

HONEYCOMB INVESTMENT TRUST PLC

30 June 2021

INVESTMENT MANAGER'S COMMENTARY

Honeycomb Investment Trust plc (the "Company" or "HONY") delivered a NAV return of 0.75% for the month of June, or 9.1% annualised. This completed a strong first half performance, with a H1 annualised NAV return of 8.7%.

As highlighted last month, the Company sold its listed bond portfolio in June realising a small profit with the sales proceeds slightly exceeding the net book value of the portfolio. This has driven a reduction in investment assets from £614m in May to £594m in June.

The pipeline of deals continues to be strong with a new SME facility completing in July which has seen the majority of the proceeds from the bond sale re-invested.

Market Insights: Trends and opportunities in UK SME Finance

With 2020 a challenging year all round, UK SME's have demonstrated their resilience and ability to adapt as well as their importance to the UK economy¹. According to the Bank of England, SMEs account for 70%² of all new jobs since 2010, 61% of private sector employment and 50% of all turnover generated across the country.

Data from Oxford Economics suggests that during 2020, SME appetite for growth finance was at the highest level since 2016, with online searches for business loans increasing over 5x.³ This trend is unsurprising and, as the UK overall embraced an increased online presence, Business Finance followed suit. Existing trends that had slowly been gathering momentum, such as the adoption of digital services; open banking integration; and use of analytics for onboarding or reporting requirements, were accelerated and integrated to provide customers with an informed, improved and more seamless decision-making experience. The pandemic also accelerated the developments of contactless payments - PWC estimate that cash machine withdrawals in the UK fell by £37bn.⁴ Further, the share of retail sales conducted online was 46% higher in 2020 than in the previous year.⁵

The COVID-19 pandemic brought existing disruption from technology and regulations into sharper focus, and non-bank lenders, having already been at the forefront of many of these initiatives, were able to move swiftly and effectively to help provide SME's with access to finance through these times. By 2019, EY estimated 30% of SME Finance was being supplied by non-bank lenders, and the British Business Bank also estimated approximately 30% of Asset Finance being accounted for by Non-Bank Lenders.^{6 7}

The ability to assess affordability and credit worthiness through open banking integration; perform KYC checks and onboarding; and complete due diligence in a timely manner, are all critical factors to improve the customer experience. This is one of the reasons that larger institutions are investing so heavily in digital lending infrastructure, as they realise the shortfalls in legacy technology and infrastructure in meeting the demands of new digital savvy customers. It is clear these are long term structural shifts that are here to stay.

On the supply side of the equation, it is estimated that approximately £75bn of emergency funding has been provided from the British Business Bank (BBB). On 23rd March 2020 the Govt launched the Coronavirus Business Interruption Loan Scheme (CBILS), with the BBB guaranteeing 80% of each loan, and paying the first year of interest. Lenders required accreditation from the BBB, and around two-thirds of the more than 100 accredited CBILS lenders were alternative brands. The scheme is now closed, being replaced by the Recovery Loan Scheme ("RLS"). We believe opportunities to continue to support lending to SME's through government backed schemes offer compelling risk-adjusted returns for shareholders.

Through a dedicated and specialist team, Pollen Street has developed the network and infrastructure to partner with the strongest players in selected markets within SME finance to support this sector.

Key Details

Monthly NAV Return (Annualised)	9.1%
Monthly NAV Return	0.75%
YTD NAV Return	4.33%
ITD* NAV Return	45.6%
NAV Cum. Income	£358.6m
NAV Ex. Income	£358.9m
Market Capitalisation	£342.0m
Net Investment Assets	£594.4m
Net Debt to Equity	66.4%
Debt to Equity	74.3%
Shares in Issue	35,259,741
Share Price	970.0p
NAV Cum. Income per Share	1,017.0p
NAV Ex. Income per Share	1,017.9p
Premium (Discount) to NAV Cum Income	(4.6)%

¹ Business population estimates for the UK and regions 2020: statistical release

² Bank of England (2019) 'Future of Finance'

³ Oxford Economics and Funding Circle (2021) <https://corporate.fundingcircle.com/media/press-releases/uk-smes-ready-power-post-pandemic-recovery>

⁴ PWC How the UK Financial Services Industry Can Create Sustainable Change

⁵ ONS, Retail sales, Great Britain: December 2020

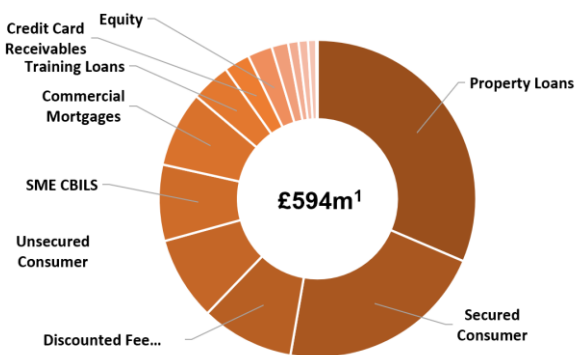
⁶ EY SME Finance 20th March 2020

⁷ British Business Bank Small Business Finance Markets report 2020

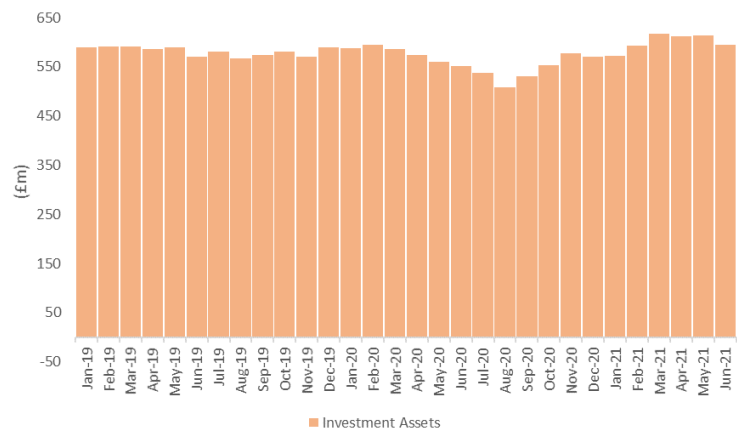
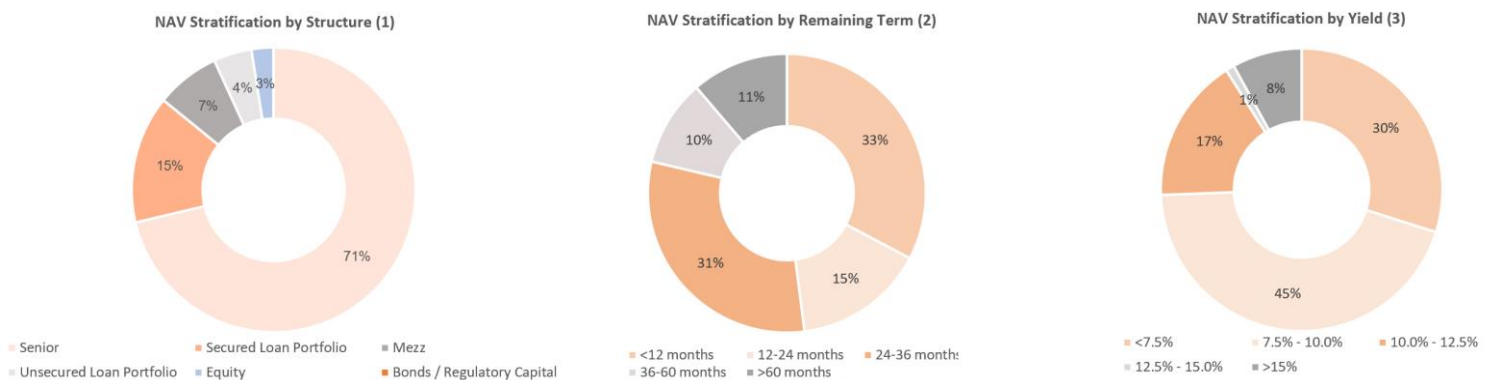
Pollen Street looks to partner with innovative companies with substantial track records in the SME lending space and strong underwriting capabilities underpinned by modern technology and experienced teams. Some examples of lenders which PSC has chosen to partner with are outlined below.

1. **Nucleus** was formed in 2011 and has over 9 years of operational history during which it has originated over £1.7bn. Nucleus gained CBILS accreditation in July-20, and also provides invoice finance; property backed loans; cash flow finance loans and merchant cash advances. PSC offer senior secured funding against SME loans with an 80% government guarantee under the Coronavirus Business Interruption Loan Scheme.
2. **Leading Small Business Lender in UK & Europe** – identified a gap in the lending market, with SMEs’ reduced access to short-term overdraft facilities from banks - since 2011, it has lent over £1bn to >50,000 customers in UK and Germany. Their proprietary scoring model, overlaid with manual underwriting, has demonstrated strong ability to price for risk. During 2020 the business achieved accreditation for the UK CBILs scheme and has deployed £300m+ to support businesses through the Covid pandemic. PSC have worked in partnership with the lender since 2016, offering a senior secured facility funding short-term SME receivables.
3. **E-commerce MCA Lender** – Smaller ticket SME lending has been growing steadily in the UK since the last Financial Crisis as high street lenders have slowly withdrawn from this market, with new alternative finance platforms and challenger banks now serving the demand (now accounting for up to 50% of outstanding SME lending). This well backed business offers short-term financing to UK e-commerce SMEs requiring capital to spend on marketing and inventory, which is secured on a share of their future revenues. The business has strong underwriting capabilities - supported by the latest technology including API integration to rich data sources, and AI decisioning combined with human oversight.

We believe there is certainly scope for continued growth in this space and are excited to see the opportunities in the non-bank SME 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 small and medium sized business owners and the UK economy as a whole.

Figure 2 - Composition of Investment Assets


¹ Net Investment Assets

Figure 3 Investment Assets

Figure 4 – NAV Stratification


¹ NAV excluding working capital and debt, stratified by investment structure

² NAV excluding working capital and recourse debt, stratified by expected remaining term of each asset

³ NAV excluding working capital and debt, stratified by average yield of each platform

Figure 5 – H1 2021 Returns Bridge

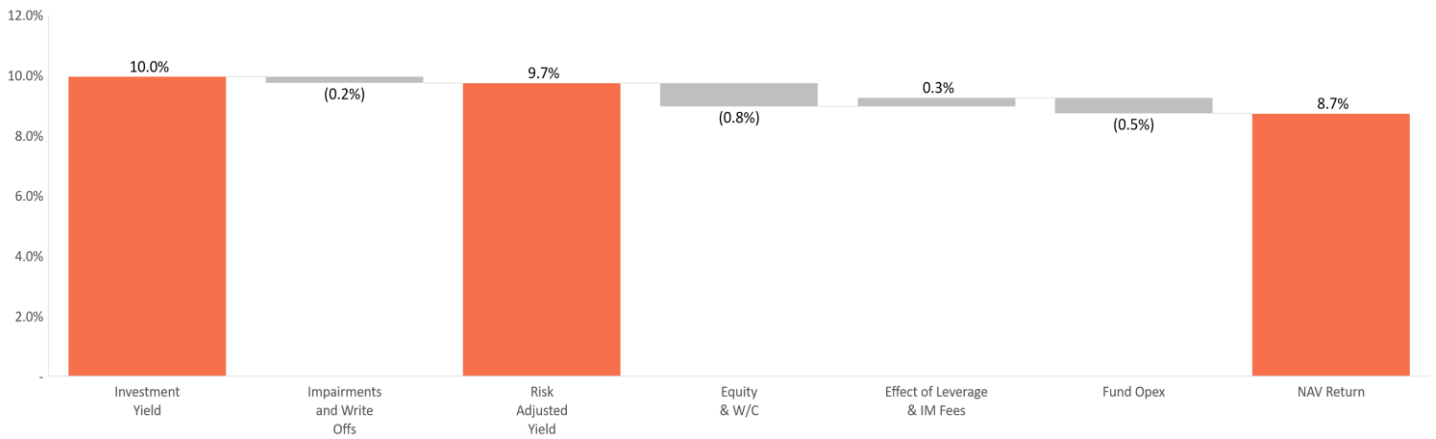


Figure 6– Top 10 Holdings

		Deal Type ⁽¹⁾	Structure	Sector	Value of Holding at 30-Jun-21 (£m)	LTV ⁽²⁾	Percentage of Portfolio ⁽³⁾
1	UK Agricultural Finance	Direct Portfolio	Senior	Property	54.7	50%	9.2%
2	Creditfix Limited	Structured	Senior	Discounted fee receivables	54.1	39%	9.1%
3	Sancus Loans Limited	Structured	Senior	Property	47.4	54%	8.0%
4	Nucleus Cash Flow Finance Limited	Structured	Senior	SME CBILS	46.1	96%	7.8%
5	Oplo Direct Portfolio	Direct Portfolio	Loan Portfolio	Secured Consumer	41.6	81%	7.0%
6	Oplo Structured	Structured	Mezzanine	Secured Consumer	40.3	95%	6.8%
7	GE Portfolio	Direct Portfolio	Mezzanine	Secured Consumer	35.8	61%	6.0%
8	118118 Loans	Structured	Senior	Unsecured Consumer	25.5	75%	4.3%
9	Downing Development Loans	Direct Portfolio	Senior	Property	24.9	63%	4.2%
10	Propfin Limited	Structured	Senior	Property	20.9	60%	3.5%

Statistics as at 30 June 2021

1. Direct Portfolios labelled as Senior in structure refer to portfolios of loans that are individually senior secured
2. In the case of Direct Portfolios, 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.
3. Net Investment Assets

Background and Investment Objective

Honeycomb Investment Trust plc (the “Company”) employs a specialist lending strategy whose 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.

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

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

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% ⁽²⁾	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%	0.73%	0.77%	0.75%							4.33%	45.61% ⁽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%)	2.66%	(0.52%)	1.04%							2.92%	(3.00%)
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							40.00	412.90

* 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%

Important Disclosures

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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.