Innovation in Ship Finance: Overcoming the challenges

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Structure

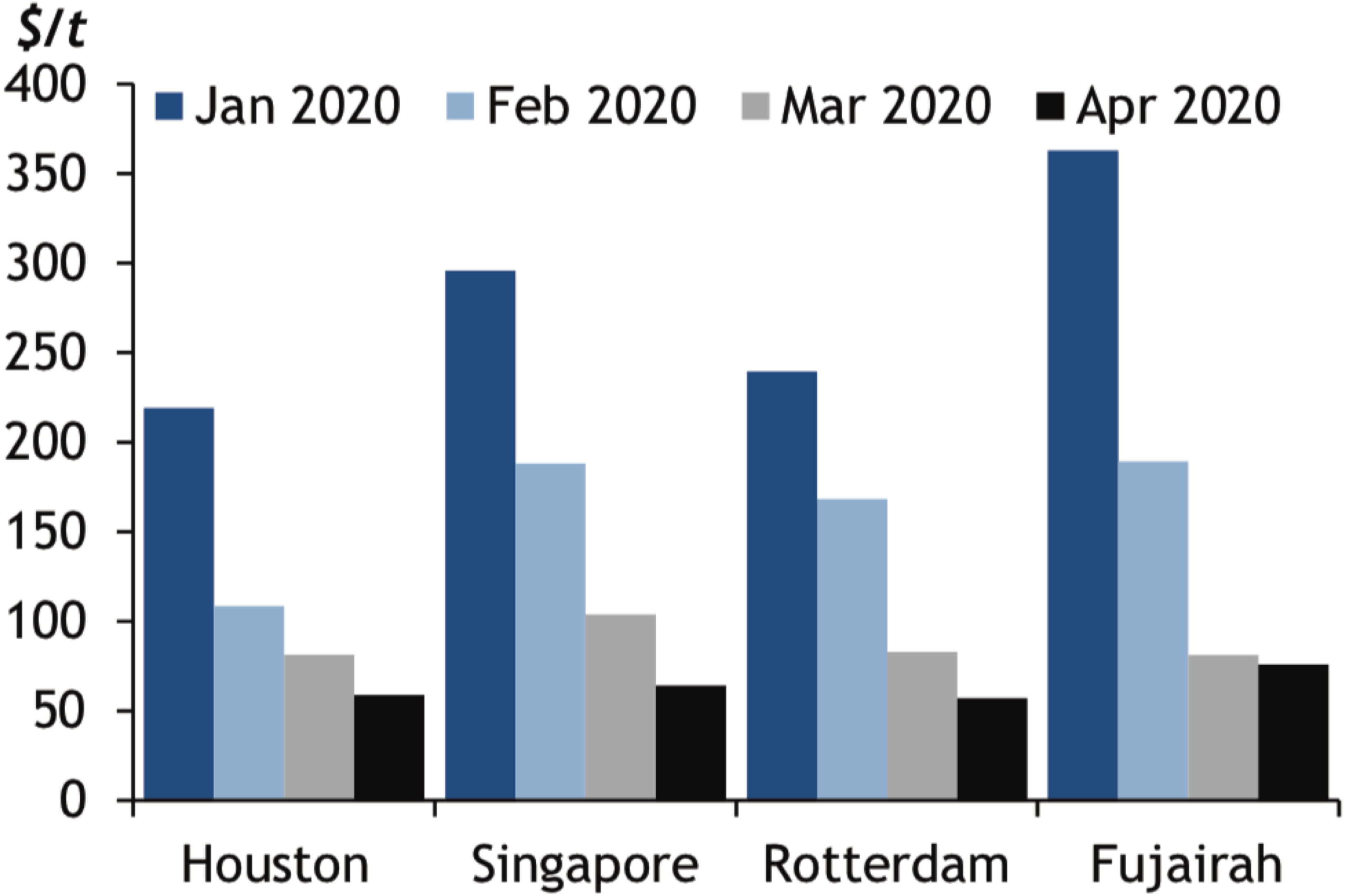
Part I: Contextual Factors and Recent Developments

Part II: Developments in Ship Finance and Innovative Solutions

Contextual Factors

- **Compliance with measures adopted to regulate emissions**:
  - IMO 2020 regulation on low sulphur fuel: installation of scrubbers or switching to VLSFO;
  - IMO strategy on the de-carbonization of the industry: to reduce shipping’s total annual GHG emissions by at least 50% by 2050;
  - EU measures.
- **Digitalisation, Automation**: increasing adoption and use of new technologies.
  - Work towards unmanned and autonomous vessels;
  - Digital transformation of logistics processes using blockchain and other emerging technologies (containerised cargo).

VLSFO-HSFO bunkers differential at major international bunkering ports

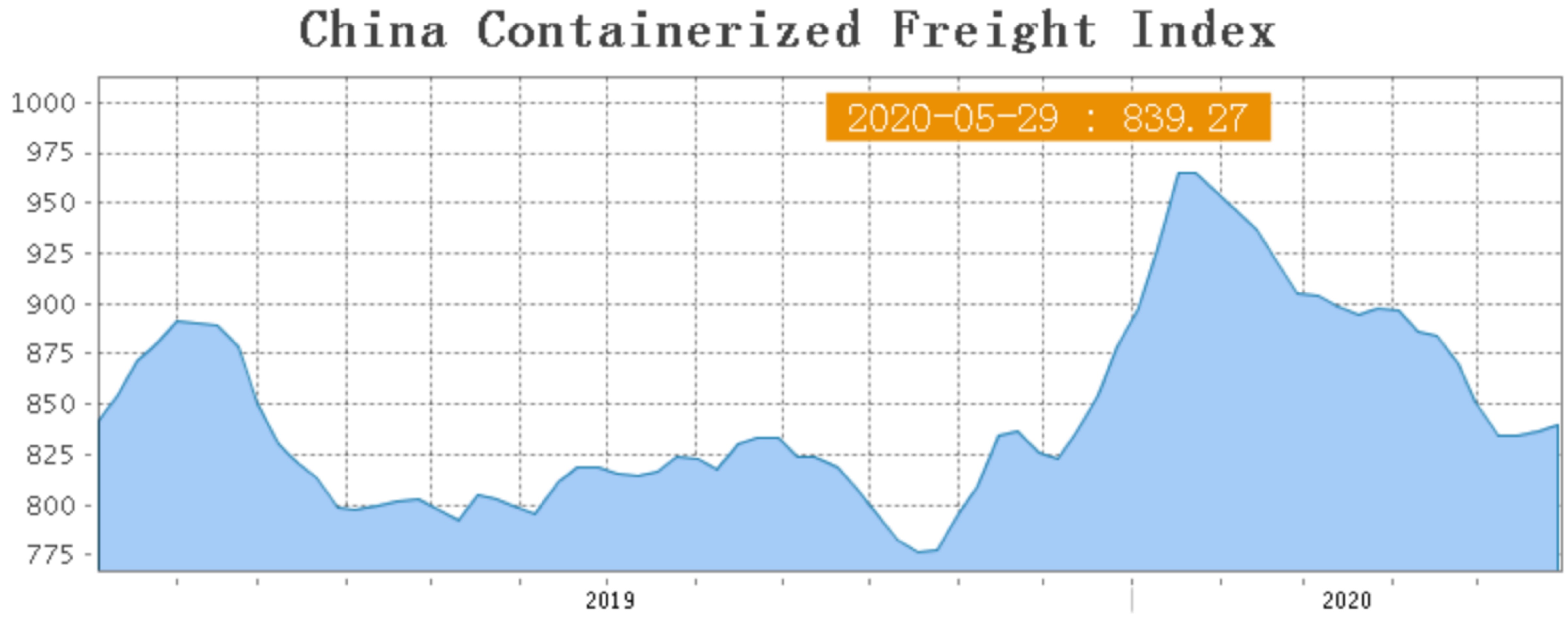


— *Argus Media*

Impact of COVID-19

- Sectors of the industry that have been mostly affected: cruise and containers.
- Fall in demand (see BDI and SCFI graphs on slides 6 and 7).
- Ports: delays and fall of activity – this is the result of various factors, including:
    - production suspension;
    - strict traffic restrictions; and
    - additional customs checks being reported in some ports.
- Shipyards: delays for delivery of vessels – impact on delivery financing.
- Crew changes: It is becoming more difficult to carry out crew rotations:
    - Prolonged stay on board - higher risk of infection and mental illness; and
    - Difficulties for those who stay onshore and cannot embark.
- Response of the market to tackle challenges: virtual closings and a wide use of electronic signatures.
- Financiers, borrowers, yards, charterers and their respective legal counsels working closely to address these unprecedented challenges.

Baltic Dry (Index Points) 943.00 +21.00 (+2.28%)
2500
2250
2000
1750
1500
1250
1000
750
592
500
Jan
2017
2018
2019
2020
1Y
5Y
10Y
25Y
All
%
num
dif


China Containerized Freight Index
2020-05-29 : 839.27
1000
975
950
925
900
875
850
825
800
775
2019
2020

Part II

Availability of finance

- Why is finance important in shipping:
  - Value of the vessels
  - Operational costs for the ship-owning companies.
- Shipping finance structure in simple terms:
  - Parties: lender, borrower and the vessel
  - Purpose of financing: (i) purchase of a vessel (newbuild or second-hand vessel) or (ii) refinancing of existing indebtedness in respect of a vessel.
- The ship finance sector changed significantly after the 2008-2009 financial crisis:
  - In 2016, loan volume for syndicated ship lending was estimated to be around $50bn, (down significantly from the loan volume of $120bn in 2007).
  - Stricter capital, liquidity and risk management requirements imposed on the financial institutions.
  - A number of historically leading banks in ship finance have exited the market.
  - Remaining banks lend selectively, typically to existing customers with whom they have a strong relationship or large shipping groups.
- New ship finance structures (alternative/innovative financing) have emerged:
  - Export credit agency (ECA), Chinese banks and leasing companies, private equity.

Alternative Finance

- Alternative providers are subject to fewer regulatory restrictions than banks, and can take higher risks, but seek a higher yield so provide finance at higher cost.
- Private equity funds initially entered into joint ventures with shipowners (see illustration on slide 11).
- More recently joint ventures between Fintech providers and Asset Managers have been reported (see example on slide 12).
- The use of a FinTech platform gives “regular investors access to deals typically reserved for the institutional players”.
- A new generation of investors tends to favour ESG investments and the latter tend to outperform the wider market (see slides 13 and 14).
- The Poseidon Principles provide a governance framework for demonstrating environmental credentials (see slides 15 and 16).

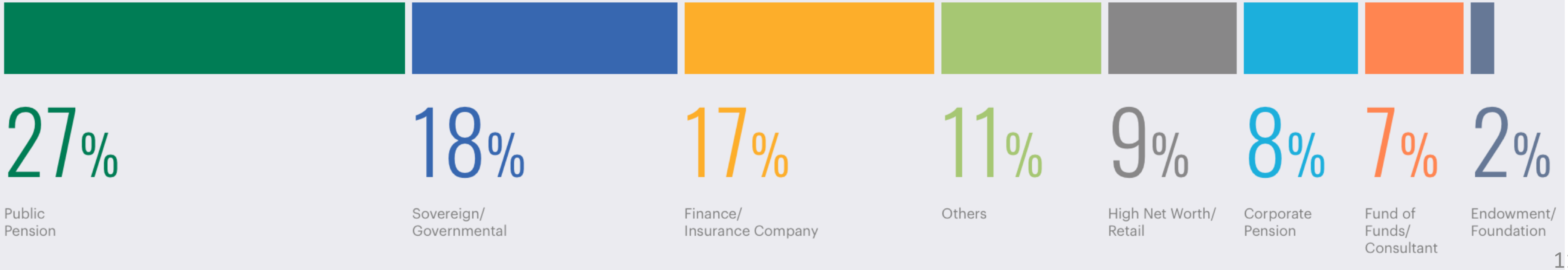
Rickmers and Apollo Enter Joint Venture to Invest in Container Ships

BUSINESS & FINANCE

September 24, 2013

Apollo's fund investors are diversified by type and geography

Investor Base by Type



Forbes Billionaires Innovation Leadership Money Business Small Business Lifestyle

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BlackRock Makes Alternative Investment Push With YieldStreet Partnership

Donna Fuscaldo Senior Contributor

Fintech

I write about the fintech, cryptocurrency and investing markets.

“BlackRock manages the liquid assets side of the fund and YieldStreet takes care of the rest. The fund is expected to liquidate after about four years and aims to have a 7% distribution rate on an annual basis. The fund charges about 1.5% in fees.”

The Legg Mason Global Investment Survey has been taking the pulse of investors worldwide for the past six years.

This year, we surveyed 17,000 investors across 17 markets globally. We gained insights around their asset allocation behavior, their views on ESG, their approach to technology, how they financially prepare for retirement and how they feel about the current market environment.

Blue Planet Effect

49% of investors choose funds according to ESG considerations, but the knowledge gap is the biggest barrier to investing more

ESG funds continue to outperform wider market

More than half of ethical and sustainable funds beat the MSCI World index

Distance learning - in this case enforced by Covid-19 pandemic - is one of the trends identified by ESG fund managers © Getty Images

Madison Darbyshire APRIL 3 2020 14

More than half of ethical investment funds have outperformed the wider global stock index in the market downturn by avoiding exposure to oil and energy sectors that have dragged down passive funds.

ESG Investing Survey: Investors Want the Best of Both Worlds

May 20, 2019

Performance Potential | Individuals and ESG | Institutions and ESG | Key Takeaways | Download the Report

Personal Values Meet Real Results

Individuals and professionals alike say ESG investing can help align assets with personal values—and that it has the potential to drive performance.

Investors see the best of both worlds in Environmental, Social and Governance (ESG) investing. They say it can help them align their assets with their personal values – and has the potential to produce the performance they need to help achieve their financial goals.

"Nearly 2/3 of institutional investors believe that ESG investing will become an industry standard within the next 5 years"

New Ship Finance Governance Framework: The Poseidon Principles

- “A global framework for responsible ship finance: The Poseidon Principles provide a framework for integrating climate considerations into lending decisions to promote international shipping’s decarbonization.”
- “Signatories will measure the carbon intensity of their shipping portfolios on an annual basis and assess their climate alignment relative to established decarbonization trajectories. This assessment is based on a robust industry-appropriate methodology.”
- The PP are designed to incentivise international shipping’s decarbonisation, but they can also help respond to a growing demand for ESG investments.

POSEIDON PRINCIPLES

New Ship Finance Governance Framework: The Poseidon Principles

- 4 Principles:
  - Assessment of Climate Alignment of shipping portfolios relative to established decarbonization pathways using PP methodology
  - Accountability: use of classification societies and mandatory IMO standards for the provision of un-biased information on climate alignment
  - Enforcement by means of standardized covenant clause in financing contracts – available from PP website;
  - Transparency: Portfolio climate alignment scores will be published on an annual basis.
- At time of writing 18 leading banks have signed up.
- Will alternative financiers sign up?

POSEIDON PRINCIPLES

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Thank you for your attention!

Questions?

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