Honeycomb Investment Trust plc

Investment Manager's Commentary

Honeycomb Investment Trust plc (the "Company") delivered a NAV return of 3.0% on an annualised basis, which is equivalent to 0.25% for the month. This included taking a management overlay of 5.0% or £1.8m one-off increase to provisions by changing the IFRS 9 economic weighting to 100% downside (see below).

The Company generated a strong level of cash in the month (c£20m) as the portfolio reduced in size (£595m to £586m) through the contractual amortization of the assets and reduced new origination. The Manager expects this to continue in the short term with cash used to predominately reduce the outstanding debt.

Credit Asset Provisions

Under IFRS 9, the Company calculates the Expected Credit Losses ("ECL") on its Credit Assets using forward looking estimates that are based on a range of economic scenarios. The economic outlook has materially changed following the onset of the Coronavirus Disease ("COVID") crisis so the Company has updated its estimate of ECL to allocate 100% of the weight to the downside scenario. This scenario was set as a downside in the Q4 review of the impairment model and is broadly consistent with the economic outlook indicated by our third-party economic advisers. This has led to a one-off provision of £1.8m for the Company.

Portfolio Impact

The manager has been monitoring the impact of COVID on the portfolio carefully and is tracking cash collections and forbearance statistics daily from both the whole loan portfolio the Company owns directly and the underlying loan portfolios of structured loan clients (which forms the collateral supporting the Honeycomb loan).

The key updates to date:

Consumer:

- Consumer cash collections have stayed robust with month end March in line with January and February cash and April month to date also looking strong.
- Requests for payment holidays differs by platform with the average between 5-10% of customers requesting a temporary reduction in payments.
- Structured consumer loans (loans to consumer lenders secured on their portfolio of loans with first loss provided by the lender) represent 32% of the portfolio with an average advance rate of less than 65%. This structure provides significant protection from an increase in bad debts in the underlying loan portfolio with most structures designed to withstand at least 3x increase in bad debts in the underlying loan portfolio. A number of the borrowers have asked for temporary amendments to their facility to reflect the regulatory guidance on forbearance requests. We are assessing these individually.

Key Details

Monthly NAV Return (Annualised)	3.0%
Monthly NAV Return	0.25%
YTD NAV Return	2.48%
ITD* NAV Return	35.74%
NAV Cum. Income	£380.0m
NAV Ex. Income	£374.9m
Market Capitalisation	£279.4m
Net Investment Assets	£586.4m
Debt to Equity	57.7%
Shares in Issue	37,249,919
Share Price	750.0p
NAV Cum. Income per Share	1,020.0p
NAV Ex. Income per Share	1,006.4p
Premium (Discount) to NAV Cum Income	(26.5)%

*ITD: Inception to Date – excludes IPO Issue Costs

Fund Facts

Type of Fund	Closed – Ended Fund
Listing	Specialist Fund Segment of the London Stock Exchange
Ticker	HONY
ISIN	GB00BYZV3G25
Inception Date	23 December 2015
Dividend	Quarterly
NAV Calculation	As of last day of each month
Management Fee	1%
Performance Fee*	10%

*subject to 5% preferred return hurdle and high watermark

Source: Pollen Street Capital Limited

Honeycomb
Investment Trust plc

Investment Manager's Commentary

Consumer (continued):

- Consumer whole loans where the Company directly owns the whole exposure represents 17% of the portfolio. This portfolio is well seasoned with the majority having been in run off since Q4 2018. The portfolio is granular with more than 40,000 underlying loans and an average balance of £3.2k.

Property:

- Property exposure can be divided into term mortgages and shorter-term bridging and development exposures.
- The term mortgage exposure consists predominately of second charge residential (13% of portfolio) and first charge commercial mortgages (15% of portfolio) where the Company owns the whole loan.
- The second charge residential mortgages have performed well with cash collection remaining robust and forbearance requests averaging between c5%-10%. The average LTV of this portfolio is below 70%.
- The first charge commercial mortgage portfolio mainly consists of mortgages secured on mixed use property (office with a residential flat above, retail with a residential flat above, residential, industrial and land etc) with an average loan to value of c.60%. This portfolio has seen a higher proportion of requests for payment holidays since the onset of COVID (averaging c20%). Whilst the impact in this portfolio has been more significant, we would note that in most cases the properties generate a diversified income stream and the average loan to value provides the Company with significant protection in the event of increased defaults.
- The bridging and development finance exposures account for 13% of the portfolio. The majority of this exposure is through structured facilities where the development lender has provided subordinated capital to the Company's exposure in addition to the developer's equity being junior. The average look through loan to value is c60%. Most developments in the portfolio have continued construction through the lockdown as smaller developments have largely been able to progress work uninterrupted. While the Manager does expect some duration extension in the loans as property sales or refinancing activity are likely to be delayed, it does believe that the overall risk position is prudent and sound.

SME:

- The SME exposure is 9% of the portfolio with substantially all of this exposure in structured facilities.
- The SME segment has seen the biggest initial impact from the COVID restrictions with cash collection in the underlying loans in March in line with January and February however April MTD is running at c70%. Forbearance and missed payments is currently 20% of the portfolio at the time of writing but with the increase slowing in the second half of April. In most agreed forbearance plans borrowers are still paying at least the full interest payment.
- The average advance rate on the structured facilities is 60%. Our largest exposure to an individual lender in the segment is £19m and pre COVID we estimated that our facility could withstand more than a 4x increase in bad debts in the underlying loans before our facility was impacted. We do not believe the current stress is likely to lead to this level of increase.
- The government has launched a number of initiatives aimed at providing finance to SMEs. Two of our largest borrowers are in the process of lending under the CBIL government guarantee scheme which will also refinance part of their portfolio to new loans with the benefit of the government guarantee.

Annual Report and Accounts

The Company intends to publish its financial results for the year ended 31 December 2019 by the end of May 2020. This is in compliance with the Financial Conduct Authority's policy statement issued on 26 March 2020, pursuant to which the financial reporting deadline for listed companies has been extended by two months.

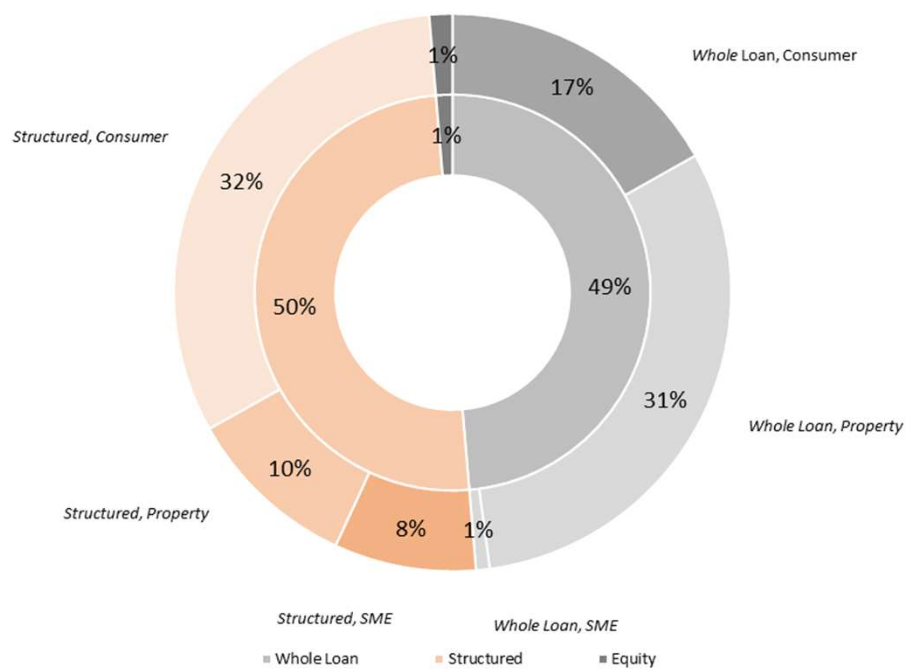
Conclusion

The Manager has maintained close and proactive engagement with all platform partners. Forbearance has been applied sensitively and proportionately. It believes that this approach together with the structural protection and asset backing of the portfolio will position the portfolio robustly and the unsecured component of the portfolio is seasoned and stable such that the manager believes that the company is well positioned to perform solidly throughout the crisis.

Note: Advance rates are as at 31st December 2019 and LTVs are as at origination

Honeycomb Investment Trust plc

Portfolio Breakdown



Investment Asset net book value, excluding working capital and debt, stratified by structure and sector

Performance and Dividend History

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD*
NAV Return IAS 39	2016	0.04%	0.13%	0.19%	0.92%	0.60%	0.79%	0.68%	0.70%	0.88%	0.89%	0.92%	0.94%	**7.85%**	**7.83%**
NAV Return IAS 39	2017	0.69%	0.69%	0.78%	0.62%	1.80%(1)	0.55%	0.65%	0.62%	0.63%	0.61%	0.61%	0.79%	**9.11%**	**17.24%**
NAV Return IFRS 9	2018	0.66%	0.59%	0.72%	1.36%(3)	0.56%	0.60%	0.63%	0.67%	0.67%	0.67%	0.65%	0.60%	**8.43%**	**25.12%(2)**
NAV Return IFRS 9	2019	0.58%	0.54%	0.67%	0.67%	0.64%	0.65%	0.67%	0.66%	0.66%	0.67%	0.67%	0.67%	**7.79%**	**33.17%(2)**
NAV Return IFRS 9	2020	0.60%	0.60%	0.25%										**2.48%**	**35.74%(2)**
Share Price Performance**	2016	1.50%	-	-	-	-	-	-	-	-	-	-	0.54%	**2.05%**	**2.05%**
Share Price Performance**	2017	3.92%	3.72%	0.45%	1.81%	(0.89%)	4.93%	2.78%	0.42%	(1.24%)	(0.84%)	(0.63%)	(1.49%)	**13.42%**	**15.75%**
Share Price Performance**	2018	(1.94%)	-	-	(1.76%)	-	-	0.90%	-	0.89%	(0.44%)	-	-	**(2.38%)**	**13.00%**
Share Price Performance**	2019	-	-	-	-	(1.33%)	(0.45%)	-	(0.45%)	(6.33%)	(3.86%)	(1.51%)	(0.77%)	**(13.94%)**	**(2.75%)**
Share Price Performance**	2020	(2.13%)	(2.13%)	(18.48%)										**(22.88%)**	**(25.00%)**
Dividend Per Share (Pence)***	2016	-	-	-	-	2.11	-	-	-	19.66	-	23.13	-	**44.90**	**44.90**
Dividend Per Share (Pence)***	2017	-	-	23.5	-	24.50****	-	-	-	20.00	-	-	20.00	**88.00**	**132.90**
Dividend Per Share (Pence)***	2018	-	-	20.00	20.00	-	-	-	-	20.00	-	-	20.00	**80.00**	**212.90**
Dividend Per Share (Pence)***	2019	-	-	20.00	-	-	20.00	-	-	20.00	-	-	20.00	**80.00**	**292.90**
Dividend Per Share (Pence)***	2020	-	20.00	-										**20.00**	**312.90**

* ITD: Inception to Date – excludes IPO Issue Costs
** Based on IPO Issue Price of 1000p
*** Recognised in the month when marked ex-dividend
**** Based upon the number of shares at the ex-dividend date

(1) NAV return excluding effect of capital raise and issuance at a premium would have been 0.77%
(2) Inception to date NAV return affected by IFRS 9 initial recognition on 2018 brought forward retained earnings
(3) NAV return excluding effect of capital raise and issuance at a premium would have been 0.63%
(4) NAV return excluding effect of buy backs would have been 0.66%

Source: Pollen Street Capital Limited

Honeycomb Investment Trust plc

Background and Investment Objective

Honeycomb Investment Trust plc (the "Company") is a specialist lending fund whose investment objective is to provide shareholders with an attractive level of dividend income and capital growth through the acquisition of interests in loans made to consumers and small business as well as other counterparties.

The Company may also make selected equity investments that align with the Company's strategy, and that present opportunities to enhance the Company's returns from its investments.

The Company believes that consumer, property and SME loans are asset classes that have the potential to provide attractive returns for investors on a risk-adjusted basis. Changes in the focus of mainstream lenders together with the implementation of new models that utilise data, analytics and technology more effectively, provide an opportunity to deliver better products to borrowers while generating attractive returns for the Company.

The Company and the Investment Manager seek to acquire credit assets which meet the specified underwriting criteria through two routes; (1) providing structured loans to specialist lenders; and (2) acquiring portfolios of whole loans.

Investment Features

- Investment team has a combined 100+ years credit underwriting and consumer lending experience.
- Highly granular and well diversified portfolio.
- Majority of portfolio benefiting from downside protection or seasoning.
- 8% targeted dividend on issue price when fully invested and leverage applied, payable quarterly.
- UK Investment Trust tax treatment.

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Net Asset Value performance is not linked to share price performance and shareholders may realise returns that are lower or higher in performance.

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Glossary

"**NAV (Cum Income)**" is the value of investments, other assets and cash, including current year revenue, less liabilities.

"**NAV (Ex Income)**" is the value of investments, other assets and cash, excluding current year revenue, less liabilities

"**NAV Return**" is calculated as NAV Cum. Income at the end of the period, plus dividends declared during the period, divided by NAV Cum. Income at the start of the period, calculated on a per share basis.

"Share Price" closing mid-market share price at month end (excluding dividends reinvested).

"**Premium /** (**Discount)**" the amount by which the price per share is either higher (at a premium) or lower (at a discount) than the NAV Cum. Income, expressed as a percentage of the NAV Cum. Income per share.

"**Net Assets**" total assets minus any liabilities.

"**Market Capitalisation**" the closing mid-market share price multiplied by the number of shares outstanding at month end.

"Debt to Equity" the value of total leverage including any accrued interest and fees divided by the NAV

"Annualisation Methodology" Monthly returns have been calculated by multiplying the actual number of days in the year divided by the actual number of days in the month.

"ECL" the expected credit losses under IFRS 9 calculated to be consistent with the Prudential Regulation Authority's and Financial Reporting Counsel's guidance that was published on the 26 March 2020 which indicates the Company should not automatically treat a payment holiday as evidence that a loan should be assigned to stage 2 or stage 3. Instead, the Manager is working closely with each platform to review the forbearance initiatives and arrears status and understand the most likely outcome