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30 April 2021

Honeycomb Investment Trust plc

Honeycomb Investment Trust plc (the "Company" or "Honeycomb") announces that the Investment Manager's monthly factsheet for 31 March 2021 is now available on its website at http://www.honeycombplc.com.

Net Asset Value per Share

The Company announces that its unaudited Net Asset Value ("NAV") per share as at 31 March 2021 on a cum-income basis was 1,014.1 pence, based on a NAV of £357.6 million, and on an ex-income basis was 1,017.8 pence, based on a NAV of £358.9 million. The NAVs have been calculated by Apex Fund Services (UK) Ltd.

Honeycomb Investment Trust plc (the "Company" or "Honeycomb") delivered a NAV return of 0.75% for the month of March, or 8.9% annualised. Strong returns in the month were driven by high underlying credit asset returns of 9.8%, facilitated by increased origination in the period.

This brings NAV returns to 8.4% annualised for Q1, with consistent month-on-month growth signifying positive momentum as the portfolio has grown.

Portfolio Performance

Strong underlying credit asset performance has been observed across asset classes, with high deployment levels bolstering returns.

Net Investment Assets increased by £23m to £617m in the month, driven by drawdowns on existing consumer and property-backed senior facilities and the extension of a senior-secured facility to an existing partner.

Net Debt to Equity increased from 64.9% in February to 72.8% in the month. The debt facilities, with maturities in Q4 2022, Q3 2023 and Q1 2027, provide liquidity over the medium to long term and provide a natural hedge against interest rate risk as the floating rate assets are broadly equivalent in size to the floating rate debt facilities.

Despite a low additional impairment charge for March of £10k, the portfolio continues to be well provisioned at 64% coverage on Stage 3 assets, as additional provisions are largely offset by impairment releases due to borrowers recommencing payment after 2020 forbearance.

This completes a strong quarter of performance for Honeycomb, as a high underlying asset yield of 9.6% annualised coupled with impairment held broadly stable (0.1% release) helped to support robust NAV returns of 8.4%.

The pipeline remains strong and growing, with £1bn+ of opportunities. Approx 30% of these pertain to property investment, as market changes drive increased opportunities for non-bank lenders in the space, as outlined below.

Market Insights: structural and regulatory change creating new opportunities in UK property markets

A sustained shortfall in housing supply has generated significant opportunity in specialist lending markets to provide bridging and development loans to mid-size borrowers (typically loan sizes of £5-25m). This shortfall has been driven both by declining supply and increased demand for housing since the 2008 financial crisis, with the funding gap continuing to grow.

The supply constraint is driven by steady declines in traditional bank and building society finance (38% reduction from £23.9bn in 2008 to £14bn in H1 2019[(1)]) as regulatory and capital requirements grow and the experience required no longer exists within the universal banks. Despite this falling supply, demand for housing has continued to grow as the UK government projects >300,000 new homes per year are required to keep up with the rising UK population[(2)]. This liquidity shortfall is particularly evident in the mid-size lending space as the cost and expertise required to underwrite more granular loans within a bank or building society no longer fits their business models. This market gap has been successfully addressed by non-bank lenders, as product specialists with expert underwriting models and efficient cost structures that enable healthy returns in the market, while mitigating downside risks through stringent underwriting processes and prudent loan-to-value ratios.

Looking forward, the opportunity in bridging and development markets remains strong with headroom to grow as pandemic driven disruption has exacerbated the structural issues banks have been facing, bolstering the pipeline of above hurdle real estate opportunities. This momentum is expected to be further underpinned by key structural and regulatory changes as society shifts to “the new normal”, with key drivers expected to be:

- Government initiatives such as Help to Buy, the Mortgage Guarantee Scheme, the relaxation of planning regulation and the Stamp Duty holiday supporting demand for house building, increasing the scope of residential development opportunities
- Multi-layered demand for starter and family homes in suburban and more rural locations as buyer appetite retreats from urban areas, leading to increased rural development opportunities
- Scope to convert commercial properties to residential dwellings as demand for residential properties expected to outstrip demand for office space, generating an opportunity to provide refurbishment bridge loans

The opportunity is large and fragmented, with Honeycomb successfully accessing the market through selective long-standing partnerships with several non-bank lenders. This provides the two-fold benefit of a more diversified loan book and further downside protection as lending partners typically provide first loss equity. Furthermore, control over underwriting is typically fully retained by the Manager through strict eligibility criteria, secondary underwriting and an intensive monitoring programme.

Providing affordable housing and promoting green initiatives is central to the opportunity, with all lending partners aligned to our goal of generating positive social and environmental impact. The lack of affordable housing has become a prominent issue for society as house price growth has outstripped wage growth, preventing a significant proportion of the population from owning their own home. Through the development of new housing, particularly with a social housing component, specialty finance can help to correct this market inefficiency and meet societal needs. Furthermore, new homes are on average 60+% more energy efficient[(3)] and so the development of new housing, particularly of those with sustainable build qualities, has the potential to accelerate the UK’s transition towards becoming carbon neutral in line with the Net Zero 2050 Initiatives.

(1) Cass Business School – UK Commercial Real Estate Lending Report, December 2018;
(2) Data from the Ministry of Housing, Communities & Local Government 2018
(3) Department for Communities & Local Government (DCLG) 2020

ESG Update

We are delighted to share that Capital Finance International magazine (CFI.co) has named Pollen Street Capital Best Responsible Alternative Investment Team UK 2021, recognising the team’s progress in “responsible portfolio development” and an approach to investing which prioritises “lasting impact”. Furthermore, the team has played an integral role in launching the Invest in Women Hub, the latest Council for Investing in Female Entrepreneurs (CIFE) initiative to accelerate female entrepreneurship and support female founders.

We welcomed the British Business Bank Small Business Finance Market Reports 20/21 released on 10th March 2021. The report referenced the significant role Alternative Finance providers are playing in traditional finance markets and in some cases creating new markets altogether. In addition, the report notes that for small businesses, the role of alternative finance providers has not only increased the options of finance available, but has also increased the accessibility and suitability of that finance.

We believe there is certainly scope for more and are excited to see the opportunities in the non-bank lending sector continue to evolve in a way that can generate positive impact for investors, people, partners and wider society. Alongside our aim to provide consistent, compelling returns for investors is our commitment to positive impact. Through our investment and lending philosophy we aim to have a long term sustainable positive impact for the UK economy.

For further information about this announcement please contact:

Pollen Street Capital - Investment Manager

Matthew Potter / Julian Dale: +44 (0)20 3728 6750

Liberum Capital Limited - Joint Broker

Chris Clarke / Louis Davies: +44 (0)20 3100 2000

Cenkos Securities plc - Joint Broker

Justin Zawoda-Martin / Tunga Chigovanyika: +44 (0)20 7397 8900

Link Company Matters Limited - Corporate Secretary

Paul Johnston: +44 (0)20 7954 9552