

HONEYCOMB INVESTMENT TRUST PLC

30 April 2020

INVESTMENT MANAGER'S COMMENTARY

Honeycomb Investment Trust plc (the "Company") delivered a NAV return of 5.2% on an annualised basis, which is equivalent to 0.42% for the month.

The assets continue to demonstrate strong performance with cash collections remaining robust. The results include an elevated level of provisions of 1.8%¹ (£0.84m) relating to stage 1 and 2 whole loans as opposed to realised losses as the Manager prudently builds additional coverage on loans that are on reduced payment plans in line with Bank of England and regulatory guidance.

The Company signed a new £125m debt facility in May which refinances the existing topco facility. The Manager believes the ability of the Company to execute a new facility in the current climate demonstrates the quality of the portfolio and puts the Company in a strong position going forward. The monthly results are impacted by the additional costs incurred on extending the old facility (c1% annualised impact).

The Manager has continued to focus on cash collections and prudently managing the Credit Asset portfolio. Over the course of April, Net Investment Assets reduced by £13m closing at £573m. Consequently, the Company paid down £16m of debt leaving £203m at month end down from a peak of £222m. This is a 4.3% reduction in Company's leverage ratios with the Debt to Equity ratio closing at 53.4%. The Manager continues with the prudent approach to new lending.

Portfolio

The Manager continues to work very closely with all platforms to mitigate the impact of Covid-19 on the portfolio. Cash collections and forbearance statistics are tracked daily for both the whole loan portfolio, where the Company owns loans directly, and the underlying loan portfolios of structured loan facilities.

Across the portfolio forbearance requests and cash collections remain broadly in line with March and April. The recent announcements about the extension of the government support schemes is considered a positive development and will continue to support consumers and SMEs.

A number of amendments to structured facilities have been made to adjust for the impact of Covid-19 with the Manager adopting a responsible and prudent approach to ensure borrowers are able to apply the correct customer treatment strategies whilst ensuring the Company's debt is strongly secured. These facilities benefit from security over the borrowers underlying loan and receivable portfolios as well as corporate guarantees in most cases.

We have provided some additional breakdown of the portfolio on the following page.

Dividend

The Company is continuing to pay 20p a quarter in dividends for 2020 with the Directors confident in the long term performance of the portfolio with any short term volatility in results driven by recognition of loss provisioning expected to be offset over the medium and longer term through enhanced yields on new opportunities.

Conclusion

The Manager is pleased to have secured the new debt facility which it believes places the Company in a strong position to deliver through the economic downturn. This confidence is shared by the Directors who have announced the continuation of the 20p per quarter dividend policy. The performance of the portfolio continues to be strong and track March and April. The Manager is remaining cautious about new opportunities and will consider all options to maximise value for shareholders.

Key Details

Monthly NAV Return (Annualised)	5.2%
Monthly NAV Return	0.42%
YTD NAV Return	2.91%
ITD* NAV Return	36.18%
NAV Cum. Income	£381.6m
NAV Ex. Income	£374.8m
Market Capitalisation	£275.6m
Net Investment Assets	£573.3m
Debt to Equity	53.4%
Shares in Issue	37,249,919
Share Price	740.0p
NAV Cum. Income per Share	1,024.4p
NAV Ex. Income per Share	1,006.2p
Premium (Discount) to NAV Cum Income	(27.8)%

*ITD: Inception to Date – excludes IPO Issue Costs

⁽¹⁾ Annualised.

Portfolio Breakdown

Asset NAV by Platform	Structure	Asset NAV (£m)	% of Portfolio	LTV ²	Number of loans / receivables
Whole Loan 1	Unsecured	89	15.5%	na	20,492
Whole Loan Other	Unsecured	6	1.0%		
Whole Loan Consumer		94	16.4%		
Whole Loan 2 ¹	Real Estate Backed	45	7.8%	50%	6,535
Whole Loan 3	Real Estate Backed	37	6.5%	52%	41
Whole Loan 4	Real Estate Backed	22	3.8%	66%	65
Whole Loan 5	Real Estate Backed	18	3.2%	83%	530
Whole Loan 6	Real Estate Backed	16	2.7%	71%	193
Whole Loan 7	Real Estate Backed	14	2.5%	71%	127
Whole Loan 8	Real Estate Backed	10	1.7%	74%	397
Whole Loan Other	Real Estate Backed	20	3.5%	n/a	n/a
Whole Loan Property		182	31.8%		
Whole Loan Other	Unsecured with Personal Guarantees	4	0.8%	n/a	n/a
Whole Loan SME		4	0.8%		
Structured 1	Structured	41	7.1%	56%	35
Structured 2	Structured	13	2.3%	63%	71
Structured Other	Structured	4	0.6%	n/a	n/a
Structured Property		58	10.1%		
Structured 3	Structured	50	8.8%	52%	102,364
Structured 4	Structured	30	5.3%	95%	29,093
Structured 5	Structured	25	4.4%	75%	93,467
Structured 6	Structured	13	2.3%	55%	6,658
Structured 7	Structured	13	2.3%	67%	10,075
Structured 8	Structured	10	1.8%	95%	17,144
Structured 9	Structured	9	1.6%	80%	118,114
Structured Other	Structured	30	5.2%	n/a	n/a
Structured Consumer		181	31.6%		
Structured 10	Structured	18	3.1%	80%	7,900
Structured 11	Structured	16	2.8%	40%	14
Structured 12	Structured	9	1.6%	90%	911
Structured Other	Structured	3	0.5%	n/a	n/a
Structured SME		46	7.9%		
Equity	Equity	8	1.4%	n/a	n/a
Other		8	1.4%		
Total		573	100%		

Note: Number of loans and LTV as at 31st March 2020

⁽¹⁾ Whole loan portfolio 2 comprises a mixture of assets, the majority of balances being 2nd charge consumer mortgages.

⁽²⁾ As at 31st March 2020. In the case of property backed whole loans, the LTV against underlying property collateral. LTV is measured against most recently received property values (typically at origination for directly originated assets or at purchase for acquired seasoned portfolios). For Structured facilities the LTV reflects the maximum advance rate against eligible assets. In the case of Structured Property facilities, the LTV reflects the look through LTV against the underlying property collateral. Development finance loans the LTV quoted is the maximum LTGDV at origination.

Performance 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%	180% ⁽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%	136% ⁽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	161% ⁽⁴⁾	0.60%	0.25%	0.42%									2.91%	36.18% ⁽²⁾
Share Price Performance**	2016	150%	-	-	-	-	-	-	-	-	-	-	0.54%	2.05%	2.05%
Share Price Performance**	2017	3.92%	3.72%	0.45%	181%	(0.89%)	4.93%	2.78%	0.42%	(124%)	(0.84%)	(0.63%)	(149%)	13.42%	15.75%
Share Price Performance**	2018	(194%)	-	-	(176%)	-	-	0.90%	-	0.89%	(0.44%)	-	-	(2.38%)	13.00%
Share Price Performance**	2019	-	-	-	-	(133%)	(0.45%)	-	(0.45%)	(6.33%)	(3.86%)	(151%)	(0.77%)	(13.94%)	(2.75%)
Share Price Performance**	2020	(2.13%)	(2.13%)	(18.48%)	(133%)									(23.91%)	(26.00%)
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%

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.

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

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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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.