b>Total</b>	<b>48</b>	<b>48</b>	<b>48</b>	<b>49</b>	<b>49</b>	<b>49</b>	<b>52</b>	<b>52</b>

The majority of borrower companies continue to do well with ongoing support from Private Equity sponsors.

Despite the market slowdown in March 2020, the team originated a number of attractive investments. In total, the team invested €589m in senior and subordinated debt across 38 transactions in 2020, with 4 new companies added to the portfolios. This includes €424m sourced since the pandemic hit. The team took advantage of attractively priced secondary market debt for well performing companies, sourcing 17 transactions at the height of the pandemic for an average price of 92.2%. On the primary side, €350mm was originated (14 transactions).

MV Credit’s preference for investing in Healthcare and Information Technology once again proved crucial in weathering the recent economic crisis, which was reflected in invested companies making up 85% of new investments.

## ESG

ESG remains a focus for the team, and advancements in existing policies and practices through 2020 continued – as showcased by the latest A Rating awarded by UNPRI. In terms of reporting, our investors received the first Annual ESG Report in March. In addition to this, much of 2020 has been spent doing extensive work with a third-party provider in order to construct and assign ESG ratings to all invested portfolio companies. The ratings will be compiled into reports per fund and are scheduled to be released in Q1 2020.

The ESG Investment Procedures were also updated to reflect the changing ESG landscape, and firm-wide ESG training was provided by INDOS Group.

One of the key highlights of 2020 was MV Credit’s certification as Carbon Neutral for the year 2019 (awarded by Natural Capital Partners). The firm calculated carbon emissions released in 2019, which were then offset by purchases from a selection of renewable energy projects in India.

MV Credit participates in charity work every year, driven by the team, and 2020 was no exception. The firm made donations to three worthy causes: Trees for Cities, Just Giving – Impact Lebanon, and Save the Children – Coronavirus Appeal.

Finally, reflecting MV Credit’s extremely diverse team, the firm is taking part in the 2020 UK initiative #100blackinterns, which aims to diversify the asset management industry for future generations. One internship position was offered, to commence in Summer 2021.

<sup>3</sup>Source: MV Credit. Company risk ratings devised using an internal methodology assessing each company’s likelihood of experiencing: business disruption, decrease in P&L metrics, potential liquidity issues or potential covenant breach.

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