

Iron Ore & Coal, Athens 2012



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■ Is Private Equity Still Interested in Shipping?

Agenda

- Introduction to Northern
- Shipping Industry Performance from a historic perspective
- Facts about Private Equity and alternative sources of capital
- Conclusions

■ Introduction

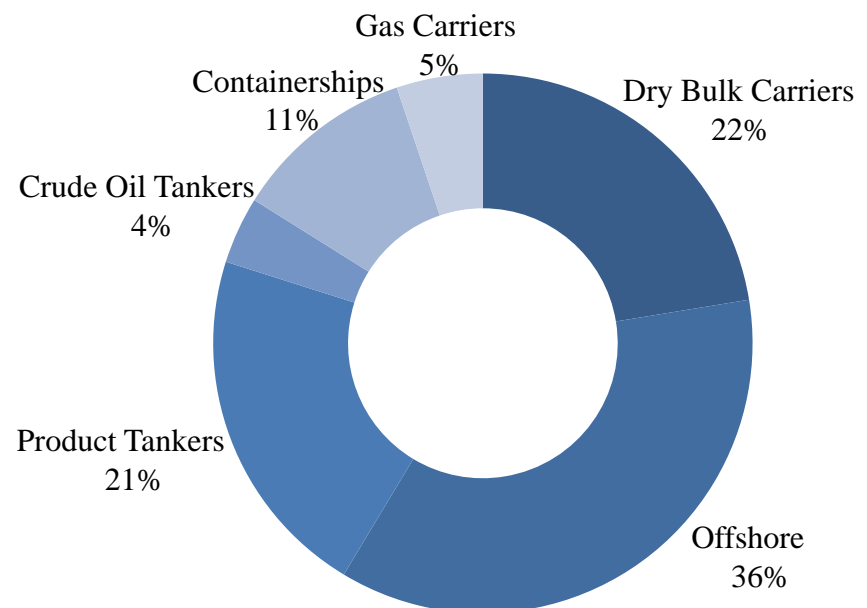
- Northern Shipping Funds (“Northern” or “NSF”) is a leading alternative capital provider to the shipping and offshore oil service sectors.
- Northern makes asset backed investments in the form of debt, equity and hybrid structures.
- Since inception (Oct.2008) Northern has raised over US\$500M in equity capital (financed assets in excess of US\$1.1bn – 14 transactions, 28 vessels).
- Current investment vehicle, NSF II, has US\$170M of committed capital available for investment.
- Capital is deployed in structures such as:
 - Sale and Leasebacks
 - Alternative Debt / Bridge Facilities
 - Mezzanine / Preferred Equity
 - Participations / Joint Ventures
 - Equity

Background & Track Record

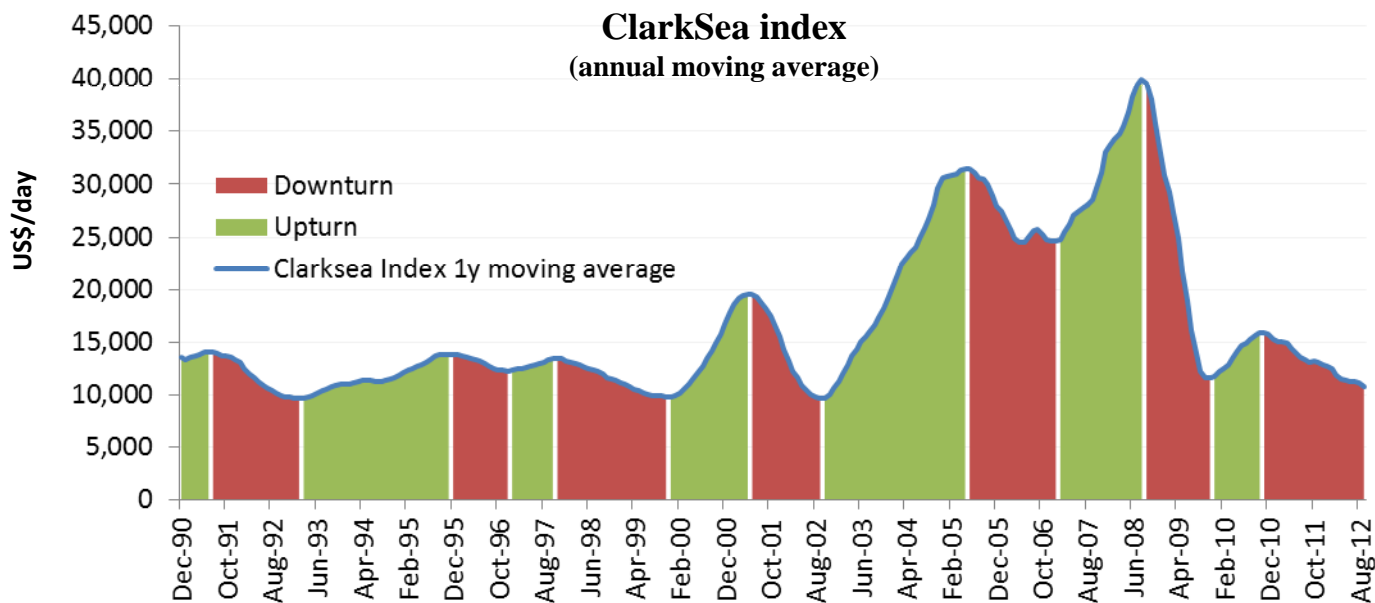
- ❑ The Management Team and Sponsors consist of highly experienced investment and shipping professionals with extensive operational and technical expertise.
- ❑ The Management Team and Sponsors have over 200 years of cumulative experience in sourcing, structuring and executing shipping investments and have established industry relationships.
- ❑ Predecessor funds track record:

Number of Funds	6 (from 1999-2008)
Number of Vessels	170
Investments	US\$2.2bn
Equity Invested	US\$476m

Vessel types financed

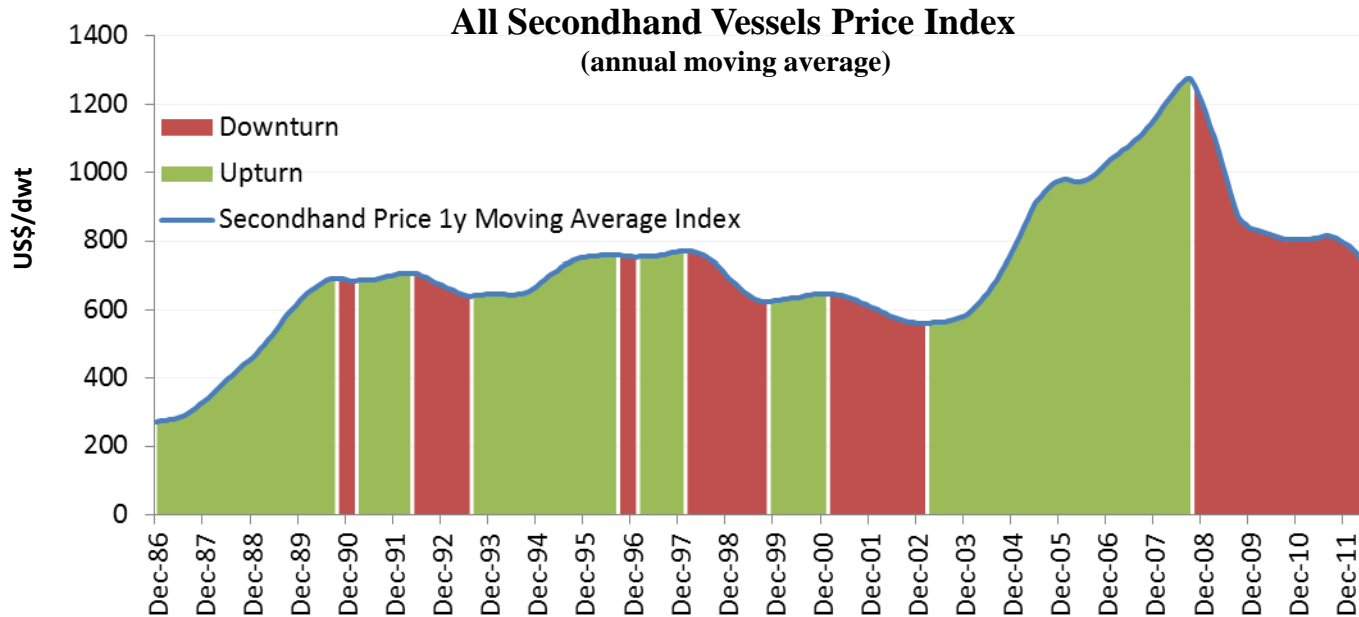


Shipping Industry Performance



Downturn			Upturn		
Period	Duration (in months)	Magnitude	Period	Duration (in months)	Magnitude
1990-1991	7.0	-4%	1990-1991	7.0	4%
1991-1993	20.0	-31%	1993-1995	33.0	43%
1995-1996	13.0	-11%	1997	10.0	9%
1997-1999	25.0	-27%	1999-2001	18.0	99%
2001-2002	16.0	-50%	2002-2005	32.0	224%
2005-2007	20.0	-22%	2007-2008	19.0	61%
2008-2009	15.0	-71%	2009-2010	11.0	35%
2010-	23.0	-32%			
Average	18.9	-35%	Average	18.6	68%

Shipping Industry Performance



Downturn			Upturn		
Period	Duration (in months)	Magnitude	Period	Duration (in months)	Magnitude
1990-1991	5.0	-1%	1986-1990	46.0	154%
1992-1993	15.0	-9%	1991-1992	14.0	3%
1996-1997	5.0	-1%	1993-1996	37.0	18%
1998-1999	21.0	-19%	1997-1998	12.0	2%
2001-2003	25.0	-13%	1999-2001	15.0	3%
2008-	47.0	-46%	2003-2008	67.0	128%
Average	19.7	-15%	Average	31.8	51%

Shipping Industry Performance

ClarkSea index (annual moving average)

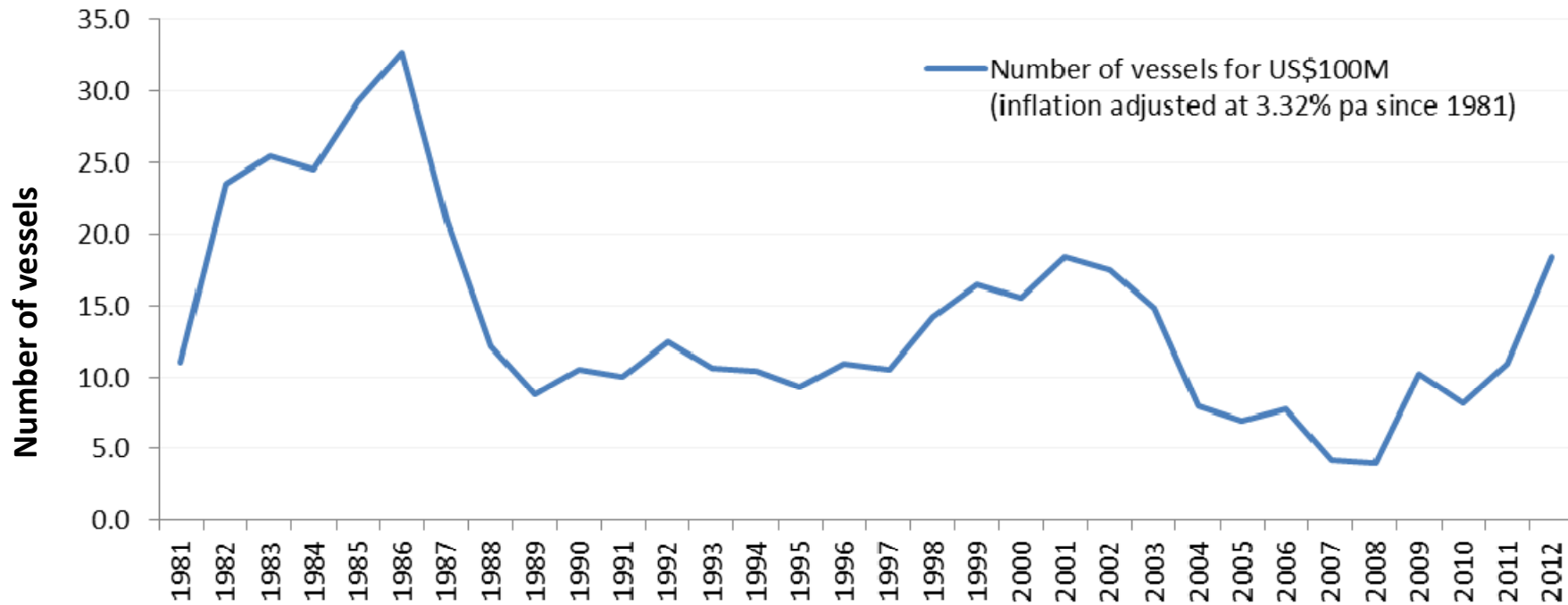
Mid Up to Mid Down			Mid Down to Mid Up		
Period	Duration (in months)	% Change	Period	Duration (in months)	% Change
1991-1992	14.0	-15%	1992-1994	28.0	-3%
1994-1996	24.0	17%	1996-1997	12.0	-3%
1997-1999	21.0	-13%	1999-2000	20.0	21%
2000-2002	19.0	-2%	2002-2004	24.0	54%
2004-2006	27.0	27%	2006-2007	21.0	21%
2007-2009	18.0	-20%	2009-2010	14.0	-43%
2010-	18.0	-7%			
Average	20.1	-2%	Average	19.8	8%

All Secondhand Vessels Price Index (annual moving average)

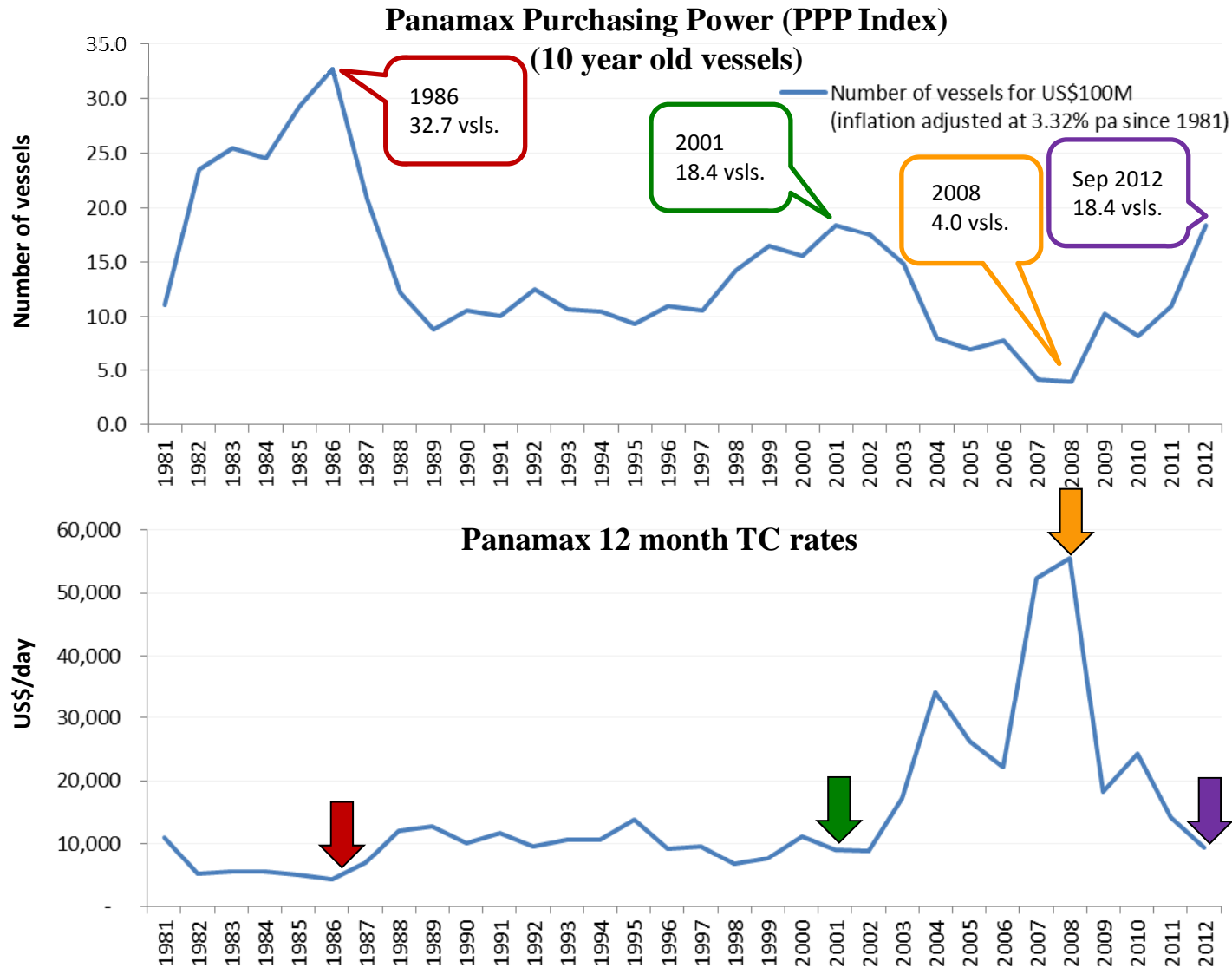
Mid Up to Mid Down			Mid Down to Mid Up		
Period	Duration (in months)	% Change	Period	Duration (in months)	% Change
1988-1990	27.0	57%	1990-1991	10.0	1%
1991-1992	16.0	-3%	1992-1995	27.0	3%
1995-1996	22.0	10%	1996-1997	9.0	0%
1997-1998	18.0	-8%	1998-2000	19.0	-9%
2000-2002	21.0	-6%	2002-2005	47.0	63%
2005-	58.0	-18%			
Simple Avg	27.0	5%	Simple Avg	22.4	12%

■ Panamax Purchasing Power Index (“PPP” Index)

**Panamax Purchasing Power (PPP Index)
(10 years old vessels)**



PPP Index & Panamax 12 month TC rates



▣ **Is Private Equity still interested in Shipping?**

▣ Yes, more than ever due to:

- ▣ Normal market cyclical value correction
- ▣ Further downward pressure on valuations due to unavailability of capital and faltering of banks (deep value investment opportunities)
- ▣ Distress situations
- ▣ Regulatory changes/technical “innovations”
- ▣ Industry consolidation

▣ **Distinguishing between alternative capital providers**

▣ **A.** Opportunistic, distress/deep value private equity investors aiming at 25-30% IRR or multiples of invested capital.

▣ **B.** Private ship finance/leasing companies aiming at long term risk adjusted industry supported returns.

▣ **C.** *Arrangers market, representing private ad-hoc capital appetite in exchange for a fee.*

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- ▣ **What can alternative capital providers offer?**
 - ▣ Larger capital injections day-1
 - ▣ Longer investment horizons without impact on cost of funds
 - ▣ Can accept minimum or zero running yield
 - ▣ Can structure expected returns based on future market views/recovery
 - ▣ Can take residual value positions
 - ▣ Can wait until exit for redemption of invested capital
 - ▣ Can accommodate transaction sizes smaller than generally required for private placements/bonds/equity markets
 - ▣ Can Preserve/release banking lines or introduce new banks
 - ▣ Can consider most types of shipping assets
 - ▣ Can introduce corporate governance skills and reporting structures to family run companies

▣ **What does alternative capital require?**

- ▣ Alignment of interest between capital and management
- ▣ Enterprise value creation
- ▣ Decision making and control
- ▣ Competent management/trackrecord/reputation
- ▣ Exit strategy
- ▣ No conflicts of interest or fee based structures
- ▣ Creation of performance based incentives
- ▣ Sponsor capital commitment
- ▣ Preference for liquid assets in terms of S&P

▣ **Concluding Remarks**

- ▣ **Banks** need to come back; they will over time – but mandate will be different
- ▣ **Owners** should keep an open mind towards alternative sources of capital – can be used to give them access to the opportunity
- ▣ **Private Equity** is a viable alternative

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