



Is Direct Lending Immune to COVID-19?

Stockholm (HedgeNordic) - Immune to investor panic, unlisted investments might not fluctuate as much as their listed peers. Whereas most unlisted investments are vulnerable to the spread of COVID-19 and its impact on business operations, the portfolio of short-term senior secured direct loans held by **Scandinavian Credit Fund** remains intact for now.

Managed by Stockholm-based asset manager Kredifonden, Scandinavian Credit Fund is a direct lending fund that provides senior secured loans to small- and mid-sized companies in Scandinavia. "At Kredifonden we are not unaffected by the recent events," CIO Fredrik Sjöstrand (*pictured right*), writes in an update to investors. However, "there is nothing at the moment that gives us reason to do massive write-downs in the value of the fund's loans."

As covenant-light loans have become more prevalent in recent years, Scandinavian Credit Fund has taken a more conservative approach to giving out loans. In addition to putting forward a standard package of covenants for borrowers, Scandinavian Credit Fund solely lends money to businesses with tangible assets that can be pledged as collateral. Having tangible assets is a key element in the direct lending activities performed by Scandinavian Credit Fund, according to Sjöstrand.

Sjöstrand acknowledges that “borrowers may experience liquidity problems later on if the situation extends into next year.” The team at Kredifonden maintains a continuous dialogue with borrowers to assess the situation. As the IFRS 9 requires the estimation of expected credit losses, Scandinavian Credit Fund may have to recognize some provisions for potential losses in its loan portfolio if the economic standstill caused by the coronavirus continues.

Scandinavian Credit Fund had a loan portfolio worth SEK 4.4 billion at the end of February, with “no exposure to the aviation, tourism, crude oil, transport, restaurant, and hotel industries, to name a few,” according to Sjöstrand. Whereas all industries have been affected by the COVID-19 pandemic, these sectors are more affected by the economic downturn than others.

As Scandinavian Credit Fund maintains a small portfolio of listed bonds for cash management purposes, the recent market developments, which triggered large price falls in listed bonds, will have a negative impact on the fund’s net asset value for the month of March. The direct lending fund is expected to deliver a small negative return for March after adjusting the value of the listed bond and unlisted loan portfolios, as well as incorporating IFRS 9 provisions.

“It is a black swan that we are dealing with,” says Sjöstrand. “Very few, if any, could have imagined that a virus could cripple the global economy in such a short time and create massive sell-offs in both risky assets and traditionally safe assets.” However, Sjöstrand emphasizes that “our underlying loans have good collateral, and we have several interesting borrowers in line.” Scandinavian Credit Fund “has good opportunities to deliver relatively good returns even under the prevailing market conditions,” concludes Sjöstrand.