

Building a Bridge to Private Markets

Stockholm (HedgeNordic) – The rising demand for alternative assets has been one of the major investment themes and narratives over the past few years, as investors are searching for yield in a low-return environment. Many alternative asset classes, however, are broadly uninvestable for investors with smaller pockets. Danish investment manager Nordic Investment Opportunities (NIO) seeks to bridge the gap by offering smaller and mid-size investors the opportunity to invest in an “institutional quality” *diversified* portfolio of private market funds within private equity, private debt, real estate and infrastructure.

NIO was set up by partners at two Danish alternative asset managers: Copenhagen Infrastructure Partners (CIP), which specialize in renewable energy infrastructure investments, and Nordic Real Estate Partners (NREP), a real estate product developer, operator and investor. “The partners had exposure to their own products, but they wanted to diversify,” Mogens Thorninger (*pictured*), the CEO of NIO, explains the rationale behind the launch of NIO. “The key reason for the CIP-NREP partners setting up NIO was to be able to invest their own money in a broad-based alternative portfolio,” Thorninger tells HedgeNordic.

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Before launching NIO in 2018, non-institutional investors had been approaching CIP and NREP to invest in their funds but could not make big-ticket commitments. “The other key reason back then for launching NIO was that a lot of people were approaching CIP and NREP to invest in their funds even if they were not themselves pension funds and could not make a commitment of €25 million, which is the minimum to enter a CIP fund, for instance,” Thorninger tells HedgeNordic. “NIO can bridge the gap to allow other investors to get diversification even though they are not pension funds.”

NIO's Co-Investment Vehicles

NIO closed its first fund – Co-investment Vehicle I (CIV I) – for new money in December of last year after reaching an investment capacity of €330 million. The name of the fund (“Co-Investment Vehicle”, or “CIV”) stems from the “belief that every investment that NIO recommends and makes should also have our team and owners as co-investors alongside the external investors,” according to Thorninger, who was selected as the CEO of NIO in January this year.

CIV I is currently 70 percent invested, predominantly in private equity funds managed by CVC Capital Partners, Warburg Pincus and Kohlberg. “We have also made commitments to the latest CIP and NREP funds, and we have made a commitment to French infrastructure manager Antin Infrastructure Partners to get a broader exposure to infrastructure beyond renewable energy,” says Thorninger.

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The team at NIO has conducted due diligence on 150 different managers yearly to make six-eight commitments, according to Thorninger, having conducted early-stage due diligence on ten to 15 managers every month. “There are two key things for us when selecting underlying investments: attractive expected long-term financial results and a favorable ESG profile,” says the CEO of NIO.

"Our clients appreciate that NIO has a very high ESG focus, which comes from our owners and their heritage in ESG," continues Thorninger. "ESG is extremely important, but of course, it has to go hand in hand with long-term sustainable financial results."

NIO has now launched Co-investment Vehicle II (CIV II), a successor to CIV I. "We opened the fundraising in the third quarter and already raised €65 million," Thorninge tells HedgeNordic. "The fundraising is going remarkably well." For both CIV I and CIV II, NIO targets an allocation between 50 to 60 percent to private equity, with the remaining exposure going to real assets such as infrastructure and real estate. "Infrastructure would typically account for about a third of the fund and real estate for ten to 15 percent," says Thorninger. "We also have the opportunity to invest up to 15 percent of the portfolio in credit and/or secondaries, but we have not done so just yet."

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NIO aims to manage both an unlevered and levered version of each vehicle, with the recently-launched CIV II being an unlevered product. "At any one time, we aim to have both a levered and unlevered commingled fund, so in the first quarter of next year we will open a new levered version of our CIV-series," says Thorninger. "The most successful product in NIO so far was the levered version of CIV I," he emphasizes. "NIO secured a 15-year committed loan from a Danish pension fund to lever up the portfolio so that the CIP and NREP partners and a lot of other investors were able to get a full portfolio of alternative assets, as well as leverage to beef up the returns," he continues. "That was a novel product in the market, a lot of investors wanted to invest in that product, and that became the flagship product for NIO and it still is."

AIFM License

Nordic Investment Opportunities (NIO) just recently received a full license as an alternative investment fund manager (AIFM) following increasing investor demand for NIO's vehicles. The new AIFM license has two main implications for NIO. "First of all, we are able to manage our own funds as the manager," says Thorninger. "Previously we used external solutions and had other interim solutions, but those can work only up to a point," he explains. "When you get sufficient assets under management, you either need to get your own license, which is what we wanted, or you need to have a large engagement with external solution providers, which creates distance between us as an investment advisor and our clients."

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The license also enables NIO "to market our funds across Europe under the European passport regulation," according to Thorninger. "We immediately set up structures in Luxembourg so that we can cater for non-Nordic clients who want to invest through non-Nordic investment vehicles." The NIO team aims to provide both Nordic and other investors "diversification and long-term returns in the mid-teens," says Thorninger.

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"First of all, investors expect to get diversification and then stable and positive returns, preferably in the mid-teens," he continues. "Many of our clients had previously invested in alternatives, but they

have done so without diversification and without a process,” outlines Thorninger. “Now, investors have moved from do-it-yourself to an institutional, quality process. Now they get a broad portfolio of alternative assets just like a pension fund.”