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HONEYCOMB INVESTMENT TRUST PLC

31 March 2021

INVEST WITH IMPACT

INVESTMENT MANAGER'S COMMENTARY

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.

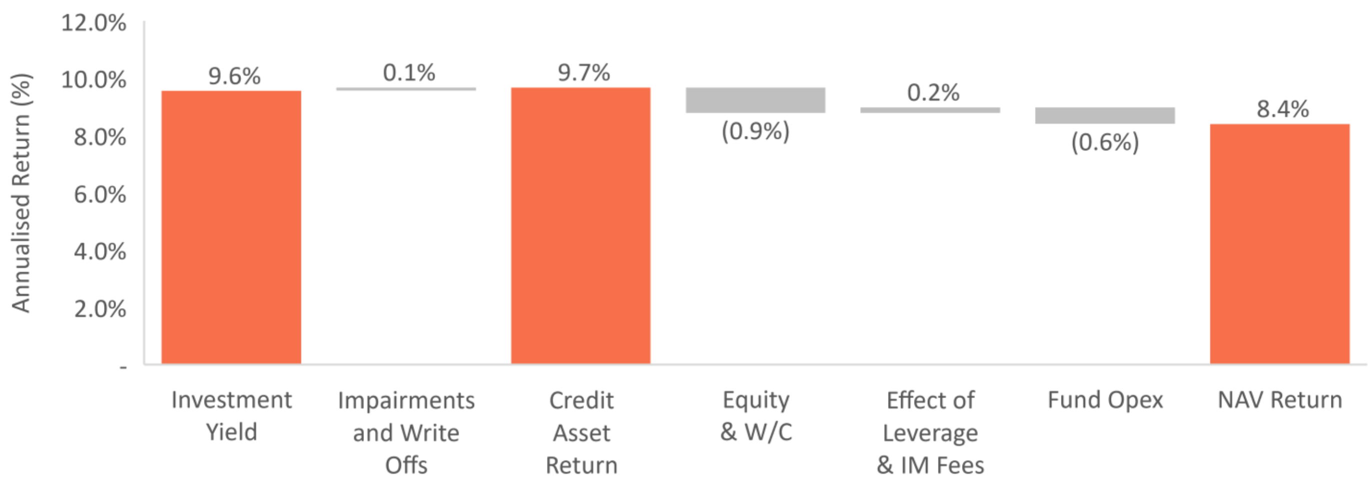
Key Details

Monthly NAV Return (Annualised)	8.9%
Monthly NAV Return	0.75%
YTD NAV Return	2.07%
ITD* NAV Return	43.3%
NAV Cum. Income	£357.6m
NAV Ex. Income	£358.9m
Market Capitalisation	£331.4m
Net Investment Assets	£616.6m
Net Debt to Equity	72.8%
Debt to Equity	75.7%
Shares in Issue	35,259,741
Share Price	940.0p
NAV Cum. Income per Share	1,014.1p
NAV Ex. Income per Share	1,017.8p
Premium (Discount) to NAV Cum Income	(7.3)%

*ITD: Inception to Date – excludes IPO Issue Costs

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%.

Returns Bridge – Q1 2021



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.

Figure 1. Composition of Portfolio Assets

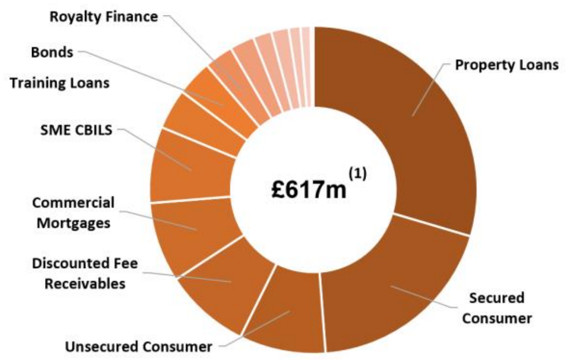
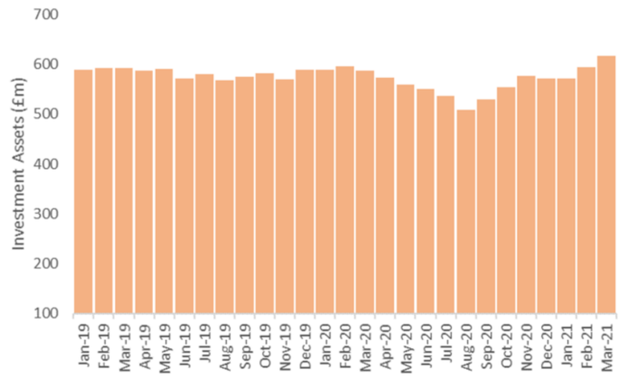
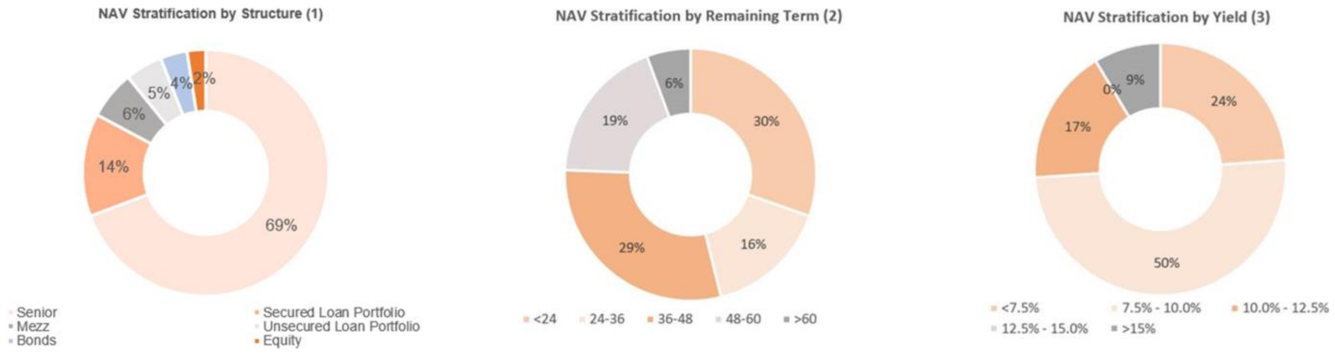


Figure 2. Investment Assets



[1] Net Investment Assets

Figure 3 - Composition of Investment Assets



[1] NAV excluding working capital and debt, stratified by investment structure
[2] NAV excluding working capital and debt, stratified by average remaining term of each platform
[3] NAV excluding working capital and debt, stratified by average yield of each platform

Figure 4 – Top 10 Holdings

		Deal Type	Structure	Sector	Value of holding at 31-Mar-21 (£m)	LTV	Percentage of portfolio[1]
1	UK Agricultural Finance	Direct Portfolio	Senior	Property	53.1	50%	8.6%
2	Creditfix Limited	Structured	Senior	Discounted fee receivables	50.5	39%	8.2%
3	Sancus Loans Limited	Structured	Senior	Property	47.4	54%	7.7%
4	Nucleus Cash Flow Finance Limited	Structured	Senior	SME CBILS	46.5	96%	7.5%
5	GE Portfolio	Direct Portfolio	Loan Portfolio	Secured Consumer	37.5	61%	6.1%
6	Oplo Structured	Structured	Mezzanine	Secured Consumer	36.2	95%	5.9%
7	Oplo Direct Portfolio	Direct Portfolio	Loan Portfolio	Secured Consumer	35.3	81%	5.7%
8	Propfin Limited	Structured	Senior	Property	26.1	60%	4.2%
9	Downing Development Loans	Direct Portfolio	Senior	Property	23.8	63%	3.9%
10	118118 Loans	Structured	Senior	Unsecured Consumer	22.4	75%	3.6%

Note: Data as at 31-Mar-21. In the case of the directly held portfolio, the LTV is against latest underlying collateral 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 for Oplo Structured and 118118 Loans, and in the case of structured property-backed 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. Direct Portfolios labelled as Senior in structure refer to portfolios of loans that are individually senior secured.
[1] Gross Investment Assets

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	1.62%[4]	0.65%	0.25%	0.42%	0.42%	0.75%	0.61%	0.87%	0.28%	0.58%	0.62%	0.67%	**7.71%**	**41.15%[2]**
NAV Return IFRS 9	2021	0.67%	0.64%	0.75%										**2.07%**	**43.28%[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%	-	0.80%	**(3.08%)**	**(5.75%)**
Share Price Performance**	2021	2.92%	(1.03%)	(2.08%)										**(0.27%)**	**(6.00%)**
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	-	-	20.00	-	20.00	-	**80.00**	**372.90**
Dividend Per Share (Pence)***	2021	-	-	20.00										**20.00**	**392.90**

* 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 0.60%

Background & Investment Objective

Honeycomb Investment Trust plc (the "Company") investment objective is to provide shareholders with an attractive level of dividend income with capital preservation. The Company operates an asset backed credit strategy that delivers stable income alongside strong downside protections through providing predominantly senior lending to non-bank lenders on their underlying loan portfolios.

The investment strategy is driven by the ongoing structural changes in the Financial Services industry that create a significant opportunity for non-bank lenders to reach customers who are underserved by mainstream banks with bespoke and appropriate products. Responsible investing is at the core of the Investment strategy. The Group's focus on Impact is built around 5 key areas where Honeycomb can make a meaningful difference; regional growth and supporting SMEs, affordable energy efficient homes, financial inclusion, green finance and responsible lending practices.

Fund Facts

Type of Fund	Closed – Ended Fund
Listing	Main Market 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%

* applicable to gross assets
** subject to 5% preferred return hurdle and high watermark

Investment Features

- 8% targeted dividend on issue price when fully invested and leverage applied, payable quarterly.
- Investments secured on loan portfolios of non-bank lenders
- Over 40 different investments - a diverse portfolio, no single asset / single sector risk
- Short duration - Average life 2 to 3 years with underlying portfolio typically amortising removing refinancing/ exit risk
- Investments benefit from tight Covenants and Corporate security
- Conservative Leverage
- Impact Investments supporting Financial Inclusion, Affordable Housing, Regional Growth & Green Housing

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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. Past performance should not be seen as an indication of future performance. The value of investments and any income may fluctuate and investors may not get back the full amount invested. The views expressed are those of the Company's Investment Manager, Pollen Street Capital Limited, as at the time of writing. These are subject to change without notice and do not constitute investment advice. Although the Company and Pollen Street Capital Limited have used reasonable efforts to ensure the accuracy of the information contained in this newsletter, neither the Company nor Pollen Street Capital Limited make any warranties or representations with respect to the completeness or accuracy of the information set forth herein and the full impact of Covid-19 on markets and investments may not be foreseeable for some time. Examples of investment process, risk management, due diligence, position sizes, diversification, leverage, assessment of risk and similar information (together, the "Investment Programme") are presented as general guidelines used for illustration purposes only and are subject to change without notice to investors at any time at the sole discretion of Pollen Street Capital Limited. In addition, the composition and size of, and risks associated with, current or future investments of the Company may differ substantially from examples set forth in this newsletter. Accordingly, actual implementation of the Investment Program may vary from the examples presented herein.

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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 by the actual number of days in the year divided by the actual number of days in the month.