Nordic
Credit
Rating

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Investment Holding Company Rating Methodology

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INTRODUCTION

1. Our Investment Holding Company Rating Methodology describes the framework within which Nordic Credit Rating (NCR) assigns credit ratings to investment holding companies, as well as to debt issued by rated entities. We define an investment holding company as a company with a strategic ambition to earn returns through capital appreciation and dividends from equity participation in listed and unlisted companies. An investment holding company has limited operations outside its investments, lacks operational and financial integration with its investments, and is expected to rotate investment positions, which are generally of little or no long-term strategic value.

2. This methodology also encompasses operating investment holding companies that have additional operations outside investing, as long as the value of such operations represents less than 50% of the total portfolio value over time, allowing for fluctuations in market value, and primary cash inflows are dividends from investment holdings or the sale of assets. We rate corporate conglomerates, as defined below, according to our *Corporate Rating Methodology*. We rate corporate and non-financial holding companies, which typically own long-term strategic positions in one or a few operating subsidiaries, according to our *Group and Government Support Rating Methodology*.

Figure 1. Characteristics of investment holding companies and corporate conglomerates

Investment Holding Company Rating Methodology		Corporate Rating Methodology
Investment holding company	Operating investment holding company	Corporate conglomerate
A pure investment holding company lacks financial and operational integration with its investments and earns all or nearly all its returns from capital appreciation and dividends from equity participation.	An operating investment holding company has additional investments or directly owned assets that are operationally and financially integrated into the holding company structure. The equity value of additional investments typically represents less than 50% of total portfolio value, and primary cash inflows consist of dividends from investment holdings or the sale of assets over time. The main scope of operations relates to equity investments, although the value of such investments may represent less than 50% of total portfolio value at times.	A corporate conglomerate differs from an investment holding company due to its financial and operational integration with its group companies. It usually has full control over its subsidiaries and participates in the management of those companies. A conglomerate is strategic in nature and expects to earn most of its returns from value-enhancing activities and the control of profits in subsidiaries, not from the sale of subsidiaries. Debt is serviced using the earnings of group companies, not dividends.

NOTE: Volatility in market prices does not typically lead to a change in NCR's methodology and analytical approach, and instead requires an investment holding company or corporate conglomerate to redefine its strategic scope.

3. Our investment holding company methodology is designed to be robust, continuous and systematic, and to produce ratings that are relevant to and comparable with other ratings assigned by NCR, as outlined in NCR's *Rating Principles*, which can be found at www.nordiccreditrating.com. Ranges in the guideline tables throughout these criteria are meant to reflect long-term levels and are subject to analytical judgement.

FRAMEWORK OVERVIEW

Figure 2. NCR investment holding company rating factors and subfactors

Factors	Weight	Subfactors	Impact	Selected metrics
Business risk assessment	50%	Investment strategy	15%	Investment track record Ownership role Credit quality of portfolio companies Predictability in investments
		Asset diversity	20%	Portfolio diversity Sector and geographic diversity
		Portfolio liquidity	15%	Share of listed investments Divestment pricing impact Weighted ownership stakes
Financial risk assessment	50%	Ratio analysis	30%	Net loan-to-value ratio (LTV) Funds from operations (FFO) coverage ratio
		Risk appetite and financial flexibility	20%	Income stream volatility Financial policy and funding Interest and currency risk
Indicative credit assessment				aa to b-
Adjustment factors				Dividend control and dividend diversity High-risk investments Portfolio concentrations Portfolio illiquidity Liquidity ESG Peer calibration
Standalone credit assessment				aa to b-
Support				Group and government support
Issuer rating				AAA to D

BUSINESS RISK ASSESSMENT

(50% impact on indicative credit assessment)

INVESTMENT STRATEGY

(15% impact on indicative credit assessment)

4. An investment holding company's creditworthiness – its ability to service debt – is related to its investment strategy and the credit quality of its portfolio companies. Issuers with greater exposure to high-risk investments have a higher risk of default than issuers with primarily stable, dividend-paying investments. We regard broad exposure to stable, low-risk segments and developed countries with lower country risk as positive for the stability of investment holdings and avoiding adverse events. Conversely, we consider exposures to structurally declining markets and unsustainable industries with associated transition risk as negative.

5. When assessing an investment holding company's investment strategy, we analyse its risk tolerance in underlying investments and participation in those companies. We typically regard exposures to large companies with high credit quality and stable dividends as carrying less risk than exposures to non-dividend-paying growth companies. Higher-risk investments have a greater likelihood of financial distress and erosion of value, reducing an investment holding company's ability to service its debt.

6. We also consider an investment holding company's ownership role in its investments. For instance, we consider whether an investment holding company has a history of increasing the leverage of its investments, changing policies or venturing into higher-risk segments. Our analysis entails an evaluation of the predictability of investment risk appetite and adherence to communicated investment mandates.

7. Our assessment of the credit quality of portfolio companies involves credit assessments of all material investment positions, which typically exceed 15% of the total portfolio value. The remaining exposures are evaluated through a portfolio approach rather than by assessing the credit quality of each individual exposure.

8. We consider an investment holding company's track record of executing its investment strategy. In the absence of a material track record, we take a conservative approach, based on management's communicated investment strategy.

9. We regard a company's transparency and historical adherence to investment guidelines as an indication that future changes to portfolio composition and business profile are deliberate. In our view, there is less uncertainty when assets are rotated amid explicit investment guidelines.

Figure 3. Investment strategy scoring guidelines

Subfactors	aa	a	bbb	bb	b
Investment strategy	Very conservative investment strategy with a long and very strong track record. Very stable ownership role. Very high investment predictability.	Conservative investment strategy with a long and strong track record. Stable ownership role. High investment predictability.	Relatively conservative investment strategy with a strong track record. Relatively stable ownership role. Moderate investment predictability.	Moderately aggressive investment strategy with a mixed to weak track record. Ownership shows elements of opportunism. Low investment predictability.	Aggressive investment strategy with a weak track record. Ownership shows a large degree of speculation and opportunism. Very low investment predictability.

10. In addition, we could apply the *high-risk investments* adjustment factor to adjust ('notch') down the issuer rating of an investment holding company if the underlying investments or investment strategy are riskier than implied by the assessment of the issuer and to reflect the importance to the overall rating. This adjustment factor can also be used to capture sector or geographic exposures that have a significant impact on the credit quality of an investment holding company.

ASSET DIVERSITY

(20% impact on indicative credit assessment)

11. Asset diversity is based on our assessment of an investment holding company's portfolio diversity, as well as the sector and geographic diversity of underlying investments. Our analysis weighs the size of investment positions when assessing sector and geographic diversity.

12. When analysing portfolio diversity, we typically consider the equity value of the three largest investments in relation to the total portfolio value, including cash expected to be reinvested. A high correlation between core assets results in concentrated returns and increases portfolio value volatility. Conversely, a well-diversified portfolio reduces idiosyncratic risks, resulting in a stronger assessment as outlined in the guidelines below. The methods for determining the equity value for different asset types are described in Appendix 2.

13. The assessment of sector and geographic diversity aims to capture the exposure of underlying investments to different sectors and geographic markets. Broad industry and geographic exposures reduce correlation risk, although countries with similar economic drivers can have a higher correlation than a single large, diverse economy. We consider sources of revenues, location of assets and core markets of major holdings, among other relevant factors. The assessment takes into account the relative balance of exposures rather than solely examining the variety of exposures.

Figure 4. Asset diversity guidelines

Subfactors	aa	a	bbb	bb	b
Portfolio diversity	The three largest holdings typically represent less than 20% of the portfolio. Major investments have a very low correlation.	The three largest holdings typically represent between 20% and 35% of the portfolio. Major investments have a low correlation.	The three largest holdings typically represent between 35% and 50% of the portfolio. Major investments have a low to moderate correlation.	The three largest holdings typically represent between 50% and 60% of the portfolio. Major investments have a moderate to high correlation.	The three largest holdings typically represent over 60% of the portfolio. Major investments are highly correlated.
Sector and geographic diversity	Major investments are internationally balanced across multiple sectors with a very low correlation.	Major investments are diversified across multiple sectors and countries with a low correlation.	Major investments are diversified across several sectors and regional markets with a moderate correlation.	Major investments are concentrated on a few sectors and regional markets.	Major investments are concentrated on a limited number of sectors and local markets. Typically has exposures to less than 4 sectors.

14. If the concentration of assets exceeds the above guidelines, it could result in downward notching of the rating using adjustment factors. When the credit profile of an investment holding company is significantly influenced by individual investments, sectors or geographic locations, we may apply the *portfolio concentrations* adjustment factor. If there is material exposure to high-risk locations and industries, we may apply the *high-risk investments* adjustment factor.

PORTFOLIO LIQUIDITY

(15% impact on indicative credit assessment)

15. Investment liquidity is integral to an investment holding company's ability to service its debt obligations and rotate its investments on favourable terms. Our assessment involves an evaluation of the investment holding company's proportion of listed share value in relation to total equity portfolio value, ownership stakes in its holdings, along with the price realisation of potential disposals. Our assessment also takes account of investment holdings' disclosure quality and transparency.

16. The assessment also takes into account the weighted average ownership stake and the impact of voting rights on its investment holdings. We typically regard smaller ownership stakes with fewer voting rights as more liquid than larger positions due to more comprehensive disposal processes and reluctance to reduce influence over the investment. We also consider situations in which an investment holding company has smaller positions in less liquid investments for which the price realisation could be significantly affected upon disposal.

Figure 5. Portfolio liquidity guidelines

Subfactors	aa	a	bbb	bb	b
Portfolio liquidity	Transparent portfolio, above 80% of total equity portfolio value is typically listed. Positions can be realised quickly with minimal pricing impact. Weighted equity ownership of less than 10% in investment holdings.	Transparent portfolio, 80–70% of total equity portfolio value is typically listed. Positions can be realised quickly with little pricing impact. Weighted equity ownership of between 10% and 20% in investment holdings.	Transparent portfolio, 70–60% of total equity portfolio value is typically listed. Positions can be realised quickly with little to moderate pricing impact. Weighted equity ownership of between 20% and 30% in investment holdings.	Moderate transparency, 60–50% of equity portfolio value is typically listed. Positions cannot be realised quickly without material pricing impact. Weighted equity ownership of between 30% and 40% in investment holdings.	Weak portfolio transparency, less than 50% of equity portfolio value is typically listed. Positions cannot be realised quickly without dramatic pricing impact. Weighted equity ownership of over 40% in investment holdings.

17. If the lack of liquidity is considered an important driver of an investment holding company's credit quality, we may apply the *portfolio illiquidity* adjustment factor. This adjustment reflects instances where the timeliness of disposal and pricing are strong risk factors. For example, where over 60% of investments are unlisted and/or a large proportion of investments are at voter control thresholds or have very large ownership positions.

FINANCIAL RISK ASSESSMENT

(50% impact on indicative credit assessment)

18. While our business risk assessment aims to capture specific risks related to the investment holdings of an issuer with respect to capital appreciation and investment strategy, the financial risk assessment measures the investment holding company's financial ratios alongside its financial policy, flexibility and risk appetite.

RATIO ANALYSIS

(30% impact on indicative credit assessment)

19. Our analysis of an investment holding company's financial risk profile starts with a ratio analysis, in which we analyse an issuer's historical and forecast NCR-adjusted credit metrics, which we believe are strong indicators of an issuer's exposure to financial risk and overall credit quality.

20. We typically consider two core ratios when assessing the financial risk of an investment holding company: net LTV and FFO coverage ratio. These metrics capture financial leverage and debt-servicing capabilities, respectively. Metric guidelines are shown in Figure 6. For further definitions and explanation of credit ratios and adjustments, see Appendix 1.

21. We typically use the unconsolidated financial statements of the parent company as the basis for calculating the credit metrics of an investment holding company. However, we adjust equity investment stakes to reflect market values rather than book values. We also add income streams, costs and values from additional, directly owned assets with financial and operational linkage to the investment holding company that might not be reflected in the parent's unconsolidated financial statements but that impact the credit profile of the issuer. (See Appendix 2 for how we assign values in the financial risk assessment.)

22. Our assessment of financial risk aims to take a long-term view of normalised credit ratios rather than responding to short-term fluctuations that may occur due to normal market volatility. The ratio guidelines below should be viewed as such and not as absolute ranges. We assess the context of the ratios to dynamically reflect the risk attached to an investment holding company.

23. We may cap the issuer rating at 'B-' if financial leverage is excessive and produces credit quality vulnerabilities.

Figure 6. Investment holding company financial ratio scoring guidelines

Metrics	aa	a	bbb	bb	b
Net LTV (%)	< 15	15–25	25–35	35–45	> 45
FFO coverage ratio (x)	> 6.0	6.0–4.5	4.5–3.0	3.0–1.5	< 1.5

FINANCIAL ADJUSTMENTS

24. The aim of the ratio analysis is to capture an investment holding company's financial risks. Although the analysis is based on reported financial statements, we adjust our credit metrics to reflect the economics of underlying exposures and enhance comparability across investment holding companies reporting under different accounting rules.

25. Debt adjustments:

- Surplus cash: we generally deduct an investment holding company's full cash position, except for any portion of cash that is not freely available (e.g. cash trapped in a project, high-risk country or financial commitments).
- Pensions: we add any unfunded pension liabilities.
- Hybrid debt instruments (including preferred stock and shareholder loans): we may assign 0%, 50%, or 100% equity treatment to hybrids, depending on our assessment of an instrument's deferability, subordination and permanence.
- Other items: we may add to debt any other debt-like obligations such as factoring, capitalised interest, asset retirement obligations, captive finance activity and financial guarantees.

26. Funds from operations and interest expense adjustments:

- Hybrid debt instruments: we adjust interest expenses for dividends paid on preference shares and coupons paid on corporate hybrids according to relevant equity treatment.
- Non-recurring items: we adjust for one-off items, positive or negative, that we believe are non-recurring and not part of ongoing operations such as gains and losses on asset disposals.
- Other items: we may adjust interest expense or funds from operations to reflect special arrangements, additional holdings integrated with the investment holding company or ad-hoc adjustments to better reflect the underlying financial risk of the entity.

RISK APPETITE AND FINANCIAL FLEXIBILITY

(20% impact on indicative credit assessment)

27. The analysis of an investment holding company's risk appetite and financial flexibility includes the issuer's financial policy, financial track record, capital structure and control over income streams.

28. Our assessment of risk appetite and financial flexibility is usually anchored to the financial ratio analysis, as we consider it reflective of an entity's financial risk, unless there are other components not captured in the analysis. We see dividend stability and dividend diversity, as well as other operating income, as key components for an investment holding company's ability to service its debt.

29. The assessment of risk appetite and financial flexibility takes account of the financial policy, the headroom under financial covenants and the complexity of an investment holding company's capital structure. We believe that investment holding companies often face greater volatility in credit metrics than operating corporates and consequently face greater risk of being unable to service debt because of their subordinated position in the capital hierarchy of investment holdings. The rotation of investments and market timing complicate the assessment, with the potential impact on intra-period liquidity and fluctuations not captured by financial statement analyses. Refinancing risk could be elevated when there are fluctuations in investment values, and we believe that a sound policy should not require an investment holding company to liquidate assets to cover upcoming maturities.

30. We assess the funding mix of an investment holding company and the management of potential mismatches between investments and funding sources, including valuation risk. We assess the matching of currencies, along with the sensitivity to interest rates and other factors we deem relevant for the credit quality of the issuer. If multiple factors of the risk appetite and financial

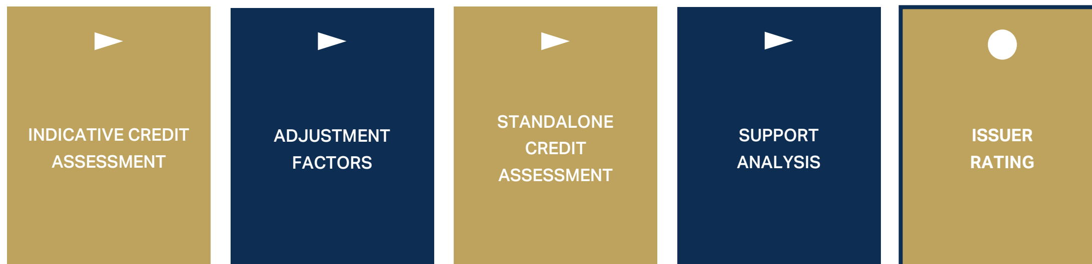
flexibility assessment are significantly weaker than reflected in the financial ratios, resulting in an elevated financial risk profile, we may cap the financial risk assessment at 'b'.

31. Our view of an investment holding company's dividend income stream is partly reflected in our assessment of risk appetite and financial flexibility, but we have the option of applying the *dividend control and dividend diversity* adjustment factor when it is a crucial driver of credit quality. For instance, we could raise the issuer rating if dividends are exceptionally diversified and stable or we could notch down the issuer rating if dividends are highly volatile, concentrated or non-existent.

ADJUSTMENT FACTORS AND SUPPORT

32. NCR applies adjustment factors specific to investment holding companies in addition to those identified in our *Corporate Rating Methodology*, namely: *dividend control and dividend diversity, high-risk investments, portfolio concentrations* and *portfolio illiquidity*.

Figure 7. The path from indicative credit assessment to issuer rating



ADJUSTMENT FACTORS

DIVIDEND CONTROL AND DIVIDEND DIVERSITY

33. Our assessment of an investment holding company's dividend control and dividend diversity takes account of the degree to which an investment holding company exercises control over its investments and associated dividends. We may lower the issuer rating by one notch where we consider an investment holding company's control over dividends to be low, or where dividend streams are concentrated or limited. Conversely, if dividends are more stable or diversified than reflected in the ratio analysis, we may apply an upward notch to the issuer rating of the entity.

HIGH-RISK INVESTMENTS

34. We could lower the issuer rating by one notch if there are riskier underlying investments than is reflected in other parts of the analysis. We also assess whether the credit quality of an investment holding company is significantly influenced by assumptions of higher than average industry and country risk, with elevated risk of trapped investments or the erosion of investment value.

PORTFOLIO CONCENTRATIONS

35. In our assessment of portfolio concentrations, we could apply up to two negative notches to the issuer rating of an investment holding company if the return profile is concentrated. We may apply one downward notch if the investment holding company has material exposures to fewer than three sectors. We could apply an additional downward notch for single-sector exposure or if sector exposures are highly correlated, unless adequately captured by the indicative credit assessment or other adjustment factors. We may also lower the issuer rating by one notch if two investments represent more than 60% of the portfolio value.

36. If the credit quality of the investment holding company is closely linked to the creditworthiness of one of its portfolio companies, we may cap the issuer rating of the investment holding company at the issuer rating or NCR credit assessment of the portfolio company to reflect this strong linkage.

PORTFOLIO ILLIQUIDITY

37. If an investment holding company has substantial exposure to unlisted assets or investment positions that are difficult to realise quickly, we could apply a negative notch to the issuer rating.

We generally regard large ownership stakes as illiquid, especially when small disposals would result in loss of control over dividends. The notching reflects the delay between the decision to divest an asset and receiving cash, which could negatively impact our view of an issuer's credit risk.

LIQUIDITY

38. We generally apply the same principles to the liquidity analysis as we do for non-financial corporates, as defined in our *Corporate Rating Methodology*.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ASSESSMENT (ESG)

39. We apply the same principles for assessing the environmental, social and governance risks as we do for non-financial corporates, as outlined in our *Corporate Rating Methodology*, with the exception that we consider both the extent to which portfolio companies manage their ESG exposures and the investment holding company's own ESG risks.

PEER CALIBRATION

40. Peer calibration can raise or lower the issuer rating by one notch to arrive at the standalone credit assessment. We expect this factor to be applied, where necessary, to capture the differences between investment holding companies with similar but not identical characteristics. We may also consider this factor when there are other uncertainties, for example for entities that have special characteristics or are going through a transitional period that could either support or constrain their credit quality.

SUPPORT

41. NCR's support analysis assesses an entity's ownership structure and other material credit enhancement that are not already reflected in the standalone credit assessment. A company's ownership can have a pronounced impact on its credit quality. Strong owners are more likely to provide support to important entities and/or have a track record of supporting the rated entity during financial distress. Conversely, weak owners may be viewed as negative.

42. The principles for assessing and notching for ownership support are defined by our *Group and Government Support Methodology*.

RATING INDIVIDUAL DEBT INSTRUMENTS

43. We apply the same principles for assigning debt instrument ratings to investment holding companies as we do for non-financial corporates, as outlined in our *Corporate Rating Methodology*. Where relevant, an investment holding company's structurally subordinated exposure in the capital hierarchy of its investments is reflected in the issue rating of the investment holding company.

SHORT-TERM DEBT RATINGS

44. The short-term rating scale and mapping between long- and short-term ratings are defined by our *Rating Principles* methodology. The short-term rating is derived from a combination of the issuer rating and the issuer's liquidity profile.

APPENDIX 1: FINANCIAL DEFINITIONS

Figure 8. Definition of key credit metrics

Key credit metrics	Definition	Explanation
Net LTV	Net debt to the value of investments	Measure of leverage of an investment holding company.
FFO coverage ratio	Funds from operations plus interest expense to interest expense	Used to assess an investment holding company's debt-servicing capabilities.

Figure 9. Definition of financial measures in the financial risk assessment

Key measures	Definition	Explanation
Net debt	Reported financial debt less surplus cash (including cash expected to be reinvested) plus present value of operating leases plus pension provisions plus hybrid capital plus other potential debt-like adjustments.	Measure of an issuer's net interest-bearing debt and debt-like obligations.
EBITDA	Earnings before interest, taxes, depreciation, and amortisation, plus operating lease cost plus dividends received from associates and joint ventures, including other potential non-current adjustments.	Widely used measure of a company's underlying profit.
Interest expense	Interest expense (including non-cash interest such as payment-in-kind interest), including adjustments.	Interest expense associated with debt and debt-like obligations.
Net interest	Interest expense (including non-cash interest such as payment-in-kind interest) less interest income, including adjustments.	Net interest expense associated with debt and debt-like obligations. Captures an issuer's net interest expense.
FFO	EBITDA less net interest and current tax expense, including adjustments.	Measures underlying cash flow generation before changes in working capital. Measures long-term cash generation capability, as it is not distorted by fluctuations in working capital and capital expenditures.
Portfolio value	Full value of the portfolio, excluding cash expected to be reinvested (see paragraph 46 of Appendix 2).	Used as the denominator in the net LTV calculation.

APPENDIX 2: VALUATION OF INVESTMENT PORTFOLIO

45. Here we define the hierarchy of how we assess the value of assets. The investment value in the business risk assessment reflects the net asset value (equity proportion) of the total investment portfolio to capture the expected cash inflow that an investment holding company would receive if it were to liquidate its assets.

Figure 10. Valuation of investment portfolio in the business risk assessment

Type of asset	Assessment
Listed equities	We use the observable market value of the listed equity.
Unlisted equities and operating businesses	We typically rely on a market valuation carried out by a third party within the last 12 months. Where no market valuation exists, we apply an NCR-adjusted EBITDA multiple to determine enterprise value and deduct net debt to establish the equity value. If we do not consider that the multiples reflect the economic reality or if comparability is impaired, we may use the book value of the investment.
Unlisted investment properties	We typically rely on the market valuation of investment properties as assessed by a third party within the last 12 months and deduct the net debt attributable to properties to determine the equity value of the investment.

46. When determining the portfolio value in the financial risk assessment, we apply the same method as in the business risk assessment. However, for the net LTV calculation we include the full value of assets in portfolio value, such as investment property values, without deducting net debt. In addition, we deduct non-committed cash from net debt rather than including it in the portfolio value.

APPENDIX 3: DATA SOURCES

47. Our analysis of investment holding companies includes all available public disclosures of the rated entity, as well as selected confidential information related to risk governance, forecasting, strategy and other areas of interest to the credit assessment that is provided to NCR as part of our ongoing surveillance of each entity.

48. NCR also uses various public data sources in its market and macroeconomic analyses, including (but not limited to) national and regional statistical bureaux, the European Central Bank, analyses by national central banks and supervisory authorities, and commonly used asset price indices. International sources, such as the Organisation for Economic Co-operation and Development (OECD), Eurostat or similar data providers that supply reliable and comparable cross-border macroeconomic data, are also used. In addition, NCR considers the views, projections and analytical reports of other market participants in its market oversight and surveillance.

49. NCR also keeps abreast of market data and developing trends associated with credit spreads, asset pricing, market capitalisation and similar using market-standard data aggregation services.

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