



KKR targets shipping loans

Pillarstone, the platform set up by KKR to buy non-core and underperforming assets in Europe, seems set to take on underperforming shipping loans following the recruitment of former Frontline Management ceo Jens Martin Jensen. Indeed, the firm recently confirmed its involvement in a shipping-related securitisation.

Underperforming loans in the shipping sector have skyrocketed since 2008, as shipping operators have been challenged by overcapacity and untimely investments in bigger container vessels in the wake of the financial crisis. This has left banks in the US\$400bn market with the challenge of offloading a string of non-performing loans.

Banks with exposures in the sector include BNP Paribas, Commerzbank, Deutsche Bank, HSH Nordbank, Lloyds, Nordea and RBS.

Pillarstone's business model regarding non-performing loans entails taking control of troubled firms and turning them around with new capital from KKR. The novelty is in the management of the bank loans, with the goal of attaining repayment and giving banks part of any extra profits. The firm's business model involves, as one Pillarstone representative tells SCI, "governance and management of the loans, without taking them off the banks' books".

Oliver Fochler, managing partner and ceo of Stone Mountain Capital, echoes a similar view when he states that private equity firms are "managing and restructuring" such capital-intensive assets. He adds that there is nothing surprising here, given the "tendency of private equity firms - within their newly founded debt units - to move towards high-yielding NPLs and private debt, due to yield compression."

Pillarstone already has a track record in the shipping loan space. In April it signed a deal with Italian shipping firm Premuda to manage €300m of exposures from UniCredit, Intesa Sanpaolo and Banca Carige. The Italian deal was followed in August by KKR's investment in NordLB's US\$1.5bn portfolio, along with an unnamed sovereign wealth fund, as the German bank works to reduce its exposure.

Weil represented KKR in connection with the investment and the simultaneous establishment of a new shipping portfolio management company. The transaction is

expected to be structured as a securitisation, with KKR, the sovereign wealth fund and NordLB participating as investors. The portfolio of performing and non-performing shipping loans will include up to 100 ships and is intended to form the seed mandate for the shipping portfolio management company, which will advise on the management of shipping loans and is designed to be open for use by third-party banks.

Jensen has thirty years' experience in shipping, including stints at Denmark's AP Moller-Maersk and at Island Shipbrokers in Singapore.

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