



PELAGICPARTNERS

10th City of London Biennial Meeting

Ahmad Abou Merhi

June 2023

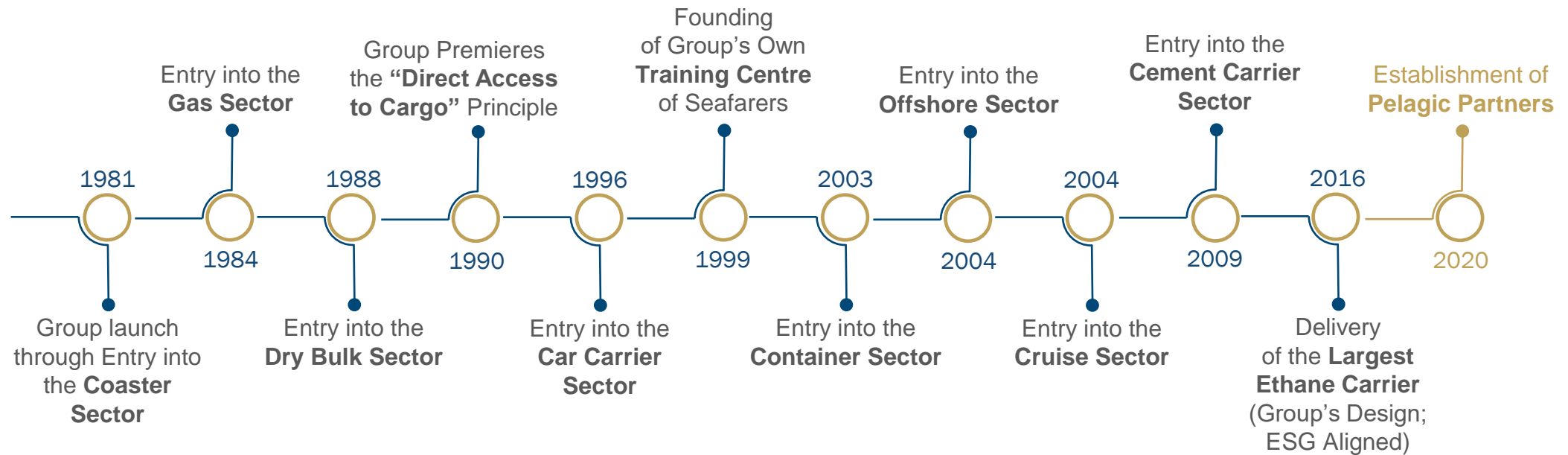
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Introduction

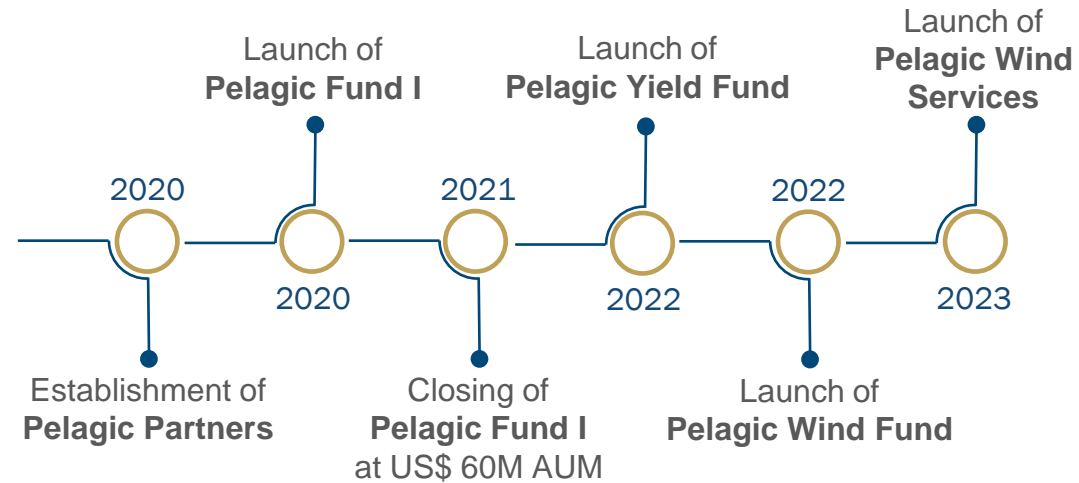
Founding Groups' Track Record

Backed by the Hartmann Group and Abou Merhi Group, family-owned shipping businesses for generations.



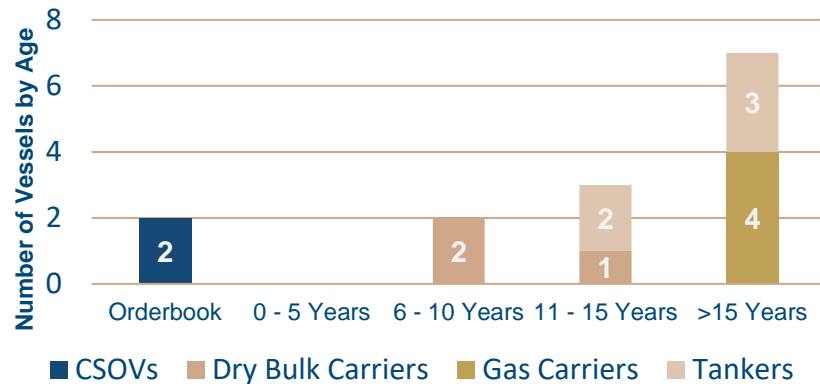
Pelagic History

Pelagic Partners has become the biggest shipping fund in Cyprus since its inauguration in 2020, with over US\$ 300 million in AUM.



Current Portfolio

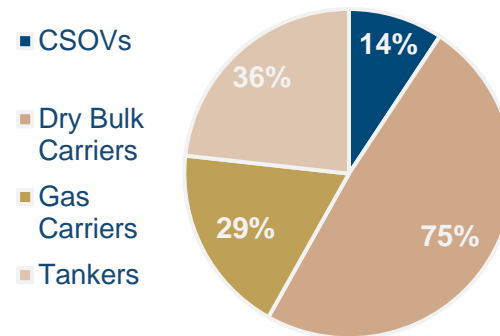
Average Fleet Age*
15.1 Years



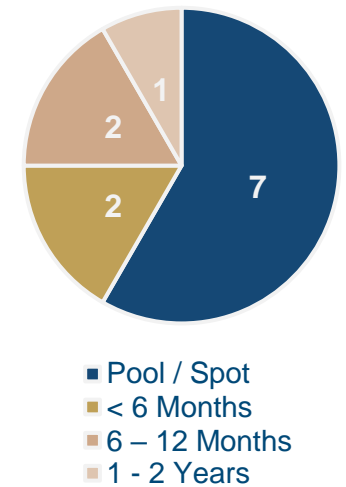
Average Charter Coverage*
142 Days

Current Loan to Value*
36%

Fleet by Segment



Fleet by Employment*



(*) This metric excludes the newbuild Commissioning Service Operation Vessels ("CSOVs")



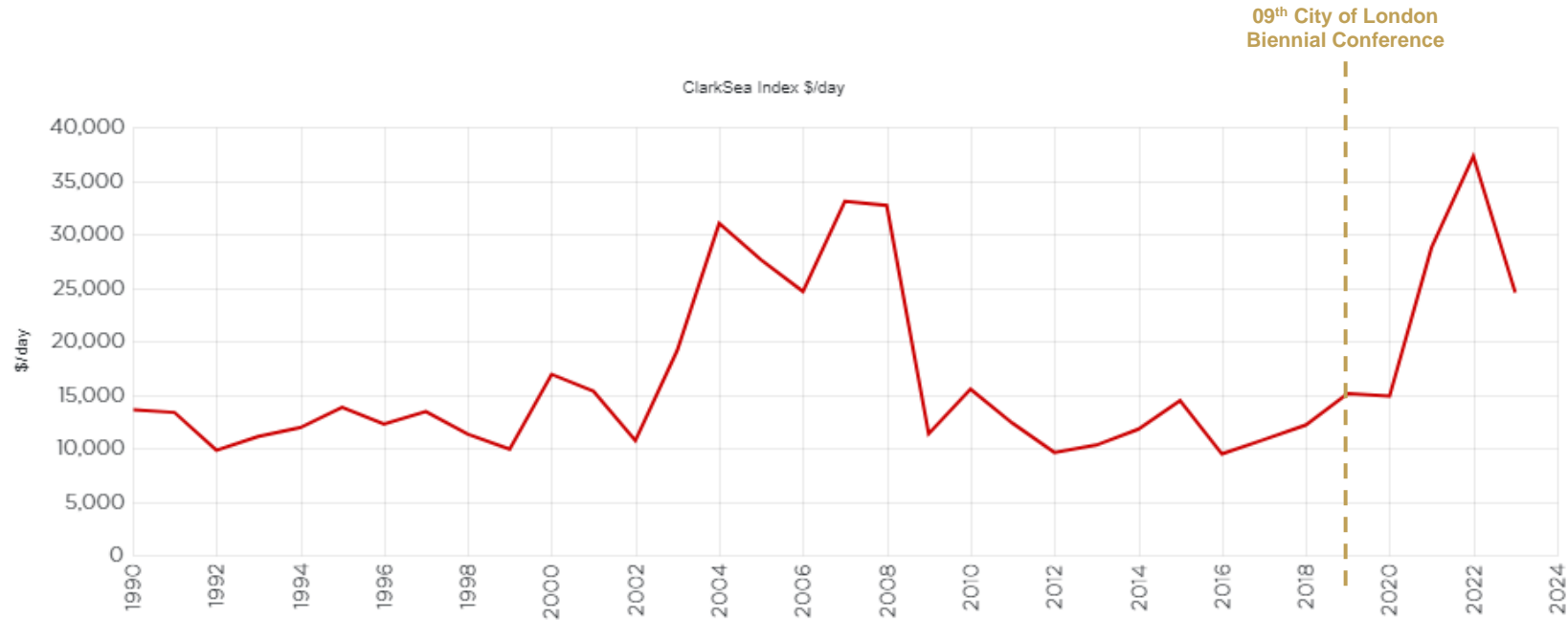
Flashback & Thoughts

Shipping Recovery

The 09th City of London Biennial in 2019 was at the turning point of a magnificent market rebound following the 2008 crisis – little did we know.

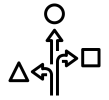
Speakers shared opposing opinions on their readings of the market and this specific panel set out its expectations.

Today, we reflect on those expectations and set the tone on how we see the industry going forward in 2023 and beyond.



2019 Conclusions

The Banking and Shipping Finance Session in 2019 had a clear conclusion that the global shipping finance landscape will alter in one, two, or a mixture of the following scenarios:



Remaining shipping banks continue to adapt but **alternative lenders will take a permanent and sizeable share** of the shipping finance market.



A tipping point is reached and **remaining shipping banks will either fade away or are reduced to play a utility role**; this trend could be accelerated by continuously increasing regulatory requirements, a prevailing extended low interest environment, and advanced application of digitization in global shipping finance.



Remaining shipping finance banks and the new advanced liquidity and finance platform providers could find a symbiotic and collaborative relationship. The industry shall address itself collectively to customer service and innovation, and eventually **a new shipping finance system shall emerge**.

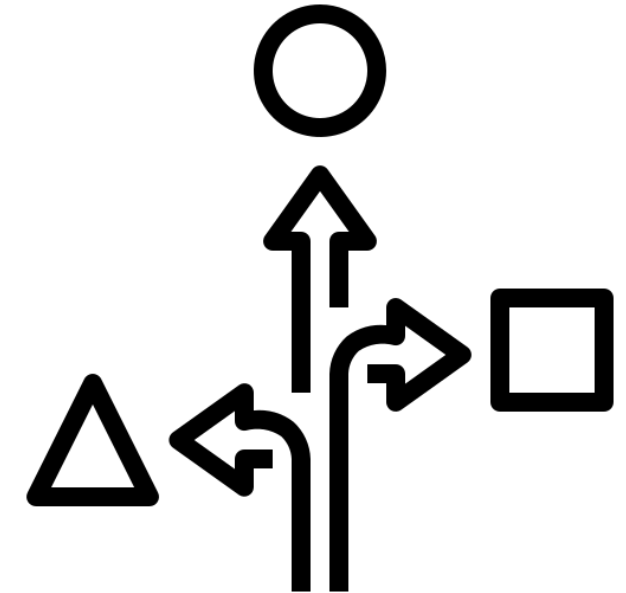


Independently of the aforementioned scenarios, **China will continue expanding its presence in the global shipping finance market as long as it serves its political objectives**.

Sizeable Alternative Lenders

Remaining shipping banks continue to adapt but **alternative lenders will take a permanent and sizeable share** of the shipping finance market.

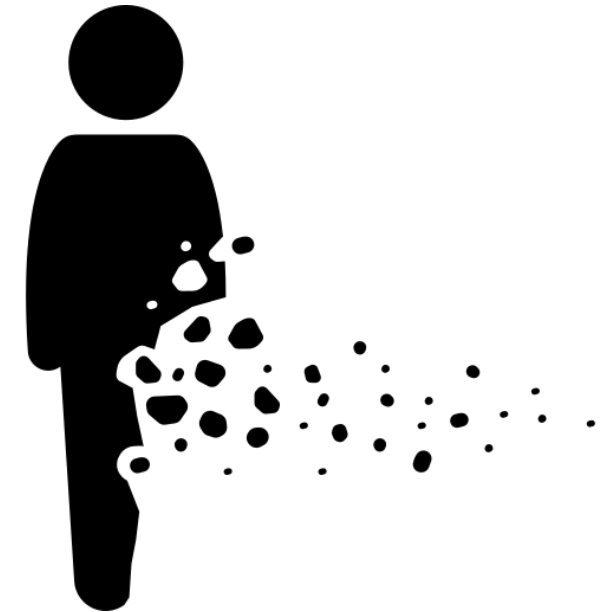
- Alternative lenders have indeed made their mark on the lending space and have established a strong presence.
- We have seen alternative lenders compete for most deals we put on the table.
- The banks who we see compete for deals are the ones who adopt an asset-backed financing approach, the typical strategy of alternative lenders.
- Alternative lenders entered the space a few years ago due to the gap left behind by traditional banks, and owners who transacted with alternative financiers did so due to the lack of availability or appetite from the remaining traditional lenders, despite the expensive costs.
- Today, we see alternative lenders competing on costs and terms.
- Capital investors backing alternative financiers have been around for sufficient time to understand the sector, feel comfortable in the space, and gain confidence.
- Despite the return of some traditional lenders to the shipping sector, a significant portion of transactions remain with alternative lenders due to competitive margins and flexible terms in regards to age, employment, and sustainability-driven metrics.
- Flexibility became more valuable today than ever before due to the increased sanctions and restrictions of bank lending. This is however not relevant to us at Pelagic Partners as we are very firm when it comes to sanctioned entities, countries, and trades, and we therefore do not seek such flexibility.



Fading Traditional Banks

A tipping point is reached and **remaining shipping banks will either fade away or are reduced to play a utility role**; this trend could be accelerated by continuously increasing regulatory requirements, a prevailing extended low interest environment, and advanced application of digitization in global shipping finance.

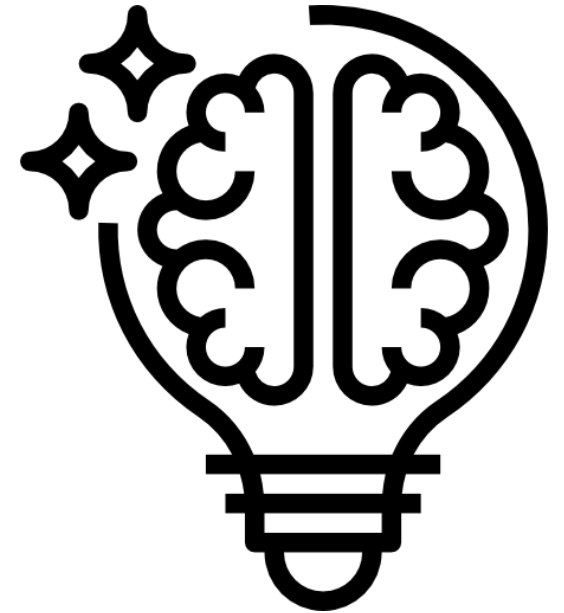
- We do not see shipping banks fading away but we certainly see a significant change in their business methodology.
- Banks have decreased their lending appetite to shipping due to increasingly restrictive regulatory requirements.
- We see banks still interested in the shipping space but being more creative compared to traditional lending.
- We see classic names with smaller books in the traditional lending space return within the last 12-18 months with asset-backed financing, and we expect this trend to continue going forward.
- A lot of the banks with big books have adopted a corporate-financing approach where recourse is the most important factor, regardless of market dynamics.
- We would have hoped to stay optimistic about the extended low interest environment but unfortunately this has proven to be on the opposite extreme since the beginning of this year.
- Positive market factors in such high interest rate environments have actually driven shipowners to seek lower LTVs than usual in the shipping industry, as cash piles from operations are available to fund the gap.



Innovative Shipping Finance Systems

Remaining shipping finance banks and the new advanced liquidity and finance platform providers could find a symbiotic and collaborative relationship. The industry shall address itself collectively to customer service and innovation, and eventually **a new shipping finance system shall emerge.**

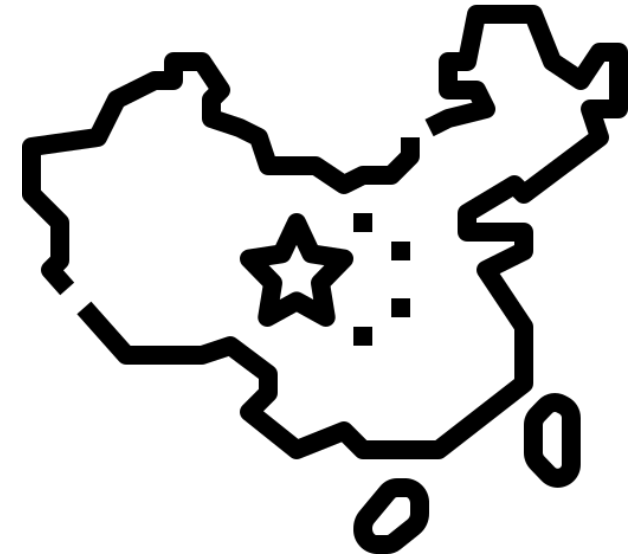
- We are very supportive of innovation, digitisation, and tech advancements both onshore, offshore, and across all parallel segments.
- We have seen the likes of Oceanis pioneer the space and offer shipowners the opportunity to tap into a wide network of financiers at a press of a button.
- We see that such offerings are more focused to serve small to medium shipowners and banks.
- Well established shipowners and financiers tend to rely on their network and their existing portfolios. In some instances, even well-established entities may tap into these avenues for diversification purposes.
- Eventhough we rely on our selected financing partners for lending on new projects, we find it crucial to explore such platforms for efficient sounding of the market and to know where we stand compared to others.
- Data collected by such players is being processed, mapped, and circulated in the market to provide shipowners and financiers with valuable insight into the world of shipping financing.



The Chinese Fingerprint

Independently of the aforementioned scenarios, **China will continue expanding its presence in the global shipping finance market as long as it serves its political objectives.**

- Despite lengthy and repetitive lockdowns and an unprecedented economic slowdown, we see the Chinese fingerprint on the shipping industry stronger than ever.
- China currently holds the biggest orderbook in the world.
- This will eventually translate to Chinese-built vessels forming majority on water.
- It is not news that China is on the forefront when it comes to imports, i.e. seaborne trade demand.
- China is now the biggest exporter of vehicles in the world (as of Q1 2023) – currently leading the show when it comes to exports as well.
- Chinese financing in general and shipping financing in specific were not hit in the 2008 crisis.
- Chinese were pioneers in the leasing space. The high financing levels at competitive costs were vital in driving attention to the local shipyards for newbuilds.
- We do not see their presence in the shipping finance space slowing down as long as their attractive terms drive traffic into their shipyards, which in turn benefits their GDP and other macroeconomic factors.



Redefining Maritime Investments

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