

HONEYCOMB INVESTMENT TRUST PLC

31 October 2020

INVESTMENT MANAGER'S COMMENTARY

Honeycomb Investment Trust plc (the "Company" or "HONY") delivered a NAV return of 0.58% for the month, which is equivalent to 6.8% per annum.

Portfolio Performance and Leverage

The portfolio continues to perform well with stable performance throughout the Covid period. This stability is driven by the Company's focus on credit investments secured on loan portfolios of non-bank lenders with strong downside protection from structural seniority and junior cash equity provided by the borrower. This first loss buffer provides a double layer of protection so that, on top of robust performance in the underlying portfolios, HONY returns are further insulated from defaults in the underlying loans and receivables.

Cash collections in HONY have been consistent throughout 2020 with £153m collected over the past 6 months vs £141m in the prior 6 months (see figure 3). The strong level of cash collection along with the low levels of new investments during the Covid period has meant that the investment portfolio has repaid down from £595m in February 2020 to a low £509m in August. This increased to £553m in October through drawdowns under existing investments and the completion of three new investments. The income generated by the Company is directly proportional to the size of the investment portfolio with the full benefit of new investments not recognized until the month after completion.

The Company has been careful in its deployment and is being highly selective in the new investments it makes. The pipeline of new opportunities is looking strong and the Company expects the investment assets to build back towards the £600m level over the coming months.

As mentioned in the September newsletter the Company extended its debt facilities in September and October with the maturities now falling in Q4 2022 and Q3 2023 meaning the Company has secured its financing facilities over the medium term. In addition, in November alongside increasing a senior facility secured on Coronavirus Business Interruption Loan Scheme ("CBILS") loans, the Company secured an attractively priced, term matched non-recourse SPV financing against the investment.

The total committed financing under these facilities is £360m. The total amounts drawn under these facilities at 31st October was £230m with the Company having £37m in cash. The net debt to equity was 53.3% and debt to equity was 63.6%. The Company's intention is to remain within the net debt to equity target of 50%-75% with a proportion of the revolving TOPCO facility being reserved as a liquidity buffer which is not forecast to be drawn. Both of the SPV facilities repay monthly and therefore reduce in size in line with the assets that support them.

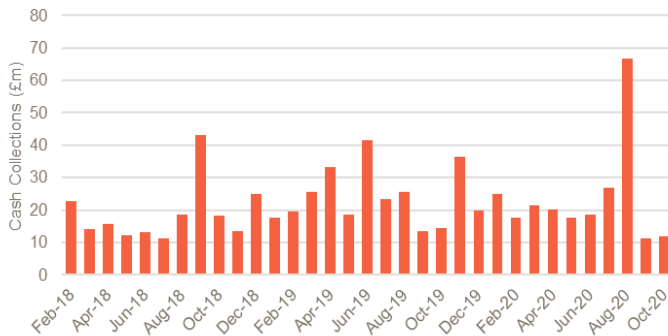
The Company believes securing longer term larger facilities is a prudent approach as it provides a liquidity buffer for unforeseen circumstances, positions the company to take advantage of exceptional opportunities and means leverage is already secured in the event that the trust grows in the future without the need for further re-financings.

Figure 1.

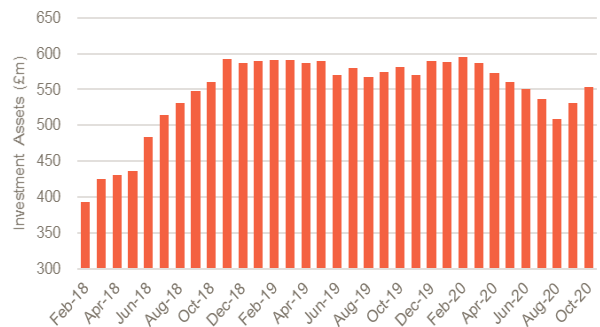
	Revolving Credit Facility ("TOPCO")	Mortgage SPV Financing	CBILS SPV Financing (completed Nov-20)
Committed size	£250m	£75m	£35m
Margin	4.25%	2.45%	2.25%
Maturity	Sep-23	Oct-22	Q1-27
Structure	Term & revolving credit facility with recourse to all assets	Non-recourse facility secured on mortgage credit assets in SPV. Repays monthly in line with underlying credit assets	Non-recourse SPV facility on CBILS loans with government guarantee. Repays monthly in line with underlying credit assets

Key Details

Monthly NAV Return (Annualised)	6.8%
Monthly NAV Return	0.58%
YTD NAV Return	6.4%
ITD* NAV Return	37.8%
NAV Cum. Income	£361.8m
NAV Ex. Income	£360.8m
Market Capitalisation	£331.6m
Net Investment Assets	£553.1m
Net Debt to Equity	53.3%
Debt to Equity	63.6%
Shares in Issue	35,469,741
Share Price	935.0p
NAV Cum. Income per Share	1,020.1p
NAV Ex. Income per Share	1,017.3p
Premium (Discount) to NAV Cum Income	(8.3)%
*ITD: Inception to Date – excludes IPO Issue Costs	

Figure 3.
Cash Collections


*Increased August collections due to sale of consumer loans to Tandem

Investment Assets

Buybacks

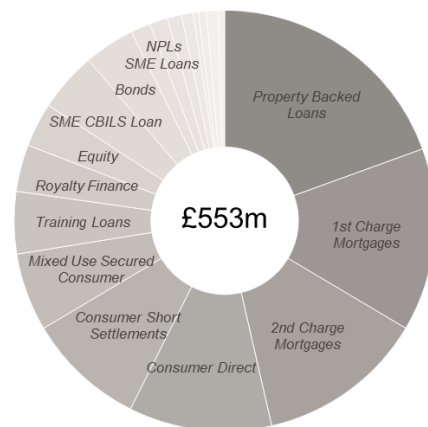
The Board have put in place an active buyback program throughout 2020 with the Company repurchasing 3,980,178 or 11.2% of the share capital. In October the Company repurchased 163,000 of its shares at an average price of 926.8p. On the 11th November the Company announced it had increased the size of this program with the Board stating its intention to continue until the share price is less than a 5% discount to NAV.

Portfolio Composition

The portfolio is well diversified with ~40 different investments across a variety of sectors and is well balanced across SME, Consumer and Property. Figure 4 shows the portfolio split by the end asset class exposure.

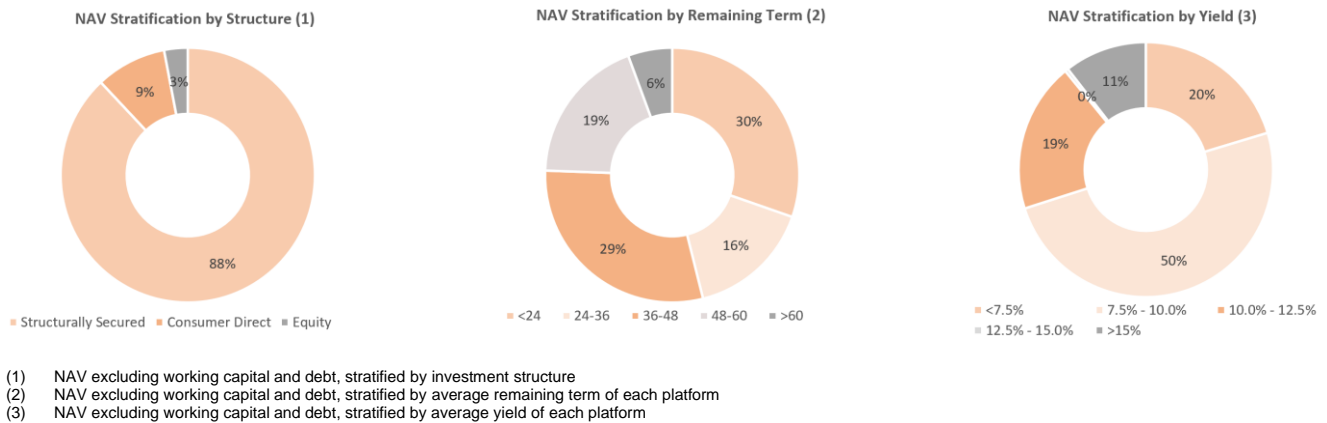
The portfolio is performing well with 88% being structurally secured with subordinated equity junior to the Company's position, insulating the Company from volatility in the performance of the underlying assets.

The remaining 12% consists of consumer direct unsecured loans and the equity positions. The consumer direct position has been in run off for the past 18+ months and the Manager accelerated the return of capital by selling £44.6m in August at a small premium to NAV. The loans are amortising and generating returns in line with target and the remaining exposure is expected to run off naturally in 12 months. The Manager is exploring options to accelerate the return of capital and will redeploy the proceeds in structurally secured loans.

Figure 4. Composition of Investment Assets


The structurally secured portfolio is performing well with strong income, conservative LTVs and over collateralization.

The Company has just completed a £16m (day 1 amount) new investment supported by short term property loans where the Company has acquired a carefully selected portfolio of 17 loans from a development finance lender that are performing and seasoned. The loans are expected to deliver a 9% return and have an LTV of 59%.

Figure 5.

Figure 6.
Top 10 Deals

PSC Name	Sector	Structure	Facility / Loan	NAV (£k)	LTV	# Loans
UK Agri	Property Backed Loans	Structurally Secured	Loan	50,557	51%	58
Creditfix	Consumer Short Settlements	Structurally Secured	Facility	50,226	52%	103,977
Sancus	Property Backed Loans	Structurally Secured	Facility	45,000	52%	38
GE Portfolio	2 nd Charge Mortgages	Structurally Secured	Loan	41,006	67%	4,941
Oplo	Mixed Use Secured Consumer	Structurally Secured	Facility	33,230	95%	29,080
Nucleus	SME CBILs Loans	Structurally Secured	Facility	25,299	96%	430
2nds Mortgage Portfolio	2 nd Charge Mortgages	Structurally Secured	Loan	22,070	83%	694
Com. & Res. Mortgage Portfolio	1 st Charge Mortgages	Structurally Secured	Loan	20,937	66%	64
118 118	Unsecured Consumer	Structurally Secured	Facility	20,908	75%	79,820
Propfin	Property Backed Loans	Structurally Secured	Facility	20,395	61%	54

Note: Table shows the exposure aggregated into relationships. The number of loans and LTV are as at 31st October 2020. GE Portfolio comprises a mixture of assets, the majority of balances being 2nd charge consumer mortgages. As at 31st October 2020. In the case of property backed whole loans, the LTV is 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 loan LTVs are quoted as the maximum LTGDV at origination.

**Figure 7.
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%	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%	0.42%	0.42%	0.75%	0.61%	0.87%	0.28%	0.58%			6.43%	37.78%⁽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%)	(1.33%)	-	1.69%	1.33%	7.21%	12.54%	1.63%			(3.86%)	(6.50%)
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	-	-	20.00	-	-	-	60.00	352.90

* 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	Premium Listing 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.