From time, immemorial or at least since the financial crisis, private equity investors in shipping have viewed the acquisition of a shipping bank’s loan portfolio as the holy grail of shipping investment opportunities. Acquired at a discount, there was every expectation that the purchaser would receive 100 cents back when the loan matured thus providing an adequate return despite the thin interest margins. Risk was manageable as the loans were underwritten by knowledgeable bank credit departments and fully secured by first mortgages on the ships and primary assignments of the other collateral. For investors, loans were familiar and more easily understood. One did not have to depend on a third party to make the investment decision and then commercially and technically manage the asset while watching from the sidelines and working one’s way up the learning curve. It was a simple payment obligation with no off-hire, operating or environmental risk or so it was believed. Market conditions were temporal; all one had to do was wait for the recovery to cash in. With the collapse of the KG market and their unsupportable loans, the German banks were the initial fertile hunting ground. However the German banks closed ranks and went into problem-solving mode dealing with the issues internally. Problem loans however know no boundaries. The shipping markets problem loans did not preclude managements’ demand for new business which led to a focus on less risky avenues.

Like other bankers, Berenberg saw opportunities in the advisory business and formed a credit focused alternative assets fund, Berenberg Alternative Assets Fund SICAV-SIF, fully compliant with all regulatory requirements for European regulated institutional investors. The fund targets mainly performing loans and can invest in among other things ship loans. The Royal Bank of Scotland (“RBS”) proved to be an ideal candidate. Its desire to exit the business at the behest of the UK government, its major shareholder, has been on-going and time was no longer limited to problem loans. Loans and portfolios changed hands but little information about these transactions was publicly disclosed. Life must go on and dealing with requirements for European regulated institutional investors. The fund targets portfolio of largely bilateral loans to some of the biggest and best names in shipping. While not immune to the downturn, we surmise that within the portfolio there is a substantive book of performing loans available to be picked.

To take advantage of the opportunity, Berenberg formed the first sub-fund, Berenberg Ship Mortgage Credit Fund, which would acquire performing loans from RBS and Berenberg. When concluded the fund had invested in a sizeable triple digit volume of senior secured performing loans with investment grade status representing around 30 borrowers and more than 40 ships. For the first time, institutional investors have the opportunity to participate in a ship mortgage credit portfolio. The initial investor was a German long-only institutional investor.

In the initial stages, Berenberg sourced and structured the transaction and co-lended for alignment of interests. On an on-going basis, it serves as the exclusive advisor for the fund
and is in charge of ongoing loan management. The good news is that the fund is not yet fully invested and there is potential for new business from Berenberg’s own clients as well as third-party banks.

It was the proverbial win-win transaction. The seller was able to significantly reduce its risk weighted asset burden, while achieving a higher purchase price by selling to a counterparty with reasonable return expectations. With Berenberg as the counterparty the loan transfer was between like-minded players easing the roles of the seller.

Through its participation in the loan sale and through the fund set-up, Berenberg also unlocks capacity for new lending business. Under the fund structure, additional share classes can easily be issued and new sub funds created to finance new transactions for other institutional investors. Management of the loans generates additional fee income and provides significant cross-sell potential.

The investor benefits from a sizeable investment in a new asset class generating high returns from a well-balanced and diversified portfolio of attractive performing shipping loans acquired at a discount. And, lastly, the heavy-lifting including deal sourcing, deal structuring and investment management is handled by Berenberg.

The transaction works on multiple levels, but most importantly in these difficult times, it enables Berenberg to further leverage its financial activities in shipping.

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**Marine Money**

RBS ~$300m Loan Portfolio Transaction

**BERENBERG ALTERNATIVE ASSETS FUND SICAV-SIF**

AIFMD and Solvency II compliant

**BERENBERG SHIP MORTGAGE CREDIT FUND**

- RBS Portfolio
- Berenberg Portfolio

**Institutional Investor**

- German long-only institutional investor
  - Presumably, first long-only institutional German investor that invests in a shipping credit fund
  - Solvency II compliant financial reporting of the investment

**Parties involved in the fund management**

- Luxembourg-based AIFM Administrator
- Luxembourg-based Custodian Bank

**Investment Advisor**

- Berenberg acting as Investment Advisor to the Fund and as main point of contact for the borrower

**The Royal Bank of Scotland plc**

- Sale of the performing shipping loan portfolio

**JOH. BERENBERG, GOSSLER & CO. KG**

- Sourcing and structuring the deal
- Fronting bank for the transaction
- Co-lending for alignment of interest
- Facility and security agent during until maturity
- Running bank accounts for borrowers

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Alternative asset fund allows European regulated financial institutional investors access to performing shipping loans and enables Berenberg to further leverage its lending activities in shipping.