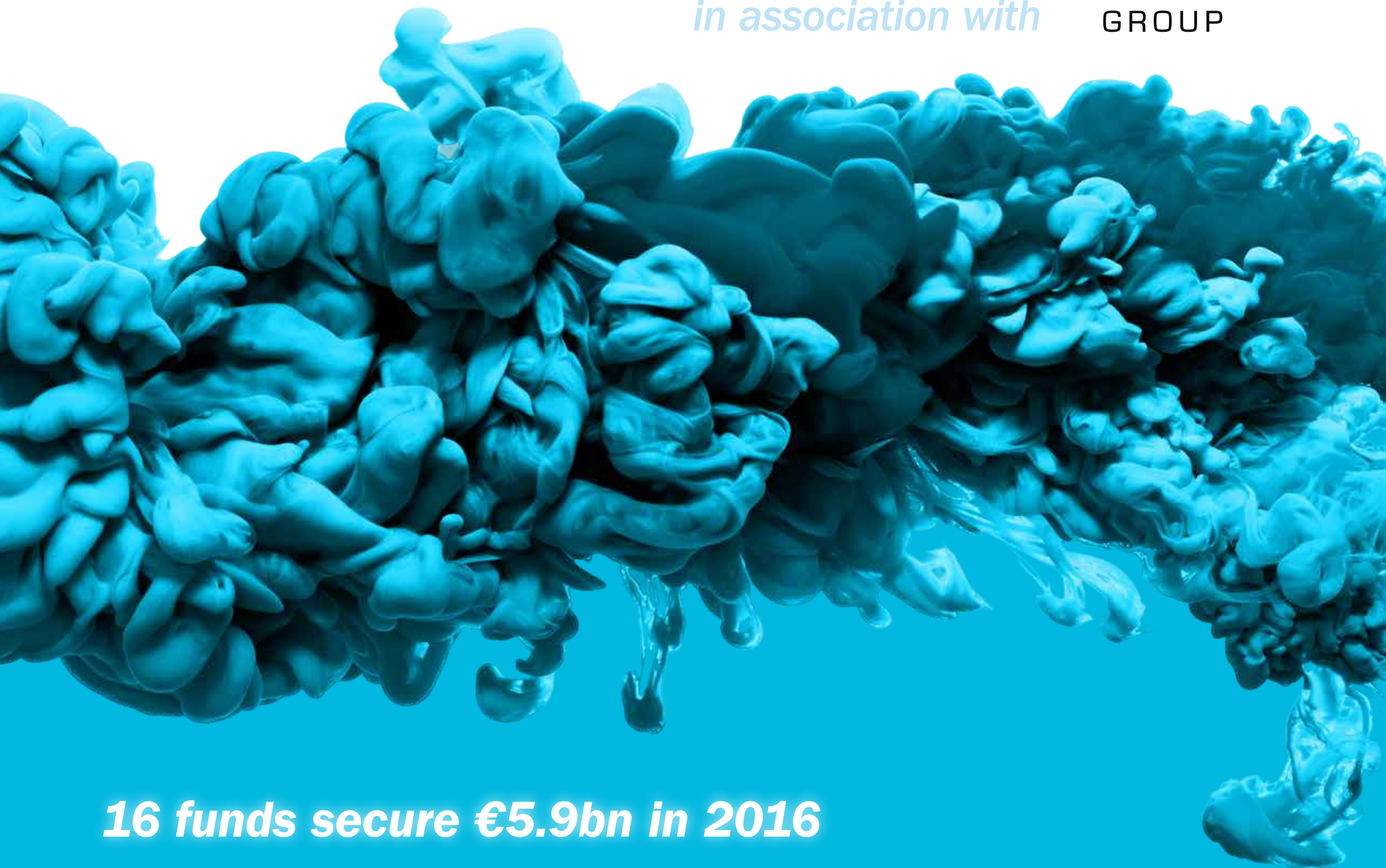
# NORDIC FUNDRAISING REPORT 2017

*in association with* AZTEC GROUP



***16 funds secure €5.9bn in 2016***

***Nine funds raise €3.8bn in Jan-May 2017***

***Established GPs account for majority of funds raised***

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## DATA METHODOLOGY

The data used in this report is primarily drawn from *unquote" data*, the longest running European private equity and venture capital database available. The database holds information dating back to the late 1980s and covers more than 40,000 private-equity-backed deals, as well as almost 4,000 funds that have collectively raised in excess of €2tn.

Over the last 25-plus years, the *unquote" data* team of journalists and specialist researchers has collected information on 3,200 international LPs that have committed capital to European private equity and venture funds. Although there are some exceptions, *unquote" data* coverage is as follows:

- Venture/private equity investments of all sizes and types, as long as there is backing from institutionally funded investors;
- Funds covered are generally raised from institutional investors, though there are examples of state- or European-sponsored vehicles held in the database too. Retail funds are generally not covered;
- Investments on the database all involve Europe-headquartered companies, irrespective of where the investing fund is domiciled or managed from;
- Institutional coverage is global, where LPs have an appetite for investment in European-managed vehicles, though there is a strong bias towards those LPs with a decision-making capacity in Europe.

Direct contact between our editors/researchers and private equity deal-doers, advisers, fundraisers and institutional investors is at the heart of the division's research methodology. The strong relationships that this direct contact has enabled us to build has ensured a high-quality flow of qualitative information in our database and published products.

# Statistical overview

**While fundraising across Europe has increased in value, funds managed in the Nordic region saw totals tail off in 2016, despite a marked increase in volume. Gareth Morgan investigates the drivers behind the trend**

Nordic private equity fundraising saw a significant drop in total capital committed in 2016, despite the number of funds raised increasing markedly. A total of more than €5.9bn was raised by 16 locally-managed funds holding final closes during the year, where 2015 saw more than €7.5bn raised by nine funds.

This marks the third consecutive year of decreasing total capital raised by funds managed in the region, a pattern that is in stark contrast to a broad trend of increasing capital inflows across Europe. This broader trend is very noticeable when looking at funds managed elsewhere with a mandate to invest in the Nordic region, where 57 funds closed almost €55bn in 2016, up from €38bn in 2015.

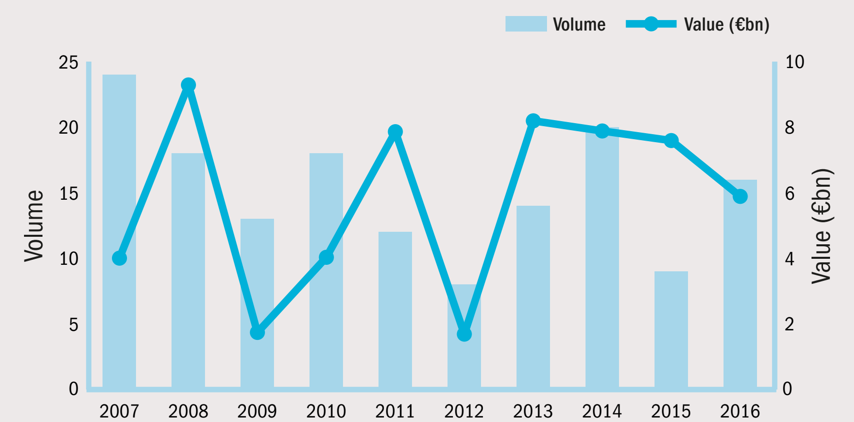
## Nordic niches

Local players in the Nordic region typically raise smaller, locally denominated funds, the size of which reflects the segments of the market in which they operate. With a handful of well-established GPs operating in the large-cap space becoming pan-European, the size of their funds has increased with their geographical remit.

Nordic fundraising statistics are, therefore, prone to being heavily skewed by these players raising comparatively large funds, and so it's important to look in-depth at the funds raised to gauge the strength of the fundraising market in the region.

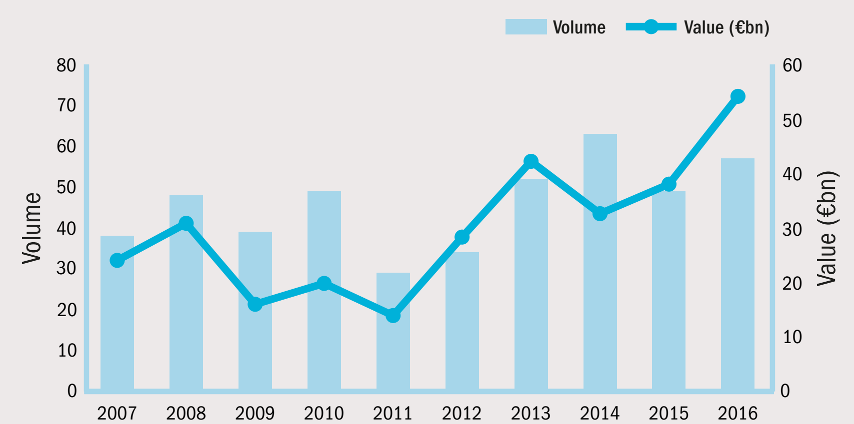
For instance, 2016 was notable for regional GPs holding final closes for late-generation funds. Verdane

### Nordic private equity fund final closes




Source: *unquote" data*

### Global funds manadated in the Nordic region




Source: *unquote" data*

Capital closed its ninth fund after a four-month fundraise, while Northzone closed their eighth, and Norvestor their seventh vehicle, each with a significant presence from Nordic LPs. All but three funds holding final closes in 2016 are third-generation or later, and two of the remainder are EQT funds with non-core strategies.

The size of funds reflects the markets that these GPs operate in and current currency valuations Therefore, aggregate total of funds raised when looked at in euros, while small in comparison to other European regions, does not accurately measure the strength of the private equity climate in the Nordic countries. Overall, despite a fall in the total capital raised, the data on Nordic private equity fundraising during 2016 paints a picture of a healthy market of established fund managers operating in their local markets.

### Limited LP pool

Looking at Nordic-managed funds holding final closes in 2015, EQT VII closed on €6.75bn in August 2015, which accounted for almost 89% of the entire private equity fundraising market in the region. Examining LPs in the fund in detail, 26% of them were from the Nordic region, committing a total of €1.43bn. Given the relatively few smaller GPs closing funds during 2015 – the fewest since 2012 – the presence of a large player in a relatively small market seems to monopolise a large section of LPs' annual private equity allocations. ■

## Funds holding a final close in 2016

| Fund | Total Raised (€m) |
|---|---|
| FSN Capital V | 1000.0 |
| Danske Private Equity Partners VI | 700.0 |
| EQT Ventures Fund | 566.0 |
| EQT Mid-Market Credit Fund | 530.0 |
| Norvestor VII | 510.0 |
| Polaris Private Equity IV | 443.2 |
| Verdane Capital IX | 323.2 |
| Northzone VIII | 300.0 |
| Segulah V | 260.2 |
| Intera Fund III | 250.0 |
| MB Equity Fund V | 236.5 |
| Valedo Fund III | 216.8 |
| Creandum IV | 180.0 |
| Via Venture Partners Fond III | 134.4 |
| Monterro 2 | 129.3 |
| Seed Capital Denmark III | 109.8 |

Source: *unquote" data*

## Funds holding a final close in 2015

| Fund | Total Raised (€m) |
|---|---|
| EQT VII | 6750.0 |
| Priveq Investment V | 249.2 |
| SEB Private Equity Opportunity Fund III | 225.9 |
| Armada Mezzanine Fund IV | 103.0 |
| Open Ocean Capital IV | 100.0 |
| Proventure Seed II | 68.5 |
| Ceder Capital I | 37.4 |
| Frumtak 2 | 33.3 |
| Eyrir Sprotar | 25.0 |

Source: *unquote" data*

## Total capital raised by GP 2007-2016 (>€250m)

| Fund | Total Raised (€m) | Number of funds |
|---|---|---|
| EQT Partners AB | 16,724 | 8 |
| Nordic Capital | 7,950 | 3 |
| Altor Equity Partners | 4,000 | 2 |
| ATP Private Equity Partners | 3,650 | 3 |
| HitecVision | 3,291 | 4 |
| FSN Capital | 1,997 | 3 |
| Danske Private Equity | 1,955 | 3 |
| CapMan Group | 1,151 | 8 |
| Norvestor Equity AS | 1,136 | 3 |
| Herkules Capital AS | 1,072 | 2 |
| Polaris Private Equity | 808 | 2 |
| Verdane Capital Partners | 804 | 4 |
| Segulah Advisor AB | 802 | 2 |
| Accent Equity Partners | 795 | 2 |
| Northzone Ventures | 640 | 3 |
| East Capital | 611 | 2 |
| Intera Equity Partners Oy | 575 | 3 |
| EQT Ventures | 566 | 1 |
| MB Funds | 497 | 2 |
| Axcel | 484 | 1 |
| Priveq Investment | 450 | 2 |
| Energy Ventures IS | 445 | 3 |
| Valedo Partners | 441 | 2 |
| Litorina Kapital | 412 | 2 |
| Adelis Equity Partners | 410 | 1 |
| Creandum AB | 398 | 3 |
| Finnish Industry Investments | 389 | 3 |
| Sponsor Capital | 375 | 2 |
| Cubera Private Equity AS | 363 | 4 |
| Nordic Mezzanine Ltd | 341 | 2 |
| Procuritas AB | 339 | 2 |
| Sentica Partners | 280 | 3 |
| SoliX | 270 | 1 |
| Via Venture Partners | 269 | 2 |
| Sunstone Capital A/S | 266 | 2 |
| Maj Invest Equity | 258 | 2 |
| Reiten & Co | 256 | 1 |

Source: *unquote" data*

# 2017 so far

**The first five months of 2017 have seen dealflow reducing compared with the same period in the previous four years, but fundraising continues apace. Gareth Morgan crunches the numbers**

To May 2017, nine Nordic-managed funds have held final closes, securing a total of €3.84bn. The largest of these is EQT's dedicated mid-market vehicle, which closed on its €1.6bn hard-cap in May.

With GPs including Nordic Capital and Axcel on the road, understood to be targeting €4bn and €550m respectively, 2017 looks set to comfortably outstrip 2016's fundraising in the region, justifying the positivity seen from market participants throughout this report.

## Dealflow dirth

As highlighted in a recent *unquote" analysis* peice, dealflow in the early part of 2017 for buyout deals in the Nordic region saw a marked slowdown in both buyouts and exits, with Q1 the worst for private equity activity since the fourth quarter of 2013. To the end of May 2017, *unquote"data* has tracked 49 deals in the region with a combined value of €4.5bn.

With increasing competition and mountains of dry powder waiting to be deployed, the increase in average deal value is not surprising, nor is the fall in volume, as GPs are wary of paying over the odds for assets in a market where pricing has steadily increased. With the fundraising picture looking positive for the remainder of 2017, adding to the volume of capital to be deployed, it will be interesting to see if this trend continues. ■

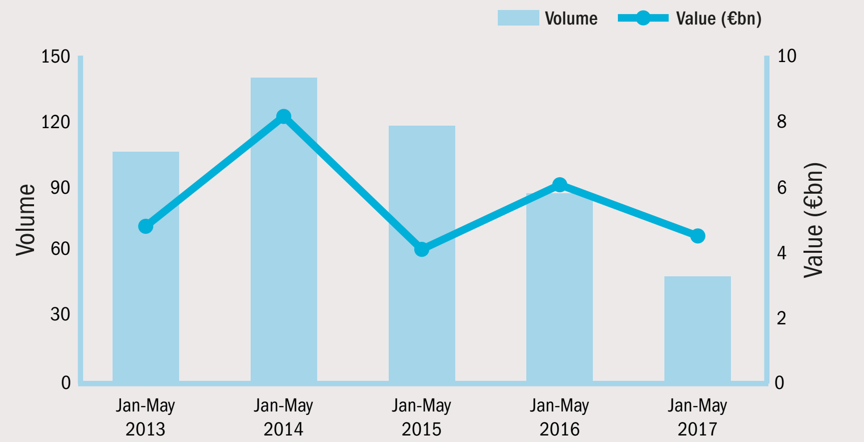
### Funds holding a final close in Jan-May 2017*

| Fund | Total Raised (€m) |
|---|---|
| EQT Mid Market Europe | 1,600.0 |
| Summa Equity Fund I | 484.8 |
| Cubera VIII | 405.0 |
| Dansk Vækstkapital II | 388.8 |
| Procuritas Capital Investors VI | 318.0 |
| Vaaka Partners Buyout Fund III | 225.0 |
| Erhvervsinvest IV | 196.2 |
| Sentica Buyout V | 185.0 |
| Vendep Capital Fund II | 40.0 |

Source: *unquote" data*

**Excludes EQT Infrastructure III, which closed on €4bn in February 2017. The fund will invest primarily in infrastructure, but will also make buyout deals.*

### Nordic private equity activity




Source: *unquote" data*

# Deciding where to domicile

**Jolande Svensson-Klijn, director and head of Aztec Group's Sweden office, spoke to *unquote"* about the key factors that Nordic fund promoters take into consideration when choosing where to domicile a fund**

Jolande Svensson-Klijn
***Director***
***Aztec Group***

**Which fund jurisdictions tend to be most popular among Nordic promoters?**
Over the last few years, we have seen Nordic funds established in several jurisdictions – the most popular being the so-called traditional fund jurisdictions, such as Guernsey, Jersey and Luxembourg, as well as locally in Sweden.

The Channel Islands, particularly Guernsey and Jersey, have always been among the preferred locations for Nordic fund promoters. In fact, when looking at funds under administration in Jersey by promoter origin, Sweden ranks second behind only the UK. Luxembourg, which is the leading investment fund domicile by assets under administration in Europe, offers an equally attractive environment for the establishment and administration of funds, so expect to see them on a promoter's shortlist too.

Outside this group of "traditional" fund jurisdictions, we're also seeing more domestic structuring, whereby the funds are domiciled and administered in the location in which the promoter is based. The convenience of having all of your operations in one location and the positive perception it generates locally are among the main drivers of this trend.

**How are the so-called "traditional" fund jurisdictions perceived in the Nordic countries?**
Jurisdictions such as Guernsey, Jersey, Luxembourg, the UK and other major fund domicile locations across Europe are recognised not just for being innovative and adaptable to industry trends and developments, but well-regulated and transparent. The international community, quite rightly, demands this.

We've seen these jurisdictions remain steadfast in their commitment to the transparency agenda, through their compliance with such measures as OECD directives, the recommendations of FATF, FATCA and BEPS. Indeed, in recent times, we've even seen key political figures such as the UK chancellor publicly commend the Channel Islands for being early adopters.

Despite these jurisdictions being fully transparent, there is a perception among some Nordic promoters that undertaking fund structuring in their home country will enhance their reputation locally, which, in turn, may act as a catalyst for attracting capital.

**What makes for a good fund jurisdiction?**
Promoters want to be able to set up their fund structure as seamlessly as possible and ensure that the ongoing administration is done efficiently in line with relevant legislation. A political and fiscal environment that offers stability and certainty, and access to an appropriately qualified and skilled workforce, is obviously critical.

In terms of the legislative and regulatory aspects, Luxembourg and Jersey are two examples of jurisdictions that have finely tuned their fund legislation over many years to appeal to private equity managers.

Luxembourg, for example, reinvented its partnership legislation in 2013 in conjunction with the transposition of AIFMD, amending the SCS regime and introducing the SCSp – special limited partnerships with no separate legal personality, which have been hugely attractive in the closed ended funds space, effectively replacing the SCA regime in terms of popularity. At the same time, the Luxembourg authorities took the opportunity to deregulate the depositary market for SIFs, SICARs and Common Funds, meaning administration firms (in addition to credit institutions) could fulfil this role. The combination of legislative change and market deregulation has been very powerful in attracting EU-focused business to Luxembourg.

Jersey and Guernsey, for example, both recently introduced private funds regimes in order to simplify and round out their regulatory offerings. In this context, both regimes are aimed at closely held open or closed ended funds that are looking for maximum flexibility under a sensible and proportionate regulatory umbrella. Both regimes have already proved popular for managers targeting smaller numbers of both EU and non-EU investors.

**How does fund structuring in the Nordic region differ?**
Each jurisdiction offers very different options when it comes to structuring. Limited partnerships are generally used in Luxembourg and the Channel Islands, but not in Sweden. Instead, the more effective and efficient option for structuring a fund is generally considered to be ABs, which are the equivalent of limited companies. The implication of structuring funds as ABs is that the funds are simply treated as another business for tax purposes.

It's worth mentioning there has also been some uncertainty around the treatment of carried interest, following the decision of Sweden's Administrative Court of Appeal to count it as income. This impacts Swedish promoters on a personal level through income tax, independent of the jurisdiction in which the fund is located. However, many Swedish managers have mitigated the impact of this by structuring their funds across multiple jurisdictions.

**"A political and fiscal environment that offers stability and certainty, and access to an appropriately qualified and skilled workforce, is obviously critical"**
*Jolande Svensson-Klijn, Aztec Group*

**How will Brexit impact choice?**
Luxembourg and the Nordic countries, as EEA members, will continue to have passporting rights.

The Channel Islands, while not part of the EEA, have cooperation agreements in place with the vast majority of EU member states, granting access to National private placement regimes through Article 42-based marketing. To the extent that Brexit is made a reality, Channel Islands-based funds will have been marketing under this regime for almost five years and, unless a third country marketing passport is introduced, this will not change. ■

## About Aztec Group

**Established in 2001, the Aztec Group is an award-winning independent provider of fund and corporate services, employing over 650 people across Guernsey, Jersey, Luxembourg, the Netherlands, Sweden and the UK. Owner-managed, the Group administers over 290 funds and 2,300 entities for a broad range of clients, including private equity, real asset and debt fund managers, institutional investors and multi-national corporations.**

# Digging down into the data

**With almost €6bn raised in 2016 by funds with a remit to invest in the Nordic countries, Gareth Morgan examines the macroeconomics, the debt markets and the potential dealflow the region has to offer**

As with Europe as a whole, the Nordic region's economies are in the tail-end of a rebuilding phase after the financial crisis of 2008-2009, and the sovereign debt crisis in Europe during the early part of this decade. Eurozone GDP growth is forecasted by the European commission to be 1.8% in 2016, where growth in the wider EU is projected at 1.9%.

## Sweden

The Nordic region's largest economy, was also the region's strongest performer in 2016, posting an estimated 3.3% real GDP growth for the year. The main drivers of this growth, according to the European commission, were investment, which grew 6.6% year-on-year, and private consumption, up 2.3% from 2015. Swedish exporters, benefiting from a weaker krona and improving external economic environment, saw a 2.8% increase in exports, making a net contribution of around SEK 200bn to the country's economy.

With a steady increase in real disposable income, a strengthening labour market, and consumer confidence building, private consumption in Sweden is forecast to grow to 2.6% in 2017.

## Norway

The region's second largest economy posted a steady growth rate of 1% in 2016, down from 1.6% in 2015. As an economy that relies heavily on the oil industry, the price shock in mid-2014 that saw a drop in the price of Brent Crude of more than 50% has been a considerable drag on growth. According to a report by financial services firm Nordea, domestic demand in Norway was up 2.7% in 2016 year-on-year, but removing the negative impact of oil investments makes this figure 4%. Final GDP figures were, according to the same report, weakened by mainland exports which suffered from a wider lack of demand for oil-related goods and services.

With the drag from the oil sector diminishing, the strong domestic demand in Norway should see positive economic growth in the years to come. Nordea forecast a 1.7% growth rate for 2017.

## Denmark

Denmark's GDP growth of 1% for 2016 was underpinned by domestic demand resulting from strong employment growth, rising disposable incomes and low interest rates. Investments were also a strong driver of growth, up 3.7% on the year, bolstered by increasing private investment. Looking ahead, the future looks rosy for the Danish economy, with unemployment forecast to fall, business investment to grow and private consumption to continue to be strong. This is reflected in the European commission's GDP forecasts for 2017 and 2018 of 1.5% and 1.8% respectively.

## Finland

Of the Nordic countries, Finland was hit hardest by the financial crisis, posting negative GDP growth for 2012, 2013, and 2014. The economy has since returned to growth, with the European commission projecting 1.5% expansion in 2016, up from 0.3% in 2015. Drivers of 2016 growth were strengthening private consumption and an increase in construction investment. Austerity measures brought in by a new government resulted in the signing of the Competitiveness Pact, a tripartite labour market agreement, in June 2016. This agreement includes a mandatory wage freeze for 2017, a pay reduction for public sector employees, and employees taking on the liability for social security contributions, which were previously paid by employers. These measures are anticipated to result in a boost in growth for 2017 and 2018, with lower unit labour costs and projected improvement in exports as a result of competitiveness contributing positively. The commission forecast 1.2% GDP growth in 2017, and 1.5% in 2018.

## Interest rates

Across the Nordic region, central bank interest rates remain near zero, with Norway's Norges Bank maintaining its key policy rate at a record low of 50 basis points, and Sweden's Riksbank and the Danish Nationalbanken maintaining negative rates at -0.5% and -0.65% respectively. As a member of the eurozone, Finland's interest rate is set by the ECB, where the benchmark rate is set at 0%.

This low yield environment has driven investors into riskier assets, and has also had the effect of stretching pension funds, many of which face record deficits between their income from investments and their obligations to pensioners. The effect of this on private equity fundraising is pension funds in particular are increasing their allocation to the asset class, and alternative assets in general, in an effort to generate returns.

## Maturity

In comparison with the rest of Europe, the private equity industry in the Nordic countries is a mature one, with many fund managers in the region boasting a track record stretching back to the early 1990s. These managers are supported by a network of large institutions, including state-backed investors and national pension funds. Economic stability in the region during a period in which Europe as a whole struggled has boosted returns for funds investing in the region, and these returns, combined with continued economic expansion in the Nordic countries, has attracted international LPs to invest in the region.

A glance at a list of Nordic funds holding final closes in 2016 shows the prevalence of established managers in the region. Verdane Capital closed their ninth fund after a four-month fundraise, Northzone their eighth, and Norvestor their seventh. Rebecca Schau, head of investor relations at Norvestor, says: "Sweden and Norway have quite mature private equity markets, and they are similar in terms of language and culture, so lots of cross-border deals get done." For deal-doers active in these markets early on, access to opportunities resulting from these similarities effectively doubled their pool of potential portfolio companies, and also provided ready-made opportunities to expand into new markets. It is not a coincidence that some of the GPs active in these markets for a long period of time have developed into large pan-European players. According to Ulf Lundqvist, head of communications at AP6: "The success and growth of EQT, Nordic Capital, among others, is in part due to a strong domestic market that they were early into, and also rapidly increasing their size, which necessitated having to look for opportunities abroad."

**"Sweden and Norway have quite mature private equity markets, and they are similar in terms of language and culture, so lots of cross-border deals get done"**

*Rebecca Scahu, Norvestor*

## LP base

While stable local markets have undoubtedly aided the development of the Nordic private equity industry, another factor that has fuelled this growth has been the presence of local LPs, including large pension systems in the region, and also state-backed investment funds.

Scandinavia has been a leader in using public money to promote private enterprise through institutions such as Finnish Industry Investment, which was set up in 1995 to accelerate the growth of Finnish companies through fund investments and minority direct investments; and the Danish Growth Fund, established in 1992, which makes fund and direct investments in early-stage Danish companies. Both of these entities are relatively large, with around €1bn under management each. Industrifonden in Sweden was established in 1979 as an evergreen investor in early-stage industrial businesses, and having invested in more than 1,000 companies since it was founded, currently holds in excess of SEK 4bn in assets.

For private equity houses operating in the region, the presence of this type of investor is a boon for a number of reasons. Firstly, they help to develop an active ecosystem of SMEs within economies, broadening the pool of potential portfolio companies available to buyout firms. Secondly, they are an additional source of capital for GPs that are fundraising, and, given their mandate, may be less reluctant to back managers in the early stage of their careers. Lastly, these institutions contribute towards fostering a culture of entrepreneurialism, and an acceptance and awareness of the importance of enterprise within society.

Says Norvestor's Schau: "A good economic environment and a strong base of innovative businesses has made the Nordic region a good place to be a GP. With private equity becoming more established, it is increasingly being seen as a legitimate exit route for business owners."

## National pension funds

Across the Nordic countries, state pension systems are complemented by mandatory buffer capital funds, which are allocated across asset classes to generate returns should contributions to the basic state pension fall short of pension disbursements annually. In Sweden, the six AP funds constitute around 14% of the national pension system, which is invested across a variety of asset classes.

AP6 is dedicated to private equity investments – "We're focused purely on PE, mandated to invest 100% in the asset class," says Lundqvist. The pension fund has been investing since 1998, and was originally focused entirely on making buyout and venture capital fund investments in the Nordic region. Over time, AP6 began to increase its international focus and develop its in-house capability to make co-investments and direct investments. It currently has a roughly 50-50 split between direct and co-investments, and primary fund investments.

In Denmark, ATP looks after the pensions of 80% of the Danish population, with all employees undertaking nine or more hours of paid work a week making contributions to ATP to complement the national pension scheme. In 2001, ATP established ATP-PEP, an in-house private equity team, with the intention of operating differently to other large public pension funds. ATP wanted a specialised team that was incentivised and aligned with its sponsor, and so ATP-PEP was set up, structured as a fund-of-funds, with fee and carry arrangements similar to an independent private equity house. For ATP-PEP's first two funds, the chief investment officer of ATP sat on the board and had oversight on investment decisions – but, since the third fund, ATP-PEP has operated entirely independently of its sponsor, free from any bureaucratic hindrance and with full discretion to make investment decisions. Although ATP-PEP has never had a specific geographical mandate, it is an active investor in the Nordic region, in part due to the quality of fund managers operating in the region, and also because continued activity is important for sourcing co-investment opportunities.

### Swedish public pension funds

| Fund | AUM | Investment focus |
|---|---|---|
| AP1 | SEK 290.2 bn | Equities, fixed income, real estate, private equity funds and hedge funds. |
| AP2 | SEK 300bn | Equities, fixed income, private equity and other alternative assets |
| AP3 | SEK 303bn | Equities, fixed income and alternative assets |
| AP4 | SEK 334bn | Equities, fixed income, real estate and alternative assets |
| AP6 | SEK 28bn | Private equity |
| AP7 | SEK 376bn | Equities, fixed income |

Source: *unquote" data*

## Dealflow

The *2017 Annual Buyout Review*, published by *unquote"* in March, investigated the drop in deal value for 2016 buyouts in the region, despite an increase in volume year-on-year. It concluded that, because of a very strong IPO market, and also a trend among private equity houses to hold their top assets for longer, GPs were increasingly targeting smaller deals where more value was available. "It is increasingly difficult to find quality assets to buy at reasonable prices," said Simon Wakefield, head of acquisition finance at SEB, in the March article. "This might hold back some larger investments from being sold. You can see this [increasing focus on the lower end of the market] made visible by the number of houses that are raising mid-cap or small-cap funds with separate teams."

Says Torben Vangstrump, managing partner at ATP-PEP: "It's a good thing for private equity to have more than one exit route available to them, but the challenge is in developing companies that are able to become public successfully." On the emergence of dedicated small- and mid-cap funds raised by larger houses, Vangstrump is contemplative as to the benefit for their limited partners. "You can look at this trend in two ways; firstly, the GPs feel that they are able to identify dealflow that offers potential investment opportunities. Secondly, and slightly more negatively, this represents a dilution of focus on the part of the GP, and I wonder if it is in their LPs' interest?"

Data reported in the *Annual Buyout Review* supports the perceived shift towards the lower end of the market, as there was a dramatic increase in €5-25m EV deals, from 19 in 2015 to 28 in 2016.

From an LP perspective, this increase in competition makes the due diligence process behind investment decisions more important. "Competition for deals has increased, making hands-on value creation in portfolio companies important," says Karl Falk, head of fund investments at AP6.

## Co-investments and directs

The strategy of co-investments is one that is increasingly prevalent in the industry, says Norvestor's Schau: "Most LPs we have spoken to recently mention their interest for co-investments." Although there is a desire among LPs to participate in these transactions, there are strict requirements placed on potential participants, particularly around timings. In addition to adhering to the schedule of a co-investment deal, it is important that everyone involved in the process is clear in their communications of any obstacles and bottlenecks. Writing in AP6's 2015 annual report, Christian Sinding, partner and deputy managing partner at EQT Partners AB, said: "It is important that promises are kept. We have a network of investors who are quick and reliable. Of course, investors must be given time to make a decision, but we prefer if questions are specific and put as early as possible."

GPs know from experience which LPs are interested in which companies, and how much capital each is willing to commit to individual deals, and there are a number of LPs in the Nordic region who have been active co-investors for a long period of time. This track record is important to GPs when looking for partners in deals. Says Sinding: "The longer our history together, the better. This is a case of mutual knowledge, which is a prerequisite of good cooperation."

"When forming new relationships for co-investments, GPs ask two questions," says AP6's Lundqvist. "When forming new relationships with LPs, we believe GPs put a lot of emphasis on the quality of money, which means having a good team, and also long-term capital. When offering co-investment opportunities, it's important that the LP have the capability to execute on a sometimes very short timetable."

AP6 have a team of 10 investment professionals working on direct and co-investments, and have become a preferred partner for co-investments with a number of managers. According to Lundqvist: "AP6's experience with direct investments and the fact that we have a dedicated direct team means we have the ability to execute in line with GPs' timetables." Looking at AP6's annual report for 2016, the pension fund made 10 co-investments over the course of the year in partnership with seven different managers. The importance of partnerships for carrying out co-investments is emphasised by the fact that four of these deals were executed in partnership with EQT.

**"Competition for deals has increased, making hands-on value creation in portfolio companies important"**

*Karl Falk, AP6*

In Denmark, ATP-PEP has developed strong co-investment capabilities, executing 51 transactions since inception. The fund-of-funds manager opened its New York office in 2007 to facilitate access to co-investment opportunities in the US, and Vangstrump notes the importance of adhering to a deals timetable: "It was important to have a presence in the same timezone to avoid becoming a bottleneck to the GP in the deal process." The trend of LPs increasingly looking to partner with GPs on deals is something Vangstrump has noticed, and not just among larger institutional investors. There has been a notable increase in activity from family offices and foundations investing in private equity, and existing investors increasing their sophistication, including making direct investments.

"Over the last two decades, the market has developed at breakneck speed," says Vangstrump.

"It is more professional and internationalised than ever, and increasingly so. A stable pension system and supply of capital has contributed to the speed of growth of the industry in the region."

## Internationalisation

A topic that is becoming central to the private equity industry is internationalisation, with managers broadening their investment horizons and LPs looking to gain exposure to an increasing range of markets. For the Nordic countries, a region that has previously been dominated by local players, this growing internationalisation has the potential to significantly impact the dynamics of the industry on both the sponsor and LP side.

For local LPs, there has been an increasing allocation of capital outside of the region, as private equity programmes become more mature. As allocations are increased to the asset class, an increasing level of diversification is required. This scenario is common to LPs across the world, and, given the attractive economic picture for the region and track record of GPs operating there, overseas LPs are increasingly looking to gain exposure in the other direction.

As an example, Norvestor has broadened its LP base over the years, from 97% Norwegian LPs for its 2004-vintage Norvestor IV fund to 34% Nordic LPs and 66% global LPs in its latest vehicle. Says Norvestor's Schau: "We started marketing to European LPs in 2003/2004, but, as it takes time building relationships, it took some time getting them on board. The size of Fund IV meant that it was backed by mostly Norwegian investors. Increasing our fund size over time, the track record generated by funds IV and V, and LP desire for exposure to the Nordic region meant that by Fund VI the LP base was much broader, and for VII even more so.

"There was a balance between Norvestor looking at overseas LPs due to the size of funds, and LPs wanting exposure to the region." This balance is reflected across the industry, with any potential fundraising implications of local LPs looking elsewhere with part of their allocation offset by the increasing inflow of capital from outside the Nordic region, meaning GPs raising funds face a relatively straightforward process.

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*Juha Peltola, Vaaka Partners*

## Lending

The growth of alternative lending funds, including buyout houses raising debt funds in parallel to their equity offerings, is a trend yet to reach the Nordic countries. "Local banks have very large balance sheets, and are happy to use them," says Juha Peltola of Vaaka Partners. "There are very liquid debt and credit markets in the region, and therefore no shortage of credit to fund deals." Looking at the top lenders by number of deals tracked by *unquote" data*, the dominance of traditional lenders is clear. Nordea, the region's largest bank, tops the list, providing leverage in 29 deals, while other large Nordic financial institutions complete the top five. As ATP-PEP's Vangstrump says: "A functional, robust banking system created a good climate for private equity."

### Top lenders by volume of deals, 2012-2016

| Equity debt provider | Volume | Value (€m) |
|---|---|---|
| Nordea | 29 | 9,426 |
| SEB Acquisition Finance | 11 | 2,901 |
| Danske Bank | 11 | 6,386 |
| DNB | 7 | 6,359 |
| Swedbank | 5 | 799 |
| CapMan Group | 3 | 55 |
| Nordic Mezzanine Ltd | 3 | 245 |
| Sydbank A/S | 3 | 134 |
| Armada Mezzanine Capital Oy | 3 | 143 |
| Kreos Capital | 2 | 50 |
| Finnish National Technology Agency | 2 | 11 |
| ATP Private Equity Partners | 2 | 2,345 |
| Lloyds TSB Bank | 2 | 1,900 |
| GE Capital | 2 | 913 |
| BNP Paribas | 2 | 1,393 |

## Relationships driving dealflow and fundraising

Despite the Nordic market being a particularly mature one, the level of intermediation across countries varies, and is also concentrated towards the top of the market. Where this intermediation exists, access to deals for overseas GPs is dramatically increased. However, for local GPs that have operated in the region for a number of years, the value of a local network for deal-sourcing lies in the opportunities that it provides over competitors from elsewhere that do not have these relationships.

CapMan originated in Finland in 1989, and raised and invested seven equity funds, as well as venture and mezzanine offerings, before expanding its operations into Sweden in 2004. Managing partner Markus Sjoholm points out there is a large difference between the markets: “Sweden is the most intermediated market in the region, and much larger than Finland, so we have to spend more time on deal sourcing there. Personal relationships with entrepreneurs are our primary route for deal sourcing, in Finland especially, although we do participate in structured auctions. We’ve not seen a significant increase in international competition in auctions, at least not in our size range.”

A similar observation is made by Vaaka’s Peltola; the Finnish mid-market GP operates almost exclusively in its home country, with one investment made in a Swedish business from Vaaka Buyout II. Moving up the AUM scale, GPs paint a similar picture. For Norvestor, whose average deal size since 2011 is almost double that of Vaaka’s, according to *unquote” data*, overseas competition is overwhelmingly around open deals. “Proprietary sourcing in the region remains a strong driver of deal flow for local GPs, which generally have a very strong network,” says Schau.

The importance of established relationships extends to GPs looking to raise funds, says Vaaka’s Peltola: “For new relationships, it can be tricky to get into funds later on. GPs and LPs will have a lot of long-term trust-based relationships. Where GPs have provided good returns, LPs like re-ups.” Vaaka recently hit the hard-cap for its third fund after three months on the road. “LPs are increasing their allocation to the asset class, and there is an increased interest in private equity from smaller institutions. With a stable, and growing, LP base in the region, and with no major changes anticipated in the industry, I expect the fundraising environment to stay positive.”

## Five upcoming deals

| Target | Owner | Status |
|---|---|---|
| Docu Nordic | Segulah | Segulah is reportedly looking to sell Swedish news service Docu Nordic, which it has owned since 2014. Jefferies is understood to have been mandated to advise. |
| Unwire | Maj Invest | Arma Partners has been appointed to advise on the sale of Denmark-based mobile payments provider Unwire. PE houses and strategic buyers are understood to be in ongoing discussions with Maj Invest over the asset. |
| Nordic Paper | Special Situations Venture Partners III, advised by Orlando | Second round of auction process sees a number of PE firms in the running to acquire Sweden-based paper business. Final bids are due at the end of June. |
| Morenot | Family-owned/ other | Potential suitors for Norwegian fishing and offshore equipment supplier Morenot will receive information memoranda in mid-August. There has so far been interest from PE firms and strategics. Saga Corporate Finance is advising Morenot. |
| Mehilainen | Triton Partners, KKR | Finnish healthcare service Mehilainen is being marketed from a €95m run-rate EBITDA, and could be valued at >€1bn. Initial market testing has been carried out, but the sale process is due to be launched later in 2017. JP Morgan is advising. |

## Future focus

Looking ahead, prospects for private equity in the Nordic region are looking good. Economic expansion is forecast to continue across the region, and local GPs across the size/AUM spectrum will be able to take advantage of this through their long-standing relationships with entrepreneurs and institutional investors. With private equity increasingly being seen as a legitimate means for small business owners to exit companies, local firms should continue to see strong deal-sourcing opportunities.

The region also benefits from a relatively stable political climate, reducing uncertainty that typically puts limited partners off allocating capital to risk assets. With LPs from across the world looking to begin investing in the region, fundraising for local GPs over the next fund generation seems likely to be a straightforward process.

Although competition from international GPs has increased, and is likely to do so in the future, the benefit gained from a long track record and proprietary deal-sourcing expertise should stand local GPs in good stead for future fundraising, and may also provide a boost to exit multiples for secondary buyouts. ■