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The Week in Review

INSIDE

Lifting the Curtain Ever So Slightly

For the many years we have followed the industry, private equity funds have been highly active and stealthy investors in both shipping's public and private companies as well as in steel itself. Investments rarely come to light. Securities filings disclosing ownership of 5% or more in public companies represent, we believe, just the tip of the iceberg. But for the most part little is known as to where or how private equity funds invest and, of course, discovering their performance is a non-starter.

The **Premium Maritime Fund AS** ("PMF") which is managed by **NRP Maritime Asset Management AS**, is the exception allowing the sun to shine in through its extremely generous disclosures. Structured as an Alternative Investment Fund, PMF dates back to February 2017 with an investment period until end Q1 2020. With a lifetime through September 2025, the fund has committed capital of $60.3 million. As of June 30, 2023, the fund's NAV equals $62.4 million having distributed total dividends of $78 million. Since inception, the fund has generated a net IRR of 27.4% and a net total return to investors of 132.8 percent. Figure 1 shows PMF's performance to date which is benchmarked against the Oslo Stock Exchange Shipping Index.

PMF was established with the purpose of capitalizing on investment opportunities within the maritime direct investment space. The fund's portfolio provides a diversified exposure across the main segments, including bulk, container, tanker, and PCC, and is constructed to withstand cyclical downturns in order to be well positioned to benefit from the cyclical upturns. As opportunities arise, the fund's portfolio constantly evolves over time as assets are acquired and sold (figure 2). As of Q2 2023, the fund's portfolio of vessels has a weighted average age of 10.7 years and an average weighted leverage of 29.6 percent. Charter coverage is generally short-term as the fund is exposed to the market

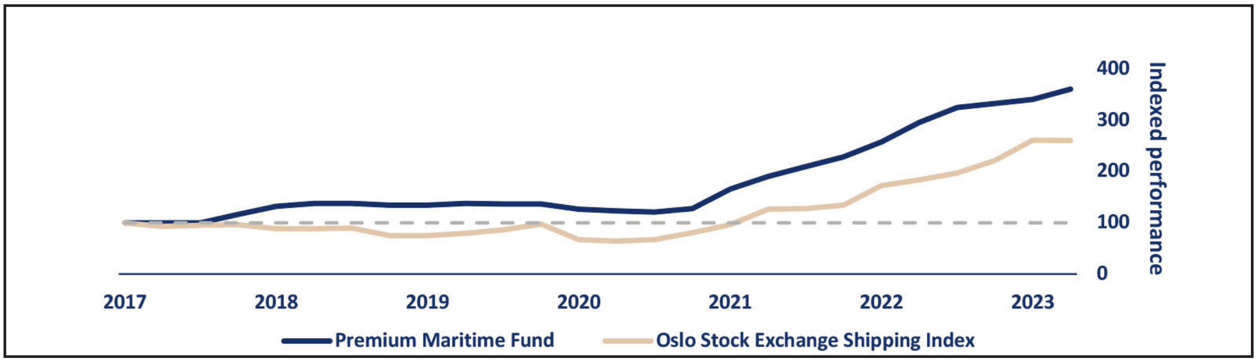

Figure 1

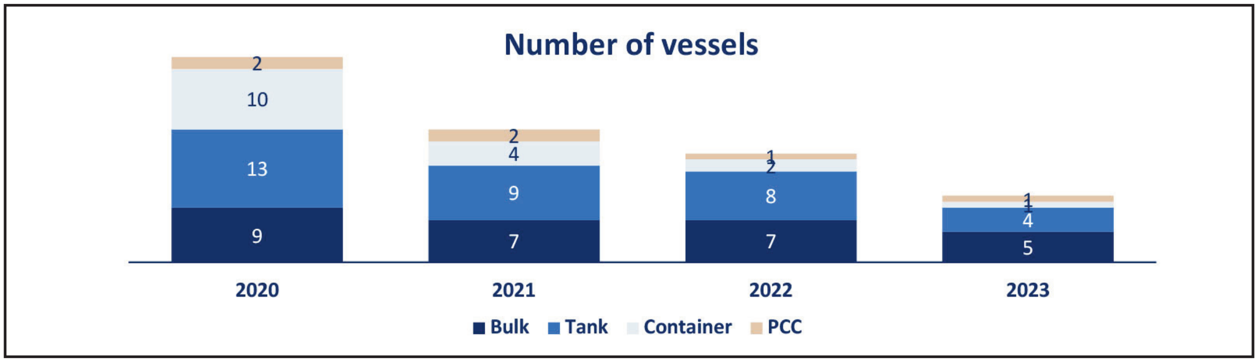

Figure 2

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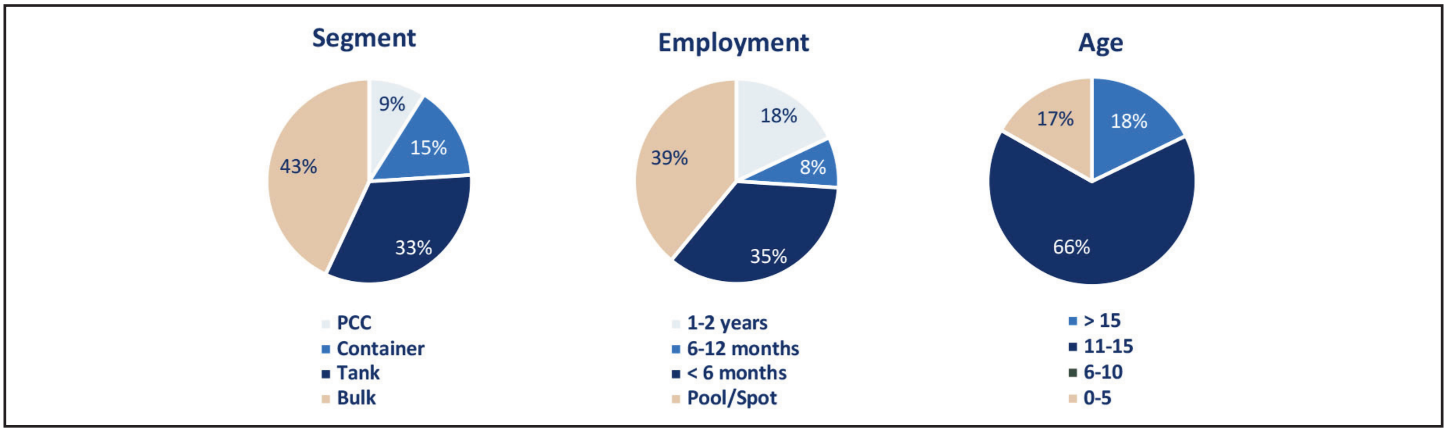

Figure 3

but certain long-term charters have been concluded in the less liquid segments such as the Car Carriers. More data on the vessels is portrayed in figure 3.

After fully disposing of its interests in six ships and a partial sale of one this quarter, the fund is currently left with interests in a total of 11 vessels which have not been sold or committed for sale. PMF disposed of two multipurpose vessels and is left with interests in five bulk carriers, three product tankers, one stainless steel chemical carrier, one container ship, and one car carrier. The dry bulk fleet now consists of three Handysize, one Supramax, and one Ultramax which together represent 36% of the portfolio. The vessels are mainly employed short-term as rates in the sector continue to weaken as confidence in a China recovery remains uncertain. One-year time charter rates for geared vessels have declined from $15-18,000/day to $9-13,000/day. On the other hand, a historically low order book at 7% of the existing fleet has underpinned values which have remained relatively stable, weakening by 5-10% across different ages and sizes. Looking ahead, the outlook for the sector appears relatively balanced with the possibility of movement to the upside based upon increased demand from China, environmental regulations, and shifting trade patterns.

The fund's investments in the container sector were largely and successfully closed out during 2021 to 2022. Two 1,750 TEU containerships were sold during the quarter, leaving it with one 2,800 TEU feeder, which is fixed on time charter until Q2 2024. The vessel is debt free and has recently been drydocked. This investment represents 15.6% of the portfolio. Following last year's significant decline, the container market has now stabilized and even witnessed slight gains with 6-12-month time charter rates for feeders still being quoted in the mid-teens, with charter periods trending longer. Secondhand values have increased slightly during the quarter, depending on the age and size. Still rates remain under pressure from headwinds in the Western economies combined with substantial deliveries of larger tonnage and subsequent cascading effects. On the positive side, the orderbook for feeders currently represents 11.6% of the fleet, while over 25% of the fleet is over 20 years old.

One might say there was a fire sale on tankers with PMF disposing of some of its older tankers during the strong market which developed in H2 2022 and is continuing in 2023 despite some recent weakness this quarter. The company has been vocal about its strategy to sell its elderly tonnage relatively early in the high cycle. To quote the managers: "We are painfully aware that we do not have a crystal ball so we believe in cashing in on high prices for older tonnage when we can because we never know when it is going to turn, and the older tonnage will be the first to decline when it does turn. This gives us the flexibility to be more opportunistic with more modern tonnage. Shipping is full of stories of people losing out big due to chasing the last dollar and we want to stay away from that section in the history books. Timing the purchase is an artform many shipowners master to perfection but fewer of them master the art of timing the sale." Accordingly, the company sold one LR1 and two MRs leaving it with three Handysize tankers, which represent 27.8% of the portfolio. Two of the tankers are earning strong rates in the pool while the third is time chartered through October 2024. Although softening, rates remain high from a historical perspective and will continue to contribute strong cash flow. Secondhand values were relatively unchanged this quarter. In terms of future demand, forecasters remain optimistic anticipating 10% and 6% growth in ton-miles in 2023 and 2024, respectively. Contracting of newbuildings, however, is on the rise with the current orderbook standing at approximately 9%, compared to 6% back in March.

The portfolio also includes investments in two niche sectors. Representing 7.8% of the portfolio and also in the tanker space is a 33,000 DWT chemical tanker, which is employed in a pool. While rates have experienced a decline from the previously high levels observed towards the end of last year and the beginning of this year, the market continues to perform well with spot rates aligned with the current one-year time charter rate of $19,000/day. Additionally, secondhand values have risen approximately 5-10% during the quarter. This sector too has a favorable outlook with ton-mile expected to grow around 4% and 3.5% in 2023 and 2024, respectively, while the orderbook for stainless tankers remains at around 6% of the existing fleet.

Lastly, the fund holds an investment in a 4,900 CEU PCC, which represents 9.2% of its portfolio. Originally, there were two vessels but after concluding a very long and attractive TC on one of them, the vessel was sold to a party able to finance that cashflow in a better manner making it a great deal for both seller and buyer. The remaining vessel is on time charter through the middle of 2025.The market is strong and is expected to remain so due to growth in long-haul Chinese car exports and port congestion specific to car carriers. The one-year time charter rate for 5,000 CEU vessels is quoted at $90,000/day and is largely unchanged over the past six months. The global seaborne car trade is forecasted to grow by approximately 8% in 2023 indicating a return to pre-Covid levels. However, the orderbook for this sector stands at 29% of the existing fleet which may prove problematic, particularly if congestion eases.

With the fund's limited life, the nature and timing of investor returns evolve over time in line with its life cycle. Initially as the fund grows, returns are mainly seen in the share price, then as assets are added cash flow grows and soon is substantial enough to allow for distributions. Given the cyclical nature of shipping, there will be opportunities during the fund's life to divest assets adding gravy to the meat. This is a mercenary business; everything is for sale at the right price with sale candidates assessed continuously for all segments. Unfortunately, while divestment generates a one-time return and the fund approaches the end of life, the cash flow capacity is lost. Closed-end fund investors with a fixed portfolio allocation typically participate in successor funds in order to maintain their exposure as previous vintages divest, which is exactly what NRP Maritime Asset Management has experienced.

Finally, the success of the fund is highlighted in figure 4 which shows returns by segment including the multiple on invested capital ("MOIC"), which represents the total return on a fund expressed as a multiple of all money invested. This measure allows investors to measure how much value a fund has created.

As to the future, as short-lived as it might be, look for more dividends, more sales, and happy investors, who surely appreciate the efforts of the fund managers, Nicolai Heidenreich and Wilhelm Christian Magelssen. It is probably safe to say that there will be new vintages of funds with a similar strategy from the fund managers so look out for them in the years to come.

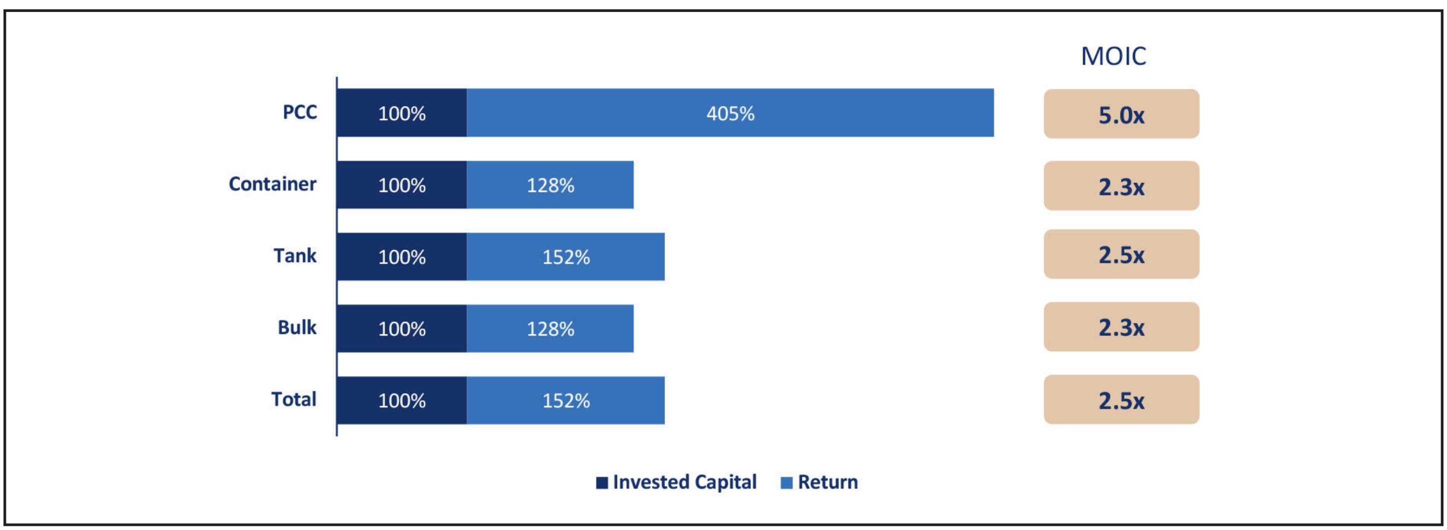

Figure 4